

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	COFORGE IN
Equity Shares (m)	61
M.Cap.(INRb)/(USD\$)	227.3 / 2.8
52-Week Range (INR)	6133 / 3224
1, 6, 12 Rel. Per (%)	-2/-23/-26
12M Avg Val (INR M)	2320

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	64.3	79.7	89.9
EBIT Margin (%)	17.8	18.1	18.6
PAT	6.9	8.6	10.2
EPS (INR)	110.9	138.0	165.0
EPS Gr. (%)	43.4	24.4	19.5
BV/Sh. (INR)	448.7	532.8	633.5
Ratios			
RoE (%)	26.0	28.2	28.8
RoCE (%)	23.7	23.5	24.7
Valuations			
P/E (x)	33.7	27.1	22.6
P/BV (x)	8.3	7.0	5.9
EV/EBITDA (x)	19.8	15.6	13.2
Div Yield (%)	1.4	1.5	1.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	40.1	40.1	55.7
DII	25.9	25.7	14.9
FII	21.9	22.4	19.4
Others	12.2	11.8	9.9

FII Includes depository receipts

CMP: INR3,732 **TP: INR3,630 (-3%)** **Neutral**

Guidance intact despite a margin miss

Growth outlook factored into valuations

- COFORGE reported an in line revenue growth of 4.7%/2.7% QoQ in constant currency (CC)/USD terms in 1QFY23. Growth was led by BFS (+9.4% QoQ), while Insurance fell by 7.7%. It reported an order intake of USD315m, implying a book-to-bill ratio of 1.3x, including an over USD50m deal. EBITDA margin (pre-RSU) of 16.5% (down 390bp QoQ) missed our estimate of 17.8%. The management reiterated its FY23 EBITDA margin guidance of 18.5-19% as it guided at a 150-200bp margin pickup in 2QFY23.
- We see good revenue performance and continued momentum in deal wins as a positive and expect COFORGE to deliver revenue growth ahead of its FY23 guidance of at least 20% YoY (a slight increase from its earlier guidance of up to 20% YoY growth), despite macroeconomic headwinds in 2HFY23. We expect the company to deliver USD revenue CAGR of ~15% over FY22-24, despite a 350-400bp cross-currency headwind.
- While its margin performance in 1QFY23 was impacted by higher than usual salary hikes (up 250bp) and SG&A investments (up 100bp), the management remains confident about achieving its guidance of 18.5-19%. Despite the large QoQ improvement expected in 2QFY23, we expect margin to remain near the lower end of its guidance band as attrition remains elevated at 18% (up 30bp QoQ). This, in turn, should help them deliver an FY22-24E PAT CAGR of 21%.
- The stock currently trades at 23x FY24E EPS. Given the additional headwinds due to the share sale from promoter group, we see limited upside at current levels. We largely maintain our earnings estimates. Our TP of INR3,630 per share implies 22x FY24E EPS. We **maintain our Neutral** rating on fair valuations.

In line revenue, margin miss

- COFORGE posted a USD revenue/adjusted EBITDA/adjusted PAT growth of 19.6%/28%/10% YoY.
- EBITDA margin fell 390bp QoQ to 16.5% (pre-RSU).
- Adjusted PAT fell 29.3% QoQ to INR1.5b. It missed our expectation of INR1.9b on lower margin and other income.
- Order intake stood at USD315m, implying a 1.3x book-to-bill ratio.

Key highlights from the management commentary

- It saw a strong order intake at USD315m in 1QFY23, with 12 new client additions and two large deals, including one deal of over USD50m.
- The management has guided at a minimum CC growth of 20% in FY23, even after taking into account every possible slowdown in the macro environment.
- It has continued with its 18.5-19% margin guidance for FY23. It expects a strong 150-200bp bounce back in margin in 2QFY23 on account of higher utilization, increased offshoring, and freshers becoming billable.

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Good growth, but valuations remain full

- We see COFORGE's robust growth performance and improvement in deal wins as positives. The company has also been able to expand margin in a tough supply environment.
- While we continue to see a good operational performance from the company, we see reduced scope for further improvement from the current high base and expect better growth elsewhere in our coverage.
- We value COFORGE at 22x FY24E EPS and maintain our **Neutral** rating on fair valuations.

