

Coforge

Refer to important disclosures at the end of this report

In-line operating performance

CMP	Target Price
Rs 3,858 as of (October 20, 2022)	Rs 3,550 (▲) 12 months
Rating	Upside
HOLD (■)	(8.0) %

For Q2FY23, Coforge's operating performance was broadly in line with our estimates; however, lower ETR led to beat on the profit front. BFS grew in double digits sequentially in constant currency (CC) terms for the second quarter in a row, reflecting strong deal momentum and resilient demand. Management remains watchful of evolving macro situations and is cautiously optimistic on the growth outlook. Management expects usual furloughs in Q3FY23. The company has retained at least 20% CC YoY revenue growth guidance for FY23, considering healthy deal intake, NTM order book (USD802mn, 16.6% YoY), and a strong deal pipeline. Management has also retained its adjusted EBITDAM (ex-ESOP and acquisition costs) guidance of 18.5-19% for FY23. Management is confident that it will attain ~USD1bn revenue run-rate in FY23 and has its eyes set on achieving USD2bn revenue run-rate in the next five years. We have raised our EPS estimates by 3.6-4.3% over FY23E-25E, factoring in Q2 performance. We retain Hold with a TP of Rs3,550 (Rs3,400 earlier), at 21x Sep-24E EPS, considering limited upside risks and the overhang of further stake sale by Baring.

Result summary: For Q2FY23, Coforge reported revenue growth of 3.3% QoQ (6.2% CC) to USD247.1mn, in line with our estimate of USD247mn. Adjusted EBITDAM (excl. ESOP costs and acquisition-related expenses) expanded by 190bps QoQ to 18.4% due to currency movement (+10bps), lower SG&A (+20bps), and continued offshoring expansion, utilisation uptick, increased contribution from higher-margin businesses, and employee pyramid optimization (+160bps). EBITM increased by 190bps QoQ to 14.4%, 20bps above our estimate of 14.2%. Net profit was up ~34% QoQ to Rs2.01bn, above our expectations of Rs1.84bn, due to lower ETR and non-controlling interests. Revenue growth was led by BFS, which registered QoQ CC growth of 14%, Insurance (5.5% growth), and Travel (4.9% growth), while Others (incl. manufacturing, retail, healthcare, Hi-tech, and public sector sub-verticals) declined by 0.9%. Among geographies, growth was led by EMEA (12.9% CC QoQ) and Americas (4.5%). RoW reported a 7.3% QoQ drop in CC, largely due to weakness in India. Order bookings were robust, with total fresh order intake of USD304mn (Americas: USD141mn, EMEA: USD134mn, and RoW: USD29mn), having two large deals with over USD30mn TCV signed in Q2FY23. The top-5 clients grew by 4.4% QoQ and the top-10 clients grew by 4.2% in USD terms. **What we liked:** Steady revenue performance, margin trajectory, healthy deal intake, and executable order book. **What we did not like:** Weak cash conversion (~17% OCF/EBITDA in H1).

Earnings call KTAs: 1) Despite macro uncertainties, BFS and travel continue to show robust demand. 2) EMEA business is centered around select banking and travel clients. 3) The company added 249 employees in Q2. Headcount addition remains strong in the IT segment (464 in Q2), while headcount decline continued in BPS for the third quarter in a row. 4) Utilization (including trainee) inched up by 110bps QoQ to 77.3%. 5) LTM attrition moderated to 16.4% vs. 18% in Q1. 6) Offshoring mix improved to 49.8% in Q2FY23 from 36% in Q2FY21, which is a structural and sustainable improvement and augurs well for margins. 7) Revenue growth-led operating leverage, continued increase in offshoring mix, utilization uptick, and deployment of freshers remain key margin levers. 8) It added 11 new logos during the quarter. 9) Capex stood at USD5mn for Q2. 10) Weak cash conversion in H1, but management expects it to recover in H2. OCF/EBITDA is expected to remain at 65-70%. 11) The Board recommended an interim dividend of Rs13/share. 12) Given the adverse market conditions, Coforge delayed its ADR listing but remains committed to it.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 6\)](#)

Change in Estimates

EPS Chg FY23E/FY24E (%)	4.3/3.6
Target Price change (%)	4.4
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	126.8	151.0
Consensus	132.7	161.9
Mean Consensus TP (12M)	Rs 4,119	

Stock Details

Bloomberg Code	COFORGE IN
Face Value (Rs)	10
Shares outstanding (mn)	61
52 Week H/L	6,135 / 3,210
M Cap (Rs bn/USD bn)	235 / 2.84
Daily Avg Volume (nos.)	348,729
Daily Avg Turnover (US\$ mn)	15.4

