

Estimate change



TP change



Rating change



Bloomberg	COFORGE IN
Equity Shares (m)	61
M.Cap.(INRb)/(USDb)	314.4 / 3.8
52-Week Range (INR)	5763 / 3565
1, 6, 12 Rel. Per (%)	-5/20/22
12M Avg Val (INR M)	2253

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	80.1	92.6	104.8
EBITDA Margin (%)	17.5	16.2	17.5
PAT	6.9	9.0	11.6
EPS (INR)	113.6	146.9	190.3
Adj. PAT	8.1	9.1	11.6
Adj. EPS (INR)	130.6	146.5	186.4
Adj. EPS Gr. (%)	15.5	12.2	27.3
BV/Sh. (INR)	504.8	588.0	700.0

Ratios

RoE (%)	27.1	26.7	28.9
RoCE (%)	23.7	22.4	24.6
Payout (%)	49.0	40.0	40.0

Valuations

P/E (x)	39.1	34.9	27.4
P/BV (x)	10.1	8.7	7.3
EV/EBITDA (x)	22.0	20.2	16.3
Div Yield (%)	1.3	1.1	1.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	26.6	30.2	40.1
DII	37.2	32.2	25.9
FII	24.8	25.4	21.9
Others	11.4	12.2	12.2

FII Includes depository receipts

CMP: INR5,109

TP: INR4,840 (-5%)

Neutral

Momentum continues; FY24 exit is crucial

Healthy deal pipeline renders comfort on guidance

- Coforge (COFORGE) reported 2QFY24 revenue growth of 2.3% QoQ in CC terms, in line with our estimates. Reported revenue stood at USD278.1m (up 2.3% QoQ/12.6% YoY). The growth was broad-based across verticals and service lines, with BFS leading the pack by clocking 4.0% QoQ growth. TTH and insurance grew 2.3% QoQ each during the quarter.
- The company reported a robust order intake of USD313m in 2Q with three large deals (2 NN+ 1 Renewal), one in BFS and two under TTH verticals. These took the overall deals signed in 1HFY24 to USD844m (BTB of 1.5x), and resulted in a robust 12-month executable order book of USD935m (+16.5% YoY). Despite macro challenges and near-term demand softness, management maintained its FY24 USD CC revenue growth guidance of 13-16% YoY.
- The deal velocity continues at its earlier pace with a proportionate mix of small- and large-sized deals. Even though the management indicated that the demand environment remained under stress, COFORGE continues to participate heavily in non-discretionary (especially BFS service line) spending. The SLK capabilities contributed equally to winning large deals (won USD10m deal under BPS). Moreover, it is pursuing a healthy deal funnel with strong client retention, which has helped replenish any large deal that closes.
- Despite the above, 3Q seasonality will have an adverse impact on revenue performance, which is likely to be tepid before recovering in 4Q. We expect the company to deliver revenue growth within the guidance range of 13-16% CC YoY, resulting in a USD revenue CAGR of 12.3% for FY23-25E.
- However, the 2QFY24 EBITDA margin came in below our estimate, with a 40bp QoQ improvement vs. our estimate of +170bp QoQ. This was primarily due to a sharp uptick in RSU costs (INR519m in 2Q vs. INR216m). The spike in costs was attributed to accelerated vesting on achieving certain milestones. However, RSU costs are likely to moderate in 2H with gradual recovery expected by FY25. Moreover, 2Q will offer additional levers (~100 bps QoQ) to improve margin despite tepid growth expected in 3Q. We cut our EPS by 9.0%/1.0% to factor in 2Q RSU expenses and weak 3Q growth. This would result in a 20% INR PAT CAGR over FY23-25.
- We believe the robust outlook is already factored into the price and we do not see any potential upside from here. **Our TP of INR4,840 implies 26x FY25E EPS. We reiterate our NEUTRAL rating on fair valuations.**

In-line performance, FY24 revenue guidance maintained

- COFORGE's USD revenue growth of 2.3% QoQ CC was in line with our estimates. Reported USD/INR revenue growth stood at 2.3%/2.5% QoQ.
- Revenue growth was driven by BFS (+4.0% QoQ), while TTH and Insurance rose +2.3% QoQ each during the quarter.

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- Pre-RSU EBITDA margin of 17.6% was in line with our estimate, while post-RSU margin stood at 15.3% (+40bp QoQ; below our estimate of +170bp QoQ).
- Adj PAT at INR1.8b was flat QoQ vs. our estimate of INR2.5b, on account of higher RSU cost (INR519m vs. 216m in 1Q) and lower other income.

