

June 20, 2023

**COMPANY UPDATE** | Sector: Information Technology

# Coforge Ltd

## Outlook remains resilient for FY24

We attended COFORGE's Investor Day where in the management highlighted the current business environment and FY24 outlook for Coforge. The focus remains on maintaining robust execution for driving consistent performance even as the near-term demand environment remains challenging. The 12 month executable order book offers visibility about revenue growth for FY24. Clients remain cautious and are taking more time especially with regard to signing of new deals. However, there has been no deal cancellation for Coforge so far and its deal pipeline remains steady. The company aims to drive around 50bps improvement in gross margin for FY24 through optimisation of employee cost.

### Key Investor Day Highlights:

- Maintained FY24 revenue growth guidance of 13-16% in cc terms , primarily led by the current 12 month executable order book
- The near term demand environment remains challenging as client remain cautious about the macroeconomic environment. This is reflected in more time taken by clients with regard to signing of new deals
- Coforge has not seen any deal cancellation and its deal pipeline remains robust
- Its Insurance vertical is expected to report improved performance in FY24 vs FY23 and expected to grow inline with overall revenue growth
- In terms of verticals, demand environment remains strong for Travel segment; while, there are definite signs of softness in BFSI vertical
- It has guided for 50 bps improvement in gross margin for FY24 led by optimization of employee cost. However, it expects SG&A expense to increase by around 40-50 bps in FY24. The key margin levers remain increasing fresher billability, improving price realization and positive operating leverage
- There has been some increase in vendor consolidation, but it will not result in material impact on Coforge
- It aims to drive business growth through 1) scaling up key accounts; 2) scaling up new verticals; 3) Partnerships led growth; 4) acquisitions. It is looking to start new verticals that include a) Public sector-outside India b) CPG c) Healthcare. It has recently increased investments in niche areas to acquire new capabilities.
- Currently, IT project cycles have become shorter accompanied with increased velocity.
- Multi-cloud environment is a reality of today and client are looking to optimize their cloud experience as per their budget.

### Outlook and recommendation

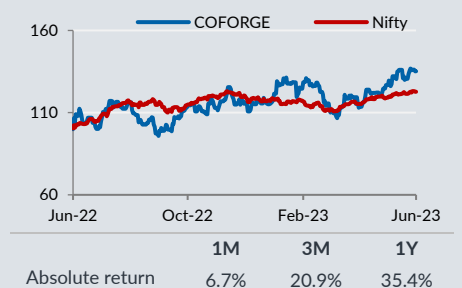
*The long-term demand environment remains robust led by strong traction in the adoption of cloud and AI technologies. However, the clients especially in select sectors remain cautious regarding the evolving macroeconomic situation and it will lead to moderation in near term revenue growth. Revenue guidance of 13%-16% in cc terms for FY24 remains strong. Falling employee attrition is expected to support operating margin going ahead. We estimate revenue CAGR of 18.4% over FY23-25E with average EBIT margin of 14.9%. We maintain our BUY rating on the stock with revised target price of Rs 5,480/share at PER of 25x on FY25E EPS. The stock trades at PER of 26.6x/20.8x on FY24E/FY25E EPS.*

Reco	: <b>BUY</b>
CMP	: Rs 4,563
Target Price	: Rs 5,480
Potential Return	: + 20%

### Stock data (as on June 19, 2023)

Nifty	18,755
52 Week h/l (Rs)	4651 / 3210
Market cap (Rs/USD mn)	280688 / 3427
Outstanding Shares (mn)	61
6m Avg t/o (Rs mn):	1,521
Div yield (%):	1.5
Bloomberg code:	COFORGE IN
NSE code:	COFORGE

### Stock performance



### Shareholding pattern (As of Mar'23 end)

Promoter	30.2%
FII+DII	57.6%
Others	12.2%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	5,480	4,926

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	171.3	219.2
EPS (Old)	173.1	209.6
% change	-1.0%	4.6%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	80,146	94,644	112,421
YoY Growth	24.6%	18.1%	18.8%
EBIDTA	14,053	16,637	21,250
YoY Growth	23.3%	18.4%	27.7%
Adjusted PAT	8,264	10,398	13,306
YoY Growth	20.5%	25.8%	28.0%
ROE	28.4%	30.4%	31.4%
EPS	136	171	219
P/E	33.5	26.6	20.8
BV/Share	508	619	776
EV/EBITDA	9.0	7.4	5.9