Shareholding Pattern Jun '22

Promoters	40.1%
FIIs	21.9%
DIIIs	25.9%
Public and Others	12.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	16	9	(3)	(34)
Rel. to Nifty	17	3	(5)	(31)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	46,628	64,320	79,285	90,812	104,767
EBITDA	7,901	11,019	13,918	15,988	18,510
EBITDA Margin (%)	16.9	17.1	17.6	17.6	17.7
APAT	4,736	6,617	7,728	9,202	11,073
EPS (Rs)	78.2	108.6	126.8	151.0	181.8
EPS (% chg)	8.3	39.0	16.8	19.1	20.3
ROE (%)	19.5	25.5	26.1	26.6	27.7
P/E (x)	49.4	35.5	30.4	25.5	21.2
EV/EBITDA (x)	28.6	21.2	16.5	14.3	12.1
P/BV (x)	9.5	8.6	7.4	6.3	5.5

Source: Company, Emkay Research

Exhibit 1: Result snapshot (Q2FY23)

In Rs mn	Q2FY23	Q1FY23	QoQ (%)	Q2FY22	YoY(%)
Net sales (US\$ mn)	247.1	239.2	3.3	212.4	16.4
Net sales (INR Mn)	19,594	18,294	7.1	15,694	24.9
Revenues (ex Hedge losses/gains)	19,605	18,255	7.4	15,642	25.3
Operating expenses	16,150	15,376		12,957	
EBITDA	3,444	2,918	18.0	2,737	25.8
Margins (%)	17.6	16.0	160	17.4	10
Depreciation	614	630		598	
EBIT	2,830	2,288	23.7	2,139	32.3
Margins (%)	14.4	12.5	194	13.6	80
Other income	-150.0	-76.0		-77.0	
Pre-tax profit	2,680	2,212	21.2	2,062	30.0
Tax provided	474.0	493.0		446.0	
Profit after tax	2,206	1,719		1,616	
Minority Interest	195.0	222.0		148.0	
Emkay Net profit	2,011	1,497	34.3	1,468	37.0
EPS, Rs	33.0	24.6	34.3	24.2	36.3

Source: Company, Emkay Research

Exhibit 2: Actuals vs. Estimates (Q2FY23)

(Rs mn)	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net revenue (US\$ mn)	247.1	247	247	0.1%	0.2%	Revenue growth was in-line with our estimates
Sales	19,594	19,633	19,685	-0.2%	-0.5%	
EBIT	2,830	2,788	2,833	1.5%	-0.1%	Margins were a tad better than our estimates
EBIT, margin	14.4%	14.2%	14.4%	20 bps	10 bps	
PAT	2,011	1,840	1,916	9.3%	5.0%	PAT beat expectations due to lower ETR and non-controlling interests.

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn, except EPS)	FY23E			FY24E			FY25E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue (US\$ mn)	996	999	0.3%	1,118	1,121	0.3%	1,275	1,278	0.2%
YoY growth, %	15.0%	15.3%		12.3%	12.2%		14.0%	14.0%	
Revenue	79,094	79,285	0.2%	90,583	90,812	0.3%	104,540	104,767	0.2%
EBIT	11,153	11,303	1.3%	12,875	13,075	1.5%	15,045	15,313	1.8%
EBIT margin, %	14.1	14.3		14.2	14.4		14.4	14.6	
Net Profits	7,407	7,728	4.3%	8,881	9,202	3.6%	10,671	11,073	3.8%
EPS (Rs)	121.6	126.8	4.3%	145.8	151.0	3.6%	175.2	181.8	3.8%

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	46,628	64,320	79,285	90,812	104,767
Expenditure	38,727	53,301	65,368	74,824	86,256
EBITDA	7,901	11,019	13,918	15,988	18,510
Depreciation	1,836	2,272	2,615	2,914	3,197
EBIT	6,065	8,747	11,303	13,075	15,313
Other Income	77	(132)	(514)	(477)	(363)
Interest expenses	0	0	0	0	0
PBT	6,142	8,615	10,789	12,598	14,950
Tax	1,302	1,468	2,264	2,898	3,438
Extraordinary Items	180	0	0	0	0
Minority Int./Income from Assoc.	104	530	797	499	439
Reported Net Income	4,916	6,617	7,728	9,202	11,073
Adjusted PAT	4,736	6,617	7,728	9,202	11,073