Quarterly performance (Ind AS)

Y/E March (Consolidated)	FY22				FY23				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY22	FY23E	FY23E 1QE	Var. (%/bp)
Revenue (USD m)	200	213	222	232	239	249	258	269	866	1,015	240	200
QoQ (%)	15.8	6.6	4.1	4.9	2.7	4.3	3.8	4.3	38.0	17.2	3.1	15.8
Revenue (INR m)	14,616	15,694	16,581	17,429	18,294	19,659	20,409	21,289	64,320	79,651	18,452	14,616
YoY (%)	38.3	36.0	39.3	38.2	25.2	25.3	23.1	22.1	37.9	23.8	26.2	38.3
GPM (%)	29.9	32.1	32.4	33.3	30.4	32.0	33.0	33.3	32.0	32.2	31.0	29.9
SGA (%)	13.7	13.5	12.9	13.0	13.9	13.5	13.5	13.5	13.3	13.6	13.2	13.7
EBITDA (INR m)	2,229	2,788	3,068	3,339	2,922	3,540	3,879	4,110	11,424	14,451	3,155	2,229
EBITDA Margin (%)	15.3	17.8	18.5	19.2	16.0	18.0	19.0	19.3	17.8	18.1	17.1	15.3
EBIT (INR m)	1,705	2,190	2,502	2,755	2,292	2,862	3,175	3,376	9,152	11,704	2,536	1,705
EBIT Margin (%)	11.7	14.0	15.1	15.8	12.5	14.6	15.6	15.9	14.2	14.7	13.7	11.7
Other income	52	-77	-122	-119	-76	98	102	106	-266	231	92	52
ETR (%)	18.2	21.1	15.1	13.0	22.2	22.5	22.5	22.5	16.5	22.5	22.5	18.2
Minority Interest	-76.0	-148.0	-135.0	-171.0	-222.0	-158.0	-158.0	-158.0	-530.0	-696.0	-154.0	-76.0
Adj. PAT	1,361	1,519	1,885	2,123	1,501	2,136	2,382	2,541	6,888	8,559	1,883	1,361
QoQ (%)	-1.1	11.6	24.1	12.6	-29.3	42.3	11.5	6.7			-11.3	-1.1
YoY (%)	39.0	25.8	54.5	54.3	10.3	40.6	26.3	19.7	44.0	24.3	38.3	39.0
Adj. EPS (INR)	21.9	24.5	30.4	34.2	24.2	34.4	38.4	41.0	110.9	138.0	30.3	21.9

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (QoQ CC %)	7.0	3.9	5.2	5.0	4.7					
Margins										
Gross Margin	29.9	32.1	32.4	33.3	30.4	32.0	33.0	33.3	32.0	32.2
EBIT Margin	11.7	14.0	15.1	15.8	12.5	14.6	15.6	15.9	14.2	14.7
Net Margin	9.3	9.7	11.4	12.2	8.2	10.9	11.7	11.9	10.7	10.7
Operating metrics										
Headcount	20,491	20,786	22,130	22,500	22,742				22,500	
Attrition (%)	12.6	15.3	16.3	17.7	18.0				15.5	
Deal Win TCV (USD b)	318	285	247	301	315				1,151	
Key verticals (YoY USD %)										
BFS	76.6	95.2	117.4	119.7	67.2				103.7	
Insurance	32.8	18.3	19.7	11.8	(10.3)				20.2	
Travel and Transport	41.6	34.8	26.1	42.6	22.8				36.1	
Key geographies (YoY USD %)										
North America	56.2	49.8	49.9	46.3	18.9				50.3	
Europe	39.6	24.3	29.0	34.2	25.0				31.7	

Key highlights from the management commentary**Demand outlook**

- COFORGE registered a revenue growth of 4.7% QoQ, in CC terms, on the back of a strong demand environment.
- It saw a strong order intake at USD315m in 1QFY23, with 12 new client additions and two large deals, including one deal of over USD50m.

- The management said conversations with clients suggest continuation in the strong demand trend.
- It has guided at a minimum CC growth of 20% in FY23.
- The 12-month executable order book stands at USD745m, 96% of which is from the repeat business.
- BFS continued to register strong growth on the back of large deal wins in preceding quarters. BFS had one large (over USD50m) deal in 1QFY23.
- The Travel vertical is expected to perform well in FY23. Airlines are seeing a good bounce back and Hotel occupancy is increasing. Surge in volume and travel spends remains elevated, despite inflation. Airlines had one large Digital transformation deal win in 1QFY23.
- The Public sector (sub-vertical in others) had multiple multi-year deal wins. There is good traction in Retail and a strong ramp-up in Healthcare.
- The slow growth in the Insurance vertical was slower due to lower volumes and an issue with one client. Growth is expected to return in 2QFY23. Insurance should see a smart bounce back in 2QFY23 on sustained demand ahead.
- SLK's contribution to revenue remains at levels similar to preceding quarters. Cross-sell is helping, it bagged one deal in Travel.

