

July 23, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	4,031		4,095	
Sales (Rs. m)	78,979	92,269	79,659	92,137
% Chng.	(0.9)	0.1		
EBITDA (Rs. m)	14,143	16,957	14,382	16,932
% Chng.	(1.7)	0.1		
EPS (Rs.)	135.3	168.0	142.5	170.6
% Chng.	(5.1)	(1.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	47	64	79	92
EBITDA (Rs. bn)	8	11	14	17
Margin (%)	18.0	17.3	17.9	18.4
PAT (Rs. bn)	5	7	8	10
EPS (Rs.)	86.8	108.7	135.3	168.0
Gr. (%)	14.2	25.2	24.5	24.1
DPS (Rs.)	28.7	35.9	44.7	55.4
Yield (%)	0.8	1.0	1.2	1.5
RoE (%)	21.6	25.5	27.6	28.9
RoCE (%)	26.9	31.6	33.9	36.0
EV/Sales (x)	4.7	3.5	2.8	2.4
EV/EBITDA (x)	25.9	20.3	15.8	13.1
PE (x)	42.9	34.3	27.5	22.2
P/BV (x)	9.2	8.3	7.0	5.9

Key Data

NITT.BO | COFORGE IN

52-W High / Low	Rs.6,135 / Rs.3,218
Sensex / Nifty	56,072 / 16,719
Market Cap	Rs.227bn/ \$ 2,843m
Shares Outstanding	61m
3M Avg. Daily Value	Rs.1511.85m

Shareholding Pattern (%)

Promoter's	40.09
Foreign	21.87
Domestic Institution	25.88
Public & Others	12.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.4	(28.3)	(20.1)
Relative	-	(26.1)	(24.5)

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Coforge (COFORGE IN)

Rating: BUY | CMP: Rs3,726 | TP: Rs4,031

Minor blip, strong performance ahead

Quick Pointers:

- Revenue guidance improved from 'around' to 'at least' 20% YoY CC in FY23.
- Adjusted EBITDA margin down by 390bps QoQ to 16.5%, expected to improve by 100-200 bps QoQ in Q2FY23.

Coforge reported miss on revenue growth at 4.7% QoQ CC, 2.7% QoQ USD (Ple: 4%) led by decline in Insurance vertical by 6.3% QoQ CC. BFS grew 11.1% QoQ CC, Others grew 11.4% QoQ CC, while Travel vertical grew 1% QoQ CC (on a high base in Q4FY22). But both Insurance and Travel are poised for strong rebound from Q2FY23. Management is confident of achieving at least 20% YoY CC growth in FY23 despite worsening macro environment led by consistent deal wins - close to record high TCV of \$315mn in Q1FY23 and healthy 12 months' executable order book of \$745mn (16% YoY).

Adjusted EBITDA margin at 16.5% declined 390bps QoQ led by 250bps impact from higher than normal wage hikes and 100bps increase in SG&A, due to investments in sales and leadership. Margins are expected to increase by 100-200bps QoQ in Q2FY23 led by increase in offshore revenue, utilization and higher number of freshers turning billable. We model 18.4% adjusted EBITDA margins, near lower end of margin guidance of 18.5%-19%.

Our EPS estimates change 5%/1.6% in FY23/24 led by slight cut in revenue and margin estimate due to miss in Q1 and higher minority income going forward. We continue to value Coforge on 24x FY24 EPS to arrive at TP of Rs.4031. At CMP, stock trades at 27x/22x on FY23/24E EPS of INR 135/168 with Revenue and EPS CAGR of 16%/24% respectively over FY22-24. Maintain 'BUY'.