### PIYUSH PANDEY

Lead Analyst

piyush.pandey@ysil.in

+91 22 68850521



**PARTH GHIYA**, Associate

## INVESTMENT RATIONALE

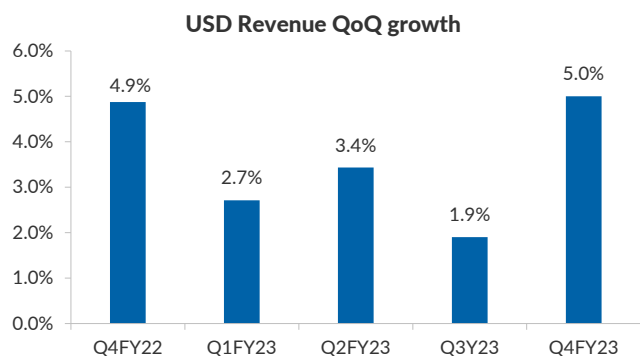
- Fast growing Tier 2 IT company led by robust deal wins and superior execution that has helped it to post 20%+ revenue CAGR over last 3 years.
- Healthy EBIT margin of 14%+ for a company which is just \$1bn in revenue, led by focus on higher offshoring, relatively low employee attrition and continued focus on productivity measures
- Focussed presence in 3 key verticals of BFS, Insurance and Travel and it has helped it to acquire key domain knowledge enabling it to compete with Tier 1 companies in these verticals
- Strong partnerships with key hyperscalars and major SaaS led companies enabling it to drive partnership led growth
- Strategic acquisitions have helped it to fill white spaces and acquire key domain knowledge in its area of operation
- We expect its Revenue/EBITDA/PAT to grow at CAGR of 18.4%/23.1%/26.9% over FY23-FY25E.

### Our view on sector

We continue to be positive on the IT services sector as it faces near term challenges due to macroeconomic concerns in the US and Europe (key markets of IT companies). This has led to more time in decision making on the part of clients and it can lead to near term moderation in deal booking/revenue growth. The clients remain cautious especially in sectors like Retail, Hitech and Mortgages etc. regarding evolving macroeconomic situation and many of them are trying to optimize their cost structure and consequently, we expect an increase in work volume related to cost optimization projects for Indian IT companies. However, the current valuation of IT companies(down 30-40% from peak valuation) captures most of near term headwinds. The medium to long term demand environment remains strong led by accelerated adoption of technologies such as cloud computing, artificial Intelligence, machine learning, etc. by enterprises. We expect employee hiring to moderate for most IT companies in near term as they focus on training/utilization of recently hired employees. The operating margin has mostly bottomed out for the sector and we expect EBIT margin to improve in FY24 vs FY23, led by improving employee pyramid and positive operating leverage. The costs related to travel and admin have started coming back to an extent but IT companies should be able to manage these margin headwinds through operational efficiency measures. We prefer Tier 1 IT stocks over Tier 2 IT stocks given that they are better placed to manage near term macroeconomic headwinds.