Key highlights from the management commentary

- Though the demand environment continues to be stressed, the company is seeing good traction for digital transformation, product innovation, legacy modernization, and cloud migration. Management sees strong growth opportunities for GenAI and data analytics.
- In Travel and Transportation, management is seeing pockets of spend increasing on experience, security, and product development. As the macro environment remains weak, this vertical should deliver growth similar to the company average over the next 12-18 months.
- In BFS, management indicated that digital transformation and modernization deals are not going away, and that data analytics would continue to expand.
- Despite furlough impact, margin is likely to see 100bp+ improvement in 3QFY24 on account of: 1) hedging gains – 50bp, 2) absence of client event cost (happened in 2Q) – 40bp, and 3) gains from the decline in ARC.

Valuation and view: guidance maintained; but valuation remains full

- We expect the large deal ramp-ups and healthy funnel to support its growth despite the near-term challenges. These would help the company achieve its FY24 revenue guidance. However, we remain cautious on the 3Q seasonality.
- Strong execution, robust client mining, and continued investment in S&M have helped the company gain wallet share and deliver industry-leading growth.
- However, we believe the robust outlook is already factored into the price and we do not see any potential upside from here on. **Our TP of INR4,840 implies 26x FY25E EPS. We reiterate our Neutral rating on fair valuations.**

Quarterly Performance (Ind-AS)

	(INR m)											
Y/E March (Consolidated)	FY23				FY24				FY23	FY24E	Est. 2QFY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Rev. (USD m)	239	247	252	264	272	278	280	294	1,002	1,124	279	-0.2
QoQ (%)	2.7	3.4	1.9	5.0	2.8	2.3	0.8	4.8	15.6	12.2	2.6	-25bp
Revenue (INR m)	18,294	19,594	20,558	21,700	22,210	22,762	23,275	24,402	80,146	92,648	23,042	-1.2
YoY (%)	25.2	24.9	24.0	24.5	21.4	16.2	13.2	12.4	24.6	15.6	17.6	-143bp
GPM (%)	30.4	32.0	33.4	34.1	30.7	32.5	33.0	33.5	32.5	32.4	32.0	46bp
SGA (%)	13.9	13.7	14.9	14.5	14.7	14.9	14.7	14.5	14.3	14.7	14.5	40bp
EBITDA (INR m)	2,922	3,449	3,615	4,076	3,316	3,473	3,910	4,343	14,062	15,043	3,848	-9.7
EBITDA Margin (%)	16.0	17.6	17.6	18.8	14.9	15.3	16.8	17.8	17.5	16.2	16.7	-144bp
EBIT (INR m)	2,292	2,835	2,991	3,359	2,559	2,701	3,142	3,538	11,477	11,941	3,088	-12.5
EBIT Margin (%)	12.5	14.5	14.5	15.5	11.5	11.9	13.5	14.5	14.3	12.9	13.4	-153bp
Other income	-76	-150	83	-487	-152	-295	279	244	-630	76	161	-282.9
ETR (%)	22.2	17.7	23.3	18.3	20.1	21.9	21.5	21.5	20.4	21.3	22.5	-2.5
Minority Interest	-222.0	-195.0	-77.0	-19.0	-104.0	-69.0	-69.3	-69.3	-513.0	-311.6	-41.3	67.0
Adj. PAT	1,501	2,016	2,282	2,327	1,818	1,809	2,616	2,900	8,126	9,144	2,477	-27.0
QoQ (%)	-29.3	34.3	13.2	2.0	-21.9	-0.5	44.6	10.8			35.2	-3575bp
YoY (%)	10.3	32.7	21.1	9.6	21.2	-10.3	14.7	24.6	18.0	12.5	22.8	-3311bp
Adj. EPS (INR)	24.2	32.5	36.7	37.4	29.2	29.0	41.9	46.5	130.6	146.5	39.4	-26.5