- Vertical wise outlook:** Insurance vertical is expected to recover from Q2FY23 led by demand across commercial, specialty, personal lines and broker business (targeting mid-tier markets). Coforge has hyper specialized offerings in PNC insurance, which is expected to gain traction going ahead. BFS is expected to continue its strong growth trajectory. Travel is also expected to grow strongly led by major product engineering projects initiated for several global airlines. In public sector, Coforge has won major deals in Europe and Australia.
- Consistent large deal wins:** Coforge won two large deals - 1) \$50mn+ TCV 5-year deal in BFS vertical with a leading bank (constitutes incremental revenues) and 2) In travel vertical with a leading US based airline. It has consistently won \$50mn+ large deal each quarter for five consecutive quarters, led by focused approach of proactively pursuing large deals.
- Best in class attrition:** LTM attrition stood at 18% +30bps QoQ, lowest in the industry. IT billable net addition was healthy at 545 employees, 3.7% QoQ. BPS headcount is reducing due to planned efforts in automation, increasing transaction volumes and improving profitability in the BPS business.

Exhibit 1: Q1FY23: Quick view on results

Rs mn	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.	PLe	Variance(PL VS ACTUAL)
Revenue (USD mn)	238.7	232.4	2.7%	199.7	19.5%	241.6	-1.2%
Revenue	18294	17429	5.0%	14616	25.2%	18678	-2.1%
EBITDA	2918	3293	-11.4%	2224	31.2%	3200	-8.8%
EBITDA Margin	16.0%	18.9%	-294 bps	15.2%	73 bps	17.1%	-118 bps
EBIT Margin	12.5%	15.5%	-304 bps	11.6%	88 bps	13.6%	-112 bps
Adj. PAT	1497	2077	-27.9%	1356	10.4%	1887	-20.7%
EPS	24.6	34.1	-27.9%	22.4	10.0%	31.0	-20.7%

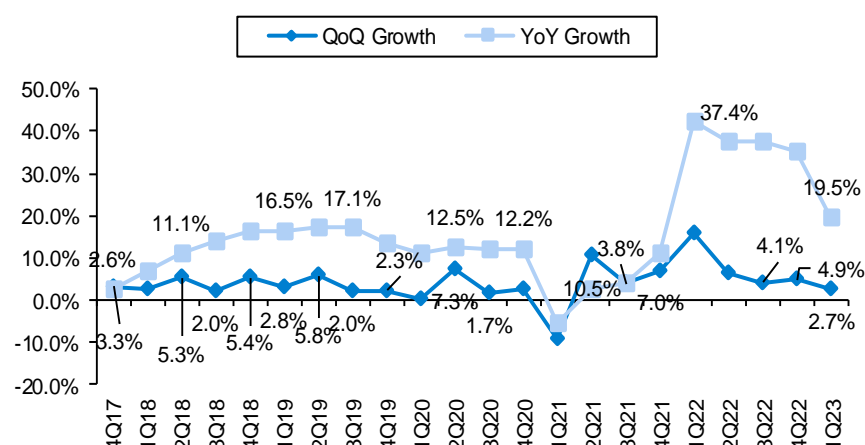
Source: Company, PL

Exhibit 2: Change in Estimates

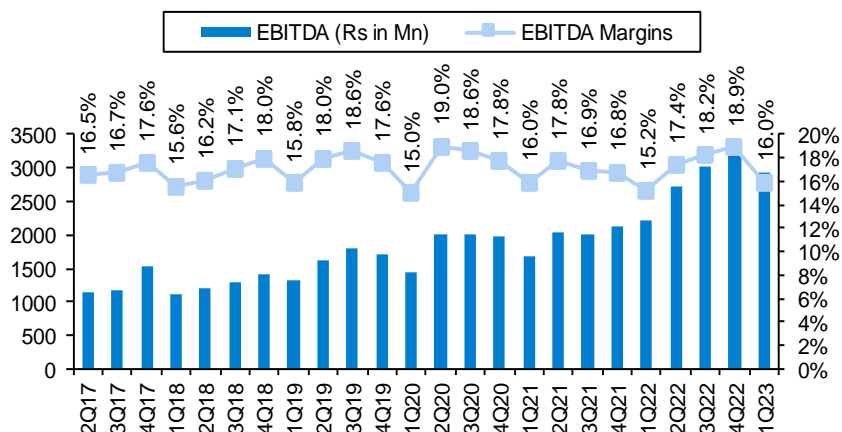
Y/e March	FY23E	FY24E
USD revenues (mn)		
- New	1,024	1,168
- Old	1,031	1,181
Change (%)	-0.7%	-1.1%
EBIT Margin		
- New	14.4%	14.9%
- Old	14.6%	14.9%
Change (%)	-13 bps	0 bps
Recurring EPS - Fully diluted (Rs)		
- New	135.3	168.0
- Old	142.5	170.6
Change (%)	-5.1%	-1.6%