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	606	609	609	609	609
Reserves & surplus	24,055	26,722	31,282	36,584	42,174
Net worth	24,661	27,331	31,891	37,194	42,783
Minority Interest	0	983	1,780	2,279	2,718
Loan Funds	5	3,545	3,365	3,365	3,365
Net deferred tax liability	(1,253)	(1,970)	(1,970)	(1,970)	(1,970)
Total Liabilities	23,413	29,889	35,066	40,867	46,896
Net block	10,206	20,749	19,914	18,980	18,113
Investment	124	0	0	0	0
Current Assets	23,254	25,973	33,772	38,437	46,902
Cash & bank balance	8,122	4,535	8,096	9,504	13,764
Other Current Assets	2,605	4,403	5,373	6,131	7,049
Current liabilities & Provision	10,173	16,919	18,707	16,636	18,206
Net current assets	13,081	9,054	15,066	21,801	28,697
Misc. exp	0	0	0	0	0
Total Assets	23,413	29,889	35,066	40,867	46,896

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	6,141	8,217	10,506	12,576	14,874
Other Non-Cash items	926	239	0	0	0
Chg in working cap	502	(1,433)	(2,507)	(2,420)	(2,635)
Operating Cashflow	7,623	7,656	8,633	10,195	12,073
Capital expenditure	(2,448)	(10,761)	(1,780)	(4,888)	(2,330)
Free Cash Flow	5,175	(3,105)	6,853	5,307	9,743
Investments	21	450	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(2,354)	(10,293)	(1,780)	(4,888)	(2,330)
Equity Capital Raised	(4,148)	51	0	0	0
Loans Taken / (Repaid)	(306)	3,519	(180)	0	0
Dividend paid (incl tax)	(686)	(3,748)	(3,168)	(3,899)	(5,483)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(5,531)	(829)	(3,348)	(3,899)	(5,483)
Net chg in cash	(262)	(3,466)	3,505	1,408	4,260
Opening cash position	8,195	7,999	4,468	7,973	9,381
Closing cash position	8,122	4,535	8,096	9,504	13,764

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	16.9	17.1	17.6	17.6	17.7
EBIT Margin	13.0	13.6	14.3	14.4	14.6
Effective Tax Rate	21.2	17.0	21.0	23.0	23.0
Net Margin	10.4	11.1	10.8	10.7	11.0
ROCE	26.4	32.3	33.2	33.2	34.1
ROE	19.5	25.5	26.1	26.6	27.7
RoIC	32.8	35.9	34.2	34.6	36.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	78.2	108.6	126.8	151.0	181.8
CEPS	108.5	145.9	169.8	198.9	234.2
BVPS	407.0	448.7	523.5	610.5	702.3
DPS	13.0	52.0	52.0	64.0	90.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	49.4	35.5	30.4	25.5	21.2
P/CEPS	35.6	26.4	22.7	19.4	16.5
P/BV	9.5	8.6	7.4	6.3	5.5
EV / Sales	4.8	3.6	2.9	2.5	2.1
EV / EBITDA	28.6	21.2	16.5	14.3	12.1
Dividend Yield (%)	0.3	1.3	1.3	1.7	2.3

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.3)	0.0	(0.1)	(0.2)	(0.2)
Net Debt/EBIDTA	(1.0)	(0.1)	(0.3)	(0.4)	(0.6)
Working Cap Cycle (days)	38.8	25.6	32.1	49.4	52.0

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11.4	37.9	23.3	14.5	15.4
EBITDA	9.2	39.5	26.3	14.9	15.8
EBIT	10.2	44.2	29.2	15.7	17.1
PAT	7.3	34.6	16.8	19.1	20.3

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	15,694	16,581	17,429	18,294	19,594
EBITDA	2,737	3,020	3,293	2,918	3,444
EBITDA Margin (%)	16.9	16.8	14.4	17.4	18.2
PAT	1,468	1,837	2,077	1,497	2,011
EPS (Rs)	24.2	30.2	34.1	24.6	33.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	55.7	50.2	50.0	40.1	40.1
FIs	19.4	20.7	19.1	22.4	21.9
DIs	14.9	18.7	20.3	25.7	25.9
Public and Others	9.9	10.5	10.6	11.8	12.2