Key Performance Indicators

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	4.7	6.2	3.7	4.7	2.7	2.3	1.7	4.8		
Margins										
Gross Margin	30.4	32.0	33.4	34.1	30.7	32.5	33.0	33.5	32.5	32.4
EBIT Margin	12.5	14.5	14.5	15.5	11.5	11.9	13.5	14.5	14.3	12.9
Net Margin	8.2	10.3	11.1	10.7	8.2	7.9	11.2	11.9	10.1	9.9
Operating metrics										
Headcount	22,742	22,991	22,505	23,224	24,224				23,224	
LTM Attrition (%)	18.0	16.4	15.8	14.1	13.3				14.1	
Deal Win TCV (USD b)	315	304	345	301	531				1,265	
Key Verticals (YoY USD %)										
BFS	67.2	52.6	24.4	27.3	20.0				40.0	
Insurance	(10.3)	(7.8)	(9.7)	(1.7)	11.4				(7.4)	
Travel and Transport	22.8	20.4	19.8	6.4	8.6				16.8	
Key Geographies (YoY USD %)										
North America	18.9	14.0	4.8	10.1	10.3				11.7	
Europe	25.0	37.4	35.8	13.2	19.1				26.9	



Key highlights from the management commentary

Demand outlook

- Deal wins continued to be strong at USD 313m, including three large deal wins during the quarter. Among the three large deals, one was a USD20m+ BPS deal with a new client, while other two were in the airline space.
- It added 18 new logos during the quarter, and the 12-month executable order book increased 16.6% YoY. COFORGE has strong repeat business at 93% despite macro headwinds.
- For 19 out of its 20 large clients, COFORGE competes against Tier-1 players and has been winning over its larger peers.
- Though the demand environment continues to be stressed, the company is seeing good traction for digital transformation, product innovation, legacy modernization, and cloud migration. It sees strong growth opportunities for GenAI and data analytics.
- Though management is seeing greenshoots in BFS, Insurance, and Travel, the macro headwinds persist.
- 3QFY24 is expected to see elevated furlough and a tepid growth, followed by strong 4QFY24. Despite elevated furloughs and continued macro weakness, management is confident of achieving 13-16% growth guidance laid out during the start of the quarter.
- In Travel and Transportation, management is seeing pockets of spend increasing on experience, security, and product development. As the macro environment remains weak, this vertical should deliver growth similar to the company average over the next 12-18 months.
- In BFS, management indicated that digital transformation and modernization deals are not going away, and that data analytics would continue to expand.

Margin performance and outlook

- Despite furlough impact, margin is likely to see 100bp+ improvement in 3QFY24 on account of: 1) hedging gains – 50bp, 2) absence of client event cost (happened in 2Q) – 40bp, and 3) gains from the decline in ARC.
- 2QFY24 saw a one-time increase in ESOP expenses on account of accelerated vesting based on completion of certain milestones. ESOP costs are anticipated to moderate going forward. We expect 30-40bp decrease in ESOP costs in FY25.
- The company reiterated its guidance to improve its gross margin by 50bp and maintain adjusted EBITDA margin similar to the FY23 levels.
- Offshoring further picked up in 2QFY24 to 52%. The journey to 55% offshoring is expected to remain gradual.
- The headcount increased due to both fresher and lateral hiring. The drop in utilization is on account of fresher additions during the quarter.
- Cashflow generation is expected to pick-up in 2HFY24 led by usual seasonality. Full-year OCF to EBITDA conversion should be in the range of 65-70%.

Exhibit 1: Broad-based sequential growth despite weak macro

Verticals	Contribution to revenue	Growth - QoQ (USD)	Growth - YoY (USD)
BFS	31.6	4.0	12.3
Insurance	22.6	2.3	9.7
Transportation	18.5	2.3	8.0
Others	27.3	0.5	19.2

Source: Company, MOFSL

Exhibit 2: Strong growth across geographies; the US remains a little tepid

Geography	Contribution to revenue	Growth - QoQ (USD)	Growth - YoY (USD)
US	49.4	1.7	8.5
EMEA	38.8	2.8	13.5
ROW	11.8	3.2	30.3

Source: Company, MOFSL

Valuation and view: Guidance maintained, but valuation remains full

- We expect the large deal ramp-ups and healthy funnel to support its growth despite the near-term challenges. These would help the company achieve its FY24 revenue guidance. However, we remain cautious on the 3Q seasonality.
- Strong execution, robust client mining, and continued investment in S&M have helped the company gain wallet share and deliver industry-leading growth.
- However, we believe the robust outlook is already factored into the price and we do not see any potential upside from here on. **Our TP of INR4,840 implies 26x FY25E EPS. We reiterate our Neutral rating on fair valuations.**

Exhibit 3: Revisions to our estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
INR/USD	82.7	83.0	82.7	83.0	0.0%	0.0%
USD Revenue – m	1,124	1,262	1,129	1,265	-0.4%	-0.2%
Growth (%)	12.2	12.3	12.7	12.1	-50bps	20bps
EBIT margin (%)	12.9	14.2	13.8	14.4	-100bps	-20bps
PAT (INR M)	9,144	11,636	10,110	11,786	-9.6%	-1.3%
EPS	146.5	186.4	161.0	187.7	-9.0%	-0.7%