Source: PL

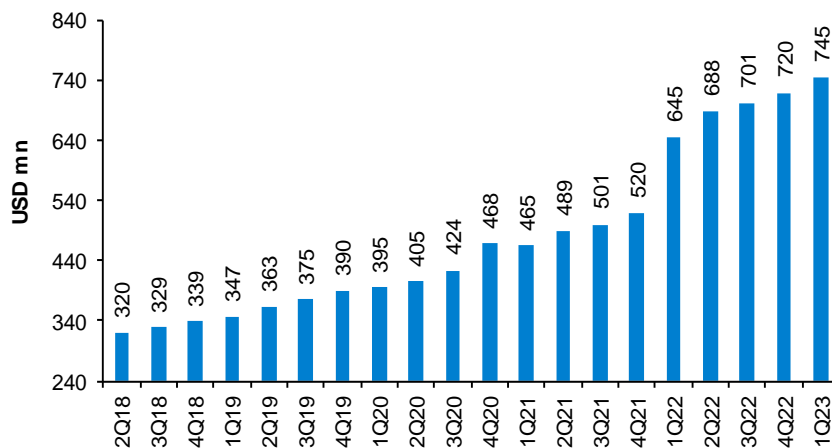
Exhibit 3: Moderation in sequential growth



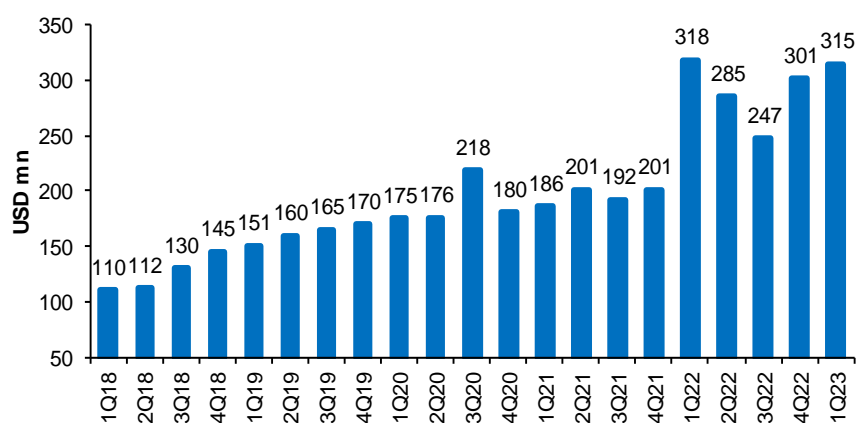
Source: Company, PL

Exhibit 4: Dip in margins due to higher than normal wage hikes


Source: Company, PL

Exhibit 5: Next 12 months executable order book is up 16% YoY


Source: Company, PL

Exhibit 6: Order book close to record high TCV


Source: Company, PL

Exhibit 7: Geography-wise revenues

Geography revenues (USD Mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
Americas	122.5	116.0	5.6%	116.0	6%
EMEA	88.1	92.5	-4.8%	92.5	-5%
RoW	28.4	23.9	18.7%	23.9	19%
Total	238.9	232.4	2.8%	232.4	3%
-as a % of total sales					
Americas	51%	50%	140bp	50%	140bp
EMEA	37%	40%	-290bp	40%	-290bp
RoW	12%	10%	160bp	10%	160bp

Source: Company, PL;