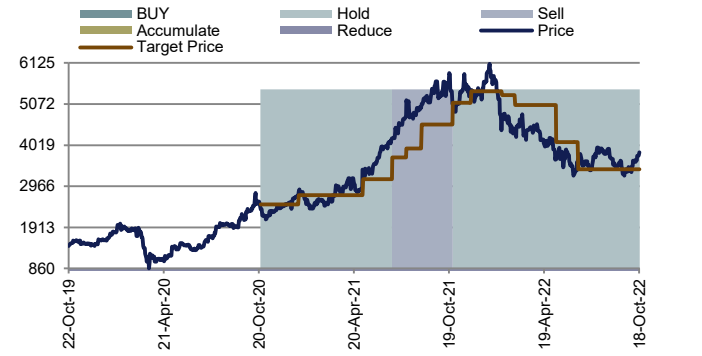
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
3-Oct-22	3,329	3,400	12m	Hold	Dipeshkumar Mehta
22-Jul-22	3,726	3,400	12m	Hold	Dipeshkumar Mehta
23-Jun-22	3,679	3,400	12m	Hold	Dipeshkumar Mehta
12-May-22	3,654	4,100	12m	Hold	Dipeshkumar Mehta
1-Apr-22	4,415	5,050	12m	Hold	Dipeshkumar Mehta
22-Feb-22	4,418	5,050	12m	Hold	Dipeshkumar Mehta
28-Jan-22	4,713	5,300	12m	Hold	Dipeshkumar Mehta
1-Jan-22	5,890	5,400	12m	Hold	Dipeshkumar Mehta
30-Nov-21	5,432	5,400	12m	Hold	Dipeshkumar Mehta
26-Oct-21	5,088	5,100	12m	Hold	Dipeshkumar Mehta
2-Oct-21	5,280	4,550	12m	Sell	Dipeshkumar Mehta
27-Aug-21	5,077	4,550	12m	Sell	Dipeshkumar Mehta
29-Jul-21	5,172	3,930	12m	Sell	Dipeshkumar Mehta
2-Jul-21	4,197	3,700	12m	Sell	Dipeshkumar Mehta
7-May-21	3,381	3,150	12m	Hold	Dipeshkumar Mehta
12-Apr-21	3,118	2,740	12m	Hold	Dipeshkumar Mehta
5-Apr-21	3,037	2,740	12m	Hold	Dipeshkumar Mehta
18-Mar-21	2,874	2,740	12m	Hold	Dipeshkumar Mehta
29-Jan-21	2,393	2,740	12m	Hold	Dipeshkumar Mehta
4-Jan-21	2,839	2,740	12m	Hold	Dipeshkumar Mehta
18-Dec-20	2,557	2,500	12m	Hold	Dipeshkumar Mehta
23-Oct-20	2,380	2,500	12m	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



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Sector

IT Services, ITeS and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Information Technology	11.51	11.29	-2%	-22	100.00	
BirlaSoft	0.00	0.01	NA	1	0.09	0
Coforge	0.13	0.00	-100%	-13	0.00	0
Firstsource Solutions	0.00	0.02	NA	2	0.19	0
HCL Tech	1.01	1.06	5%	5	9.22	0
Infosys	5.21	5.31	2%	9	46.10	0
L&T Infotech	0.21	0.00	-100%	-21	0.00	0
Mindtree	0.19	0.32	66%	13	2.79	0
Mphasis	0.17	0.19	11%	2	1.62	0
Oracle Financial Services*	0.07	0.00	-100%	-7	0.00	0
Persistent Systems	0.18	0.19	6%	1	1.63	0
TCS	3.07	2.97	-3%	-9	25.82	0
Tech Mahindra	0.62	0.64	3%	2	5.53	0
Wipro	0.54	0.58	9%	5	5.06	0
Zomato	0.12	0.17	35%	4	1.43	0
Cash	0.00	0.22	NA	22	1.94	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	18-Oct-21	20-Apr-22	21-Jul-22	19-Sep-22	19-Oct-22
EAP - Information Technology	100.0	236.2	214.2	193.9	181.4	190.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	221.1	198.2	179.5	167.8	176.3

*Performance measurement base date 1st April 2019

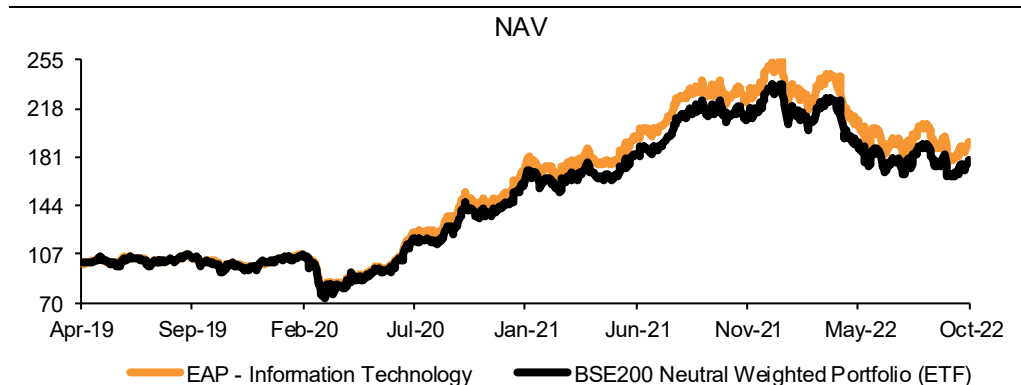
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	4.9%	-1.9%	-11.2%	-19.4%
BSE200 Neutral Weighted Portfolio (ETF)	5.1%	-1.7%	-11.0%	-20.3%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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