Source: MOFSL

Exhibit 4: Operating metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue Mix Geography-wise (%)									
Americas	52.2	53.3	49.9	51.3	51.3	49.2	48.3	49.7	49.4
EMEA	32.5	33.7	39.8	36.9	38.5	40.3	39.6	38.6	38.8
RoW	15.3	13.0	10.3	11.9	10.2	10.5	12.1	11.7	11.8
Revenue mix Vertical-wise (%)									
BFS	24.1	28.4	27.7	29.5	31.7	31.1	31.0	31.1	31.6
Insurance	29.2	27.8	25.7	23.1	23.2	22.1	22.2	22.6	22.6
Transportation	18.6	18.3	20.1	19.4	19.3	19.3	18.8	18.5	18.5
Manufacturing/Media/Others	28.1	25.5	26.5	28.0	25.8	27.5	28.0	27.8	27.3
Revenue Mix (%)									
Top Clients contribution (%)									
Top – 5	22.5	25.2	23.1	22.9	23.1	23.9	23.0	25.1	23.5
Top -10	33.0	36.1	35.0	35.5	35.8	36.3	35.5	37.7	35.2
Fresh order Intake - USD m									
USA	123	91	158	123	141	208	130	155	118
EMEA	114	110	104	151	134	113	113	346	138
RoW	48	47	40	41	29	24	58	30	57
Deals signed - USD m	285	247	301	315	304	345	301	531	313
Executable Order Book (NTM) - USD m	688	701	720	745	802	841	869	897	935
Employee Metrics									
Billable Personnel	19579	20938	21294	21494	21692	21153	21815	22762	23131
Sales and Marketing	297	281	278	285	291	317	350	363	360
Others	910	911	928	963	1008	1035	1059	1099	1147
Total	20786	22130	22500	22742	22991	22505	23224	24224	24638
Utilization	78.5	77.1	76.1	76.2	77.3	80.3	81.5	81	80
Attrition	15.3	16.3	17.7	18.0	16.4	15.8	14.1	13.3	13.0

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Sales	29,914	36,762	41,809	46,628	64,320	80,146	92,648	1,04,775
Change (%)	7.8	22.9	13.7	11.5	37.9	24.6	15.6	13.1
Cost of revenue	19,179	23,907	27,502	31,692	43,736	54,059	62,596	70,110
SGA expenses	5,723	6,402	6,840	6,545	8,527	11,438	13,616	15,297
RSU costs	0	0	17	480	633	587	1,394	1,048
EBITDA	5,012	6,453	7,450	7,911	11,424	14,062	15,043	18,320
% of Net Sales	16.8	17.6	17.8	17.0	17.8	17.5	16.2	17.5
Depreciation	1,273	1,248	1,730	1,836	2,272	2,585	3,102	3,458
Other Income	298	476	461	113	-266	-630	76	314
PBT	4,037	5,681	6,181	6,188	8,886	10,847	12,017	15,177
Tax	950	1,404	1,229	1,302	1,468	2,208	2,562	3,263
Rate (%)	23.5	24.7	19.9	21.0	16.5	20.4	21.3	21.5
Minority Interest	0	188	238	104	530	513	312	277
Adjusted PAT	3,087	4,089	4,714	4,782	6,888	8,126	9,144	11,636
Change (%)	9.5	32.5	15.3	1.4	44.0	18.0	12.5	27.3
Extraordinary Items	0	56	128	226	269	1,188	165	0
Reported PAT	3,087	4,033	4,586	4,556	6,619	6,938	8,979	11,636