Exhibit 8: Vertical-wise revenues

Vertical revenues (USD mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
BFS	70.4	64.4	9.4%	42.1	67%
Insurance	55.1	59.7	-7.7%	61.5	-10%
Travel and Transport	46.3	46.7	-0.9%	37.7	23%
Others	66.8	61.6	8.5%	58.3	15%
Total	238.7	232.4	2.7%	199.7	20%
-as a % of total sales					
BFS	30%	28%	180bp	21%	840bp
Insurance	23%	26%	-260bp	31%	-770bp
Travel and Transport	19%	20%	-70bp	19%	50bp
Others	28%	27%	150bp	29%	-120bp

Source: Company, PL

Exhibit 9: Service Line Revenues

Service Revenues (USD mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
Product Engineering	25.1	24.9	0.8%	28.0	-10%
Data & Integration	55.6	51.1	8.8%	45.9	21%
Intelligent Automation	30.1	29.5	1.9%	30.0	0%
CIMS	43.4	41.8	3.9%	37.9	14%
ADM	57.8	58.8	-1.8%	51.9	11%
BPM	27.2	26.0	4.5%	2.0	NA
-as a % of total sales					
Product Engineering	11%	11%	-20bp	14%	-350bp
Data & Integration	23%	22%	130bp	23%	30bp
Intelligent Automation	13%	13%	-10bp	15%	-240bp
CIMS	18%	18%	20bp	19%	-80bp
ADM	24%	25%	-110bp	26%	-180bp
BPM	11%	11%	20bp	1%	1040bp

Source: Company, PL

Exhibit 10: Client Metrics

Client Concentration (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	4QFY22	1QFY23
Top 5	27	29	27	27	26	25	24	25	25	23	25	23	23
Top 10	39	39	36	37	38	36	34	36	36	33	36	35	36
Between 1 mn - 5mn	66	70	74	80	81	83	87	88	95	92	94	100	90
5mn-10 mn	17	16	17	15	15	16	17	16	20	22	21	19	24
>10mn	8	9	9	11	11	10	11	11	15	16	18	18	19
Total	91	95	100	106	107	109	115	115	130	130	133	137	141

Source: Company, PL

Exhibit 11: Revenue Mix

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	4QFY22	1QFY23
Onsite	66%	66%	64%	64%	62%	64%	62%	61%	60%	56%	54%	53%	52%
Offshore	34%	34%	36%	36%	38%	36%	38%	39%	40%	44%	46%	47%	48%

Source: Company, PL

Exhibit 12: Employee Metrics

Billable Personnel	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Total Headcount	10,297	10,800	10,849	11,156	10,598	11,162	11,424	12,391	20,491	20,786	22,130	22,500	22,742
Net addition	34	503	49	307	(558)	564	262	967	8,100	295	1,344	370	242
Capacity Utilization	80.5%	80.7%	79.3%	78.1%	77.0%	81.0%	78.9%	81.0%	77.0%	78.5%	77.1%	76.1%	76.2%
Attrition (%)	12.9%	12.3%	11.9%	11.8%	11.8%	10.5%	10.4%	10.5%	12.6%	15.3%	16.3%	17.7%	18.0%

Source: Company, PL

Exhibit 13: Strong Order Book

Figures in USD Mn	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Fresh Order Intake	175	176	218	180	186	201	192	201	318	285	247	301	315
Executable Order Book over Next 12 months	395	405	424	468	465	489	501	520	645	688	701	720	720