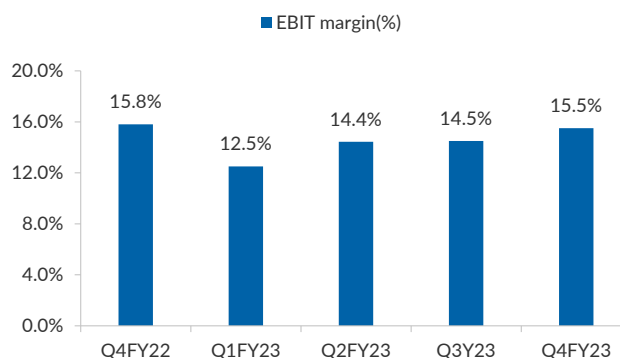
## STORY IN CHARTS

**Exhibit 1: Revenue Growth momentum remains intact**



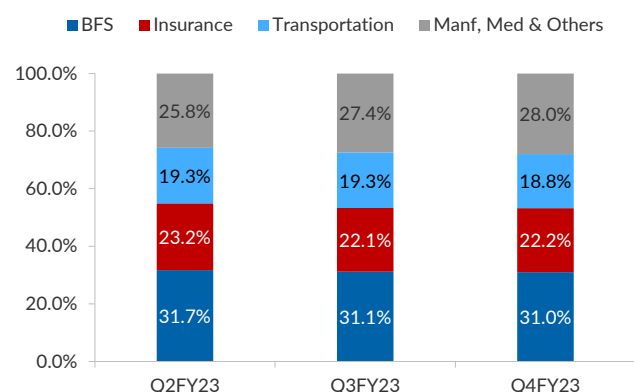
Source: Company, YES Sec

**Exhibit 2: EBIT Margins remains robust**



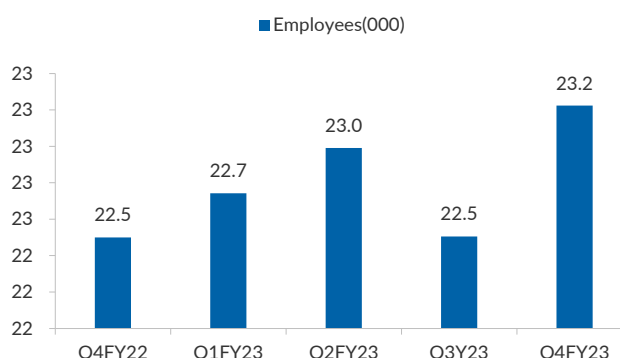
Source: Company, YES Sec,

**Exhibit 3: BFS vertical contributes significantly to overall revenue**



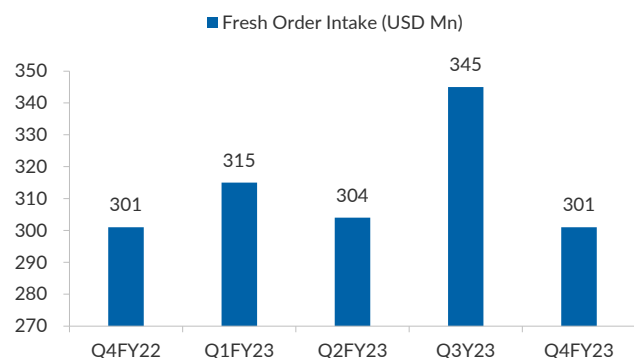
Source: Company, YES Sec

**Exhibit 4: Employee Addition remains inline with increase in revenue**



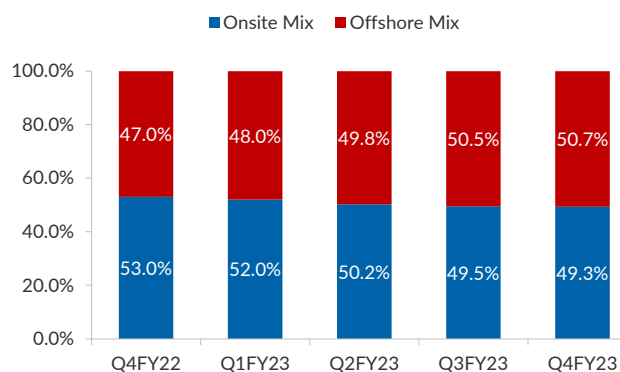
Source: Company, YES Sec

**Exhibit 5: Deal Bookings remain above \$300mn**



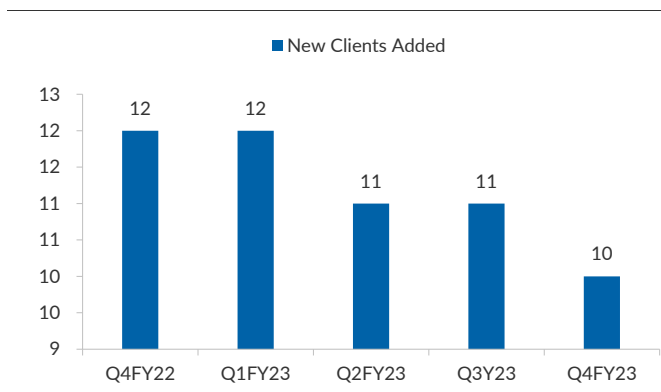
Source: Company, YES Sec

**Exhibit 6: Offshore Revenue Mix improving sequentially**



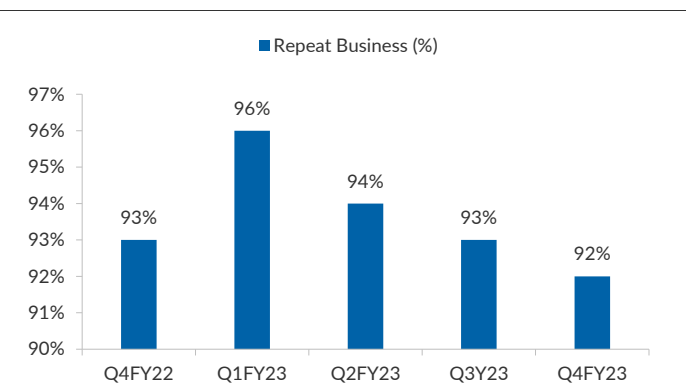
Source: Company, YES Sec

**Exhibit 7: New Client Addition remains reasonable**



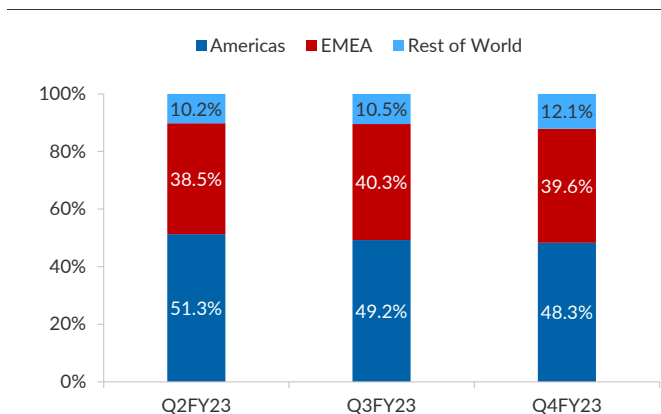
Source: Company, YES Sec

**Exhibit 8: Revenue from Repeat Business remains above 90%**



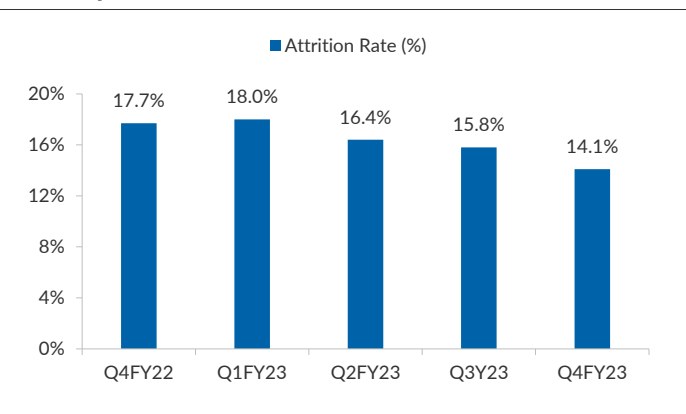
Source: Company, YES Sec

**Exhibit 9: Americas geography contributes ~50% to revenue**



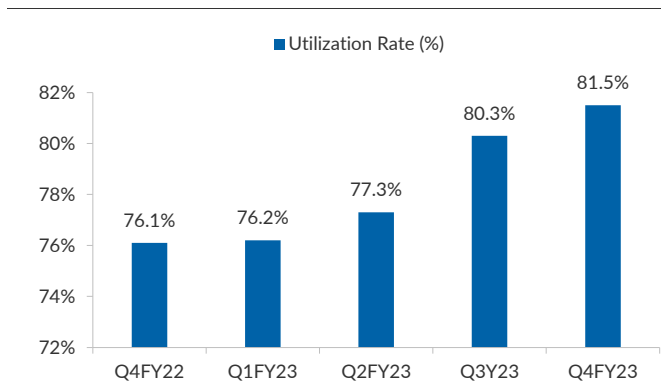
Source: Company, YES Sec

**Exhibit 10: Attrition Rate remains among lowest in the industry**



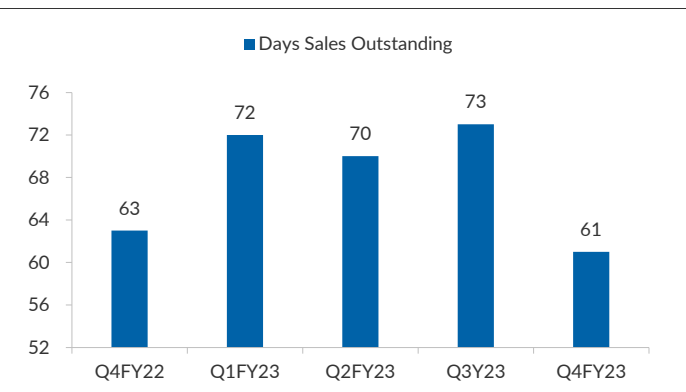
Source: Company, YES Sec

**Exhibit 11: Utilization Rate improving, indicating freshers becoming billable**



Source: Company, YES Sec

**Exhibit 12: DSO remains in healthy range**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 13: Balance Sheet**

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	618	625	606	609	611	611	611