Balance Sheet							(INR m)	
Y/E March	2018	2019E	2020	2021	2022	2023	2024E	2025E
Share Capital	615	618	625	606	609	611	611	611
Reserves	17,125	20,105	23,340	24,055	26,722	30,214	35,334	42,184
Net Worth	17,740	20,723	23,965	24,661	27,331	30,825	35,945	42,795
Loans	179	100	48	5	3,365	3,382	2,582	1,082
Minority Interest	222	75	0	0	983	874	874	874
Other liabilities	2,710	1,670	2,443	2,043	6,073	4,360	5,040	5,700
Capital Employed	20,851	22,568	26,456	26,709	37,752	39,441	44,441	50,450
Net Block	4,500	4,191	4,013	3,902	4,452	4,455	3,973	4,207
CWIP	7	14	3	2	86	46	46	46
Intangibles	4,293	3,996	5,988	5,690	14,821	16,299	15,679	14,987
Investments	0	0	0	0	0	0	0	0
Deferred tax assets	1,719	1,397	2,884	4,245	7,976	9,970	12,741	14,409
Curr. Assets	16,179	17,992	21,510	21,295	22,209	26,064	33,124	39,306
Debtors	5,858	5,877	8,565	8,895	13,894	16,131	17,260	19,520
Cash & Bank Balance	4,102	5,194	8,195	7,999	4,468	5,699	10,983	14,279
Investments	3,733	4,033	976	247	67	88	88	88
Other Current Assets	2,486	2,888	3,774	4,154	3,780	4,146	4,793	5,420
Current Liab. & Prov	5,847	5,833	7,942	8,425	11,792	17,393	21,121	22,505
Trade payables	1,453	1,647	2,634	3,398	6,160	6,481	10,153	11,482
Other liabilities	3,685	3,852	4,979	4,802	5,316	10,552	10,552	10,552
Provisions	709	334	329	225	316	360	416	471
Net Current Assets	10,332	12,159	13,568	12,870	10,417	8,671	12,003	16,802
Application of Funds	20,851	22,568	26,456	26,709	37,752	39,441	44,441	50,450

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
EPS	51.3	66.5	75.5	77.4	110.9	130.6	146.5	186.4
Cash EPS	72.4	85.9	101.2	103.4	143.2	153.0	193.5	241.8
Book Value	294.7	337.0	384.1	407.0	448.7	504.8	588.0	700.0
DPS	15.0	15.0	31.0	20.5	52.0	64.0	58.6	74.6
Payout %	29.2	22.6	41.0	26.5	46.9	49.0	40.0	40.0
Valuation (x)								
P/E	99.6	76.9	67.6	66.0	46.1	39.1	34.9	27.4
Cash P/E	70.5	59.5	50.5	49.4	35.7	33.4	26.4	21.1
EV/EBITDA	59.8	47.3	41.6	38.1	27.1	22.0	20.2	16.3
EV/Sales	10.0	8.3	7.4	6.5	4.8	3.9	3.3	2.9
Price/Book Value	17.3	15.2	13.3	12.6	11.4	10.1	8.7	7.3
Dividend Yield (%)	0.3	0.3	0.6	0.4	1.0	1.3	1.1	1.5
Profitability Ratios (%)								
RoE	17.6	21.1	21.1	19.7	26.0	27.1	26.7	28.9
RoCE	14.0	17.9	18.6	18.0	23.7	23.7	22.4	24.6
Turnover Ratios								
Debtors (Days)	66	58	63	68	65	68	66	64
Fixed Asset Turnover (x)	6.4	8.5	10.2	11.8	15.4	18.0	22.0	25.6

Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
CF from Operations	3,951	5,240	5,633	7,121	9,089	10,532	11,880	14,962
Cash for Working Capital	-128	-713	-2,664	502	-1,433	-1,027	-139	-2,511
Net Operating CF	3,823	4,527	2,969	7,623	7,656	9,505	11,741	12,451
Net Purchase of FA	-838	-676	-703	-757	-1,475	-1,537	-2,000	-3,000
Free Cash Flow	2,985	3,851	2,266	6,866	6,181	7,968	9,741	9,451
Net Purchase of Invest.	-1,866	-1,624	1,826	-1,597	-8,089	-1,179	0	0
Net Cash from Invest.	-2,704	-2,300	1,123	-2,354	-9,564	-2,716	-2,000	-3,000
Proceeds from Equity	66	87	275	18	51	18	0	0
Proceeds from LTB/STB	0	-64	-133	-697	2,139	-1,315	-800	-1,500
Dividend Payments	-810	-1,086	-1,469	-4,852	-3,748	-4,285	-3,658	-4,655
Cash Flow from Fin.	-744	-1,063	-1,327	-5,531	-1,558	-5,582	-4,458	-6,155
Net Cash Flow	375	1,164	2,765	-262	-3,466	1,207	5,284	3,296
Exchange difference	224	-72	236	66	-65	24	0	0
Opening Cash Bal.	3,502	4,101	5,193	8,194	7,998	4,467	5,698	10,982
Add: Net Cash	599	1,092	3,001	-196	-3,531	1,231	5,284	3,296
Closing Cash Bal.	4,101	5,193	8,194	7,998	4,467	5,698	10,982	14,278

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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