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	46,628	64,320	78,979	92,269
YoY gr. (%)	10.9	37.9	22.8	16.8
Employee Cost	31,693	43,736	53,648	61,803
Gross Profit	14,935	20,584	25,330	30,466
Margin (%)	32.0	32.0	32.1	33.0
SG&A Expenses	6,544	9,430	11,187	13,508
Other Expenses	-	-	-	-
EBITDA	8,391	11,154	14,143	16,957
YoY gr. (%)	12.8	32.9	26.8	19.9
Margin (%)	18.0	17.3	17.9	18.4
Depreciation and Amortization	1,836	2,272	2,754	3,229
EBIT	6,555	8,882	11,389	13,728
Margin (%)	14.1	13.8	14.4	14.9
Net Interest	-	-	-	-
Other Income	113	(266)	4	80
Profit Before Tax	6,668	8,616	11,393	13,808
Margin (%)	14.3	13.4	14.4	15.0
Total Tax	1,302	1,468	2,421	2,900
Effective tax rate (%)	19.5	17.0	21.2	21.0
Profit after tax	5,366	7,148	8,972	10,908
Minority interest	104	530	732	680
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,262	6,618	8,240	10,228
YoY gr. (%)	10.7	25.8	24.5	24.1
Margin (%)	11.3	10.3	10.4	11.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,262	6,618	8,240	10,228
YoY gr. (%)	10.7	25.8	24.5	24.1
Margin (%)	11.3	10.3	10.4	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,262	6,618	8,240	10,228
Equity Shares O/s (m)	61	61	61	61
EPS (Rs)	86.8	108.7	135.3	168.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	5,980	9,959	12,459	14,959
Tangibles	4,516	5,928	7,428	8,928
Intangibles	1,464	4,031	5,031	6,031
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	5,980	9,959	12,459	14,959
Tangibles	4,516	5,928	7,428	8,928
Intangibles	1,464	4,031	5,031	6,031
Capital Work In Progress	2	168	168	168
Goodwill	4,226	10,708	10,708	10,708
Non-Current Investments	1,829	2,719	2,729	2,739
Net Deferred tax assets	1,253	1,970	2,010	2,050
Other Non-Current Assets	254	1,045	1,045	1,045
Current Assets				
Investments	124	-	100	200
Inventories	-	-	-	-
Trade receivables	8,895	13,894	14,065	16,431
Cash & Bank Balance	8,122	4,535	6,227	6,980
Other Current Assets	1,437	1,934	1,934	1,934
Total Assets	35,134	49,544	54,067	59,847
Equity				
Equity Share Capital	606	609	609	609
Other Equity	24,055	26,722	31,675	37,822
Total Network	24,661	27,331	32,284	38,431
Non-Current Liabilities				
Long Term borrowings	5	4,302	3,302	2,302
Provisions	696	-	-	-
Other non current liabilities	506	1,462	1,123	1,148
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,398	6,160	6,210	6,260
Other current liabilities	5,027	5,632	6,482	7,029
Total Equity & Liabilities	35,134	49,544	54,067	59,847

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	6,668	8,616	11,393	13,808
Add. Depreciation	1,836	2,272	2,754	3,229
Add. Interest	-	-	-	-
Less Financial Other Income	113	(266)	4	80
Add. Other	-	-	-	-
Op. profit before WC changes	8,504	10,888	14,147	17,037
Net Changes-WC	(1,449)	(977)	291	(1,843)
Direct tax	(1,302)	(1,468)	(2,421)	(2,900)
Net cash from Op. activities	5,753	8,443	12,017	12,295
Capital expenditures	(2,473)	(10,098)	(2,500)	(2,500)
Interest / Dividend Income	-	-	-	-
Others	13	124	(100)	(100)
Net Cash from Invt. activities	(2,460)	(9,974)	(2,600)	(2,600)
Issue of share cap. / premium	-	-	-	-
Debt changes	516	4,266	(1,000)	(1,000)
Dividend paid	(2,099)	(2,640)	(3,288)	(4,081)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(1,583)	1,626	(4,288)	(5,081)
Net change in cash	1,710	95	5,129	4,614
Free Cash Flow	3,280	(1,655)	9,517	9,795

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	86.8	108.7	135.3	168.0
CEPS	117.1	146.0	180.5	221.0
BVPS	406.9	448.8	530.1	631.1
FCF	54.1	(27.2)	156.3	160.8
DPS	28.7	35.9	44.7	55.4
Return Ratio(%)				
RoCE	26.9	31.6	33.9	36.0
ROIC	32.1	27.2	30.7	32.3
RoE	21.6	25.5	27.6	28.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	0.0	(0.1)	(0.1)
Debtor (Days)	70	79	65	65
Valuation(x)				
PER	42.9	34.3	27.5	22.2
P/B	9.2	8.3	7.0	5.9
P/CEPS	31.8	25.5	20.6	16.9
EV/EBITDA	25.9	20.3	15.8	13.1
EV/Sales	4.7	3.5	2.8	2.4
Dividend Yield (%)	0.8	1.0	1.2	1.5