Reserves & surplus	20,105	23,340	24,055	26,722	30,214	36,971	46,513
Shareholders' funds	20,723	23,965	24,661	27,331	30,825	37,582	47,124
Minority Interests and others	75	0	0	983	874	874	874
Non-current liabilities	1,770	2,491	1,947	9,438	7,742	7,633	7,552
Long-term borrowings	100	48	551	4,302	5,168	4,910	4,664
Other non-current liabilities	1,670	2,443	1,396	5,136	2,574	2,724	2,888
ST borrowings, Curr maturity	0	0	275	594	454	409	368
Other current liabilities	6,166	7,942	8,150	11,198	16,939	15,701	17,064
<b>Total (Equity and Liabilities)</b>	<b>28,734</b>	<b>34,398</b>	<b>35,033</b>	<b>49,544</b>	<b>56,834</b>	<b>62,198</b>	<b>72,981</b>
Non-current assets	9,598	12,888	14,096	27,335	30,770	30,408	29,083
Fixed assets (Net block)	5,753	6,705	5,982	10,127	11,500	10,798	9,106
Other non-current assets	3,800	6,183	6,530	15,517	17,498	17,856	18,240
Current assets	19,136	21,510	20,937	22,209	26,064	31,790	43,898
Cash & current investment	9,227	9,171	8,246	4,535	5,787	10,392	18,897
Other current assets	9,909	12,339	12,691	17,674	20,277	21,398	25,001
<b>Total (Assets)</b>	<b>28,734</b>	<b>34,398</b>	<b>35,033</b>	<b>49,544</b>	<b>56,834</b>	<b>62,198</b>	<b>72,981</b>

Source: Company, YES Sec

**Exhibit 14: Income Statement**

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	36,762	41,839	46,628	64,320	80,146	94,644	112,421
Operating expenses	(30,309)	(34,641)	(38,717)	(52,925)	(66,093)	(78,007)	(91,171)
EBITDA	6,453	7,198	7,911	11,395	14,053	16,637	21,250
Depreciation	(1,248)	(1,730)	(1,836)	(2,272)	(2,585)	(2,934)	(3,935)
EBIT	5,205	5,468	6,075	9,123	11,468	13,703	17,315
Other income	476	558	113	(266)	(630)	173	412
Exceptional & extraordinary	56	71	(226)	241	1,326	0	0
Profit before tax	5,737	6,097	5,962	9,098	12,164	13,876	17,728
Tax (current + deferred)	(1,404)	(1,278)	(1,302)	(1,468)	(2,061)	(3,402)	(4,346)
Profit / (Loss) for the period	4,333	4,819	4,660	7,630	10,103	10,474	13,382
P/L of Associates, Min Int, Pref Div	(188)	(236)	(236)	(530)	(513)	(76)	(76)
Reported Profit / (Loss)	4,145	4,583	4,424	7,100	9,590	10,398	13,306
Adjusted net profit	4,089	4,512	4,650	6,859	8,264	10,398	13,306

Source: Company, YES Sec

## Exhibit 15: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	5,737	6,097	5,962	9,098	12,164	13,876	17,728
Depreciation	1,248	1,730	1,836	2,272	2,585	2,934	3,935
Change in working capital	(1,262)	(786)	(737)	(1,935)	3,138	(2,360)	(2,240)
Total tax paid	(1,265)	(1,546)	(1,650)	(2,185)	(3,265)	(3,665)	(4,627)
Cash flow from operations (a)	4,458	5,495	5,411	7,250	14,622	10,786	14,795
Capital expenditure	(631)	(2,682)	(1,113)	(6,417)	(3,958)	(2,232)	(2,243)
Change in investments	9	3,559	(1,571)	17	(81)	18	18
Others	115	(470)	(67)	(1,216)	(3)	(95)	(102)
Cash flow from investing (b)	(507)	407	(2,751)	(7,616)	(4,042)	(2,309)	(2,328)
Free cash flow (a+b)	3,951	5,902	2,660	(366)	10,580	8,476	12,467
Equity raised/(repaid)	3	7	(19)	3	2	0	0
Debt raised/(repaid)	(79)	(52)	778	4,070	726	(304)	(286)
Dividend (incl. tax)	(1,086)	(1,469)	(686)	(3,152)	(3,534)	(3,642)	(3,763)
Others	(1,396)	(930)	(3,645)	(4,142)	(6,522)	74	88
Cash flow from financing (c)	(2,558)	(2,444)	(3,572)	(3,221)	(9,328)	(3,872)	(3,962)