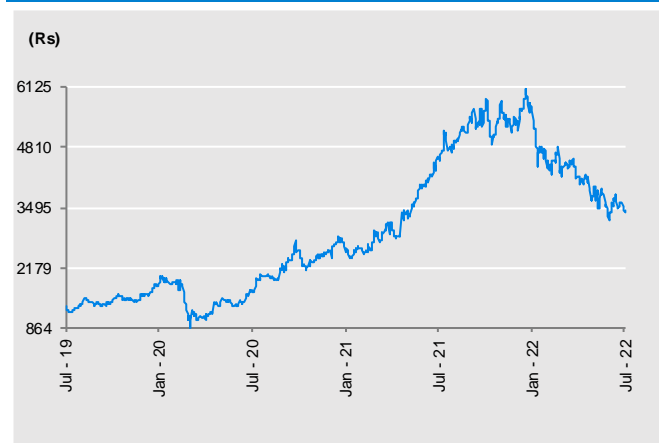
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	15,694	16,581	17,429	18,294
YoY gr. (%)	36.0	39.3	38.2	16.6
Raw Material Expenses	10,656	11,210	11,620	12,739
Gross Profit	5,038	5,371	5,809	5,555
Margin (%)	32.1	32.4	33.3	30.4
EBITDA	2,923	3,226	3,549	3,012
YoY gr. (%)	34.6	50.4	56.5	3.0
Margin (%)	18.6	19.5	20.4	16.5
Depreciation / Depletion	598	566	584	630
EBIT	2,325	2,660	2,965	2,382
Margin (%)	14.8	16.0	17.0	13.0
Net Interest	-	-	-	-
Other Income	(77)	(122)	(119)	(76)
Profit before Tax	2,248	2,538	2,846	2,306
Margin (%)	14.3	15.3	16.3	12.6
Total Tax	446	360	342	493
Effective tax rate (%)	19.8	14.2	12.0	21.4
Profit after Tax	1,802	2,178	2,504	1,813
Minority interest	148	135	171	222
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,654	2,043	2,333	1,591
YoY gr. (%)	24.3	50.7	58.1	(3.8)
Margin (%)	10.5	12.3	13.4	8.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,654	2,043	2,333	1,591
YoY gr. (%)	24.3	50.7	58.1	(3.8)
Margin (%)	10.5	12.3	13.4	8.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,654	2,043	2,333	1,591
Avg. Shares O/s (m)	61	61	61	61
EPS (Rs)	27.3	33.7	38.3	26.1

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	BUY	4,095	3,488
2	12-May-22	BUY	5,295	3,646
3	05-Apr-22	BUY	5,559	4,512
4	28-Jan-22	BUY	5,778	4,401
5	04-Jan-22	BUY	5,708	5,973
6	25-Oct-21	BUY	5,596	5,069
7	05-Oct-21	BUY	5,496	5,338
8	06-Aug-21	BUY	5,393	4,790
9	29-Jul-21	BUY	5,306	4,749

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,342	1,009
2	Coforge	BUY	4,095	3,488
3	Cyient	Hold	776	799
4	HCL Technologies	Hold	982	928
5	Infosys	Accumulate	1,646	1,479
6	L&T Technology Services	Hold	3,184	3,093
7	Larsen & Toubro Infotech	Accumulate	4,280	3,874
8	Mindtree	Accumulate	3,131	2,901
9	Mphasis	Hold	2,421	2,241
10	Persistent Systems	Hold	3,490	3,329
11	Redington (India)	BUY	162	127
12	Sonata Software	Accumulate	694	655
13	Tata Consultancy Services	Accumulate	3,607	3,265
14	TeamLease Services	Accumulate	3,642	3,300
15	Tech Mahindra	Hold	1,065	1,011
16	Wipro	Hold	418	412
17	Zensar Technologies	Hold	279	270

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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