Source: Company, YES Sec

## Exhibit 16: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)							
Revenue Growth	22.9	13.8	11.4	37.9	24.6	18.1	18.8
EBITDA Growth	28.8	11.5	9.9	44.0	23.3	18.4	27.7
EBIT Growth	39.2	5.1	11.1	50.2	25.7	19.5	26.4
Net Profit Growth	47.9	10.6	(3.5)	60.5	35.1	8.4	28.0
Profitability Ratios(%)							
EBITDA Margin	17.6	17.2	17.0	17.7	17.5	17.6	18.9
EBIT margin	14.2	13.1	13.0	14.2	14.3	14.5	15.4
Net Profit margin	11.1	10.8	10.0	10.7	10.3	11.0	11.8
RoA	18.8	17.3	17.5	21.6	21.6	23.0	25.6
RoE	21.3	20.2	19.1	26.4	28.4	30.4	31.4
RoCE	24.0	22.3	22.8	28.0	29.3	31.7	33.8
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.3)	0.0	0.0	(0.1)	(0.3)
Current ratio (x)	3.1	2.7	2.5	1.9	1.5	2.0	2.5
Quick ratio (x)	3.1	2.7	2.5	1.9	1.5	2.0	2.5
Valuation Ratios							
PER(x)	NA	NA	NA	NA	33.5	26.6	20.8
PCE(x)	NA	NA	NA	NA	25.5	20.8	16.1
Price/Book(x)	NA	NA	NA	NA	9.0	7.4	5.9
EV/EBITDA(x)	NA	NA	NA	NA	19.7	16.3	12.4

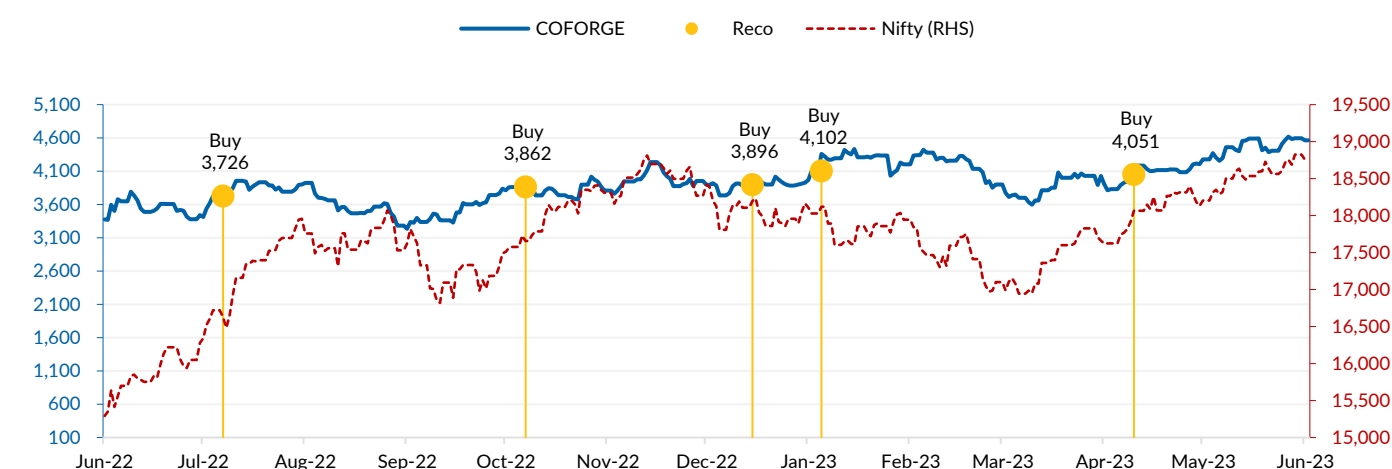
Source: Company, YES Sec

## Exhibit 17: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	11.1	10.8	10.0	10.7	10.3	11.0	11.8
Asset turnover (x)	1.3	1.3	1.3	1.5	1.5	1.6	1.7
Leverage factor (x)	1.4	1.4	1.4	1.6	1.8	1.7	1.6
Return on Equity(%)	21.3	20.2	19.1	26.4	28.4	30.4	31.4

Source: Company, YES Sec

## Recommendation Tracker



## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all

jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

### YES Securities (India) Limited

**Registered Address:** 2<sup>nd</sup> Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 4<sup>th</sup> Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in  
Website: www.yesinvest.in

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in



## DISCLOSURE OF INTEREST

Name of the Research Analyst : Piyush Pandey, Parth Ghiya

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.