Margin performance and outlook

- COFORGE reported an adjusted EBITDA margin of 16.5% due to higher than usual salary hikes (250bp). As an endeavor to strengthen its leadership team, SG&A spends remained elevated (up 100bp).
- The management continued with its 18.5-19% margin guidance for FY23. It expects a strong 150-200bp bounce back in margin in 2QFY23 on account of higher utilization, increased offshoring, and freshers becoming billable.
- Profitability in the BPS business is growing, with lower headcount and automation.

Other highlights

- COFORGE will continue to hire freshers at elevated levels.
- DSO days are higher at 72 days in 1QFY23.

Exhibit 1: BFS led the sequential growth, Insurance was muted

Verticals	Contribution to revenue	QoQ growth (USD)	YoY growth (USD)
BFS	29.5	9.4	67.2
Insurance	23.1	(7.7)	(10.3)
Transportation	19.4	(0.9)	22.8
Others	28.0	8.5	14.7

Source: Company, MOFSL

Exhibit 2: APAC sees a strong 1QFY23

Geography	Contribution to revenue	QoQ growth (USD)	YoY growth (USD)
US	51.3	5.6	18.9
EMEA	36.9	(4.8)	25.0
APAC	11.9	18.7	8.6

Source: Company, MOFSL

Good growth, but valuations remain full

- We see COFORGE's robust growth performance and improvement in deal wins as positives. The company has also been able to expand margin in a tough supply environment.
- While we continue to see a good operational performance from the company, we see reduced scope for further improvement from the current high base and expect better growth elsewhere in our coverage.
- We value COFORGE at 22x FY24E EPS and maintain our Neutral rating on fair valuations.

Exhibit 3: Revisions to our estimates

	Revised estimate		Earlier estimate		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
USD:INR	78.4	79.0	78.5	79.0	-0.2%	0.0%
Revenue (USD m)	1,015	1,138	1,012	1,151	0.3%	-1.2%
Growth (%)	17.2	12.1	16.8	13.7	40bp	-170bp
EBIT margin (%)	14.7	15.1	14.7	15.2	0bp	-10bp
PAT (INR m)	8,559	10,229	8,720	10,427	-1.8%	-1.9%
EPS	138.0	165.0	140.4	167.9	-1.7%	-1.8%

Source: MOFSL

Exhibit 4: Operating metrics

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Revenue Mix Geography-wise (%)	47.0	48.0	49.0	46.0	51.6	52.2	53.3	49.9	51.3
Americas	36.0	36.0	36.0	40.0	35.3	32.5	33.7	39.8	36.9
EMEA	17.0	16.0	15.0	14.0	13.1	15.3	13.0	10.3	11.9
RoW									
Revenue mix Vertical-wise (%)	17.0	17.0	18.0	17.0	21.1	24.1	28.4	27.7	29.5
BFS	33.0	34.0	32.0	31.0	30.8	29.2	27.8	25.7	23.1
Insurance	19.0	19.0	20.0	19.0	18.9	18.6	18.3	20.1	19.4
Transportation	31.0	30.0	30.0	33.0	29.2	28.1	25.5	26.5	28.0
Manufacturing/Media/Others									
Revenue Mix (%)									
Top Clients contribution (%)	26.0	25.0	24.0	25.0	24.6	22.5	25.2	23.1	22.9
Top five	38.0	36.0	34.0	36.0	35.9	33.0	36.1	35.0	35.5
Top 10									
Fresh order Intake (USD m)	85	121	116	119	46	123	91	158	123
USA	70	58	45	65	227	114	110	104	151
EMEA	31	21	32	17	46	48	47	40	41
RoW	186	201	192	201	318	285	247	301	315
Deals signed (USD m)	465	489	501	520	645	688	701	720	745
Executable Order Book (NTM, USD m)									
Employee Metrics	9736	10281	10538	11469	18739	19579	20938	21294	21494
Billable Personnel	184	191	189	188	258	297	281	278	285
Sales and Marketing	679	690	697	734	1494	910	911	928	963
Others	10599	11162	11424	12391	20491	20786	22130	22500	22742
Total	77	81	78.9	81	77	78.5	77.1	76.1	76.2
Utilization	11.84	10.5	10.4	10.5	12.6	15.3	16.3	17.7	18
Attrition	47.0	48.0	49.0	46.0	51.6	52.2	53.3	49.9	51.3

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	27,750	29,914	36,762	41,809	46,628	64,320	79,651	89,882
Change (%)	3.5	7.8	22.9	13.7	11.5	37.9	23.8	12.8
Cost of revenue	17,856	19,179	23,907	27,502	31,692	43,736	53,981	60,401
SGA expenses	5,312	5,723	6,402	6,840	6,545	8,527	10,826	12,224
RSU costs	0	0	0	17	480	633	392	539
EBITDA	4,582	5,012	6,453	7,450	7,911	11,424	14,451	16,718
As a percentage of Net Sales	16.5	16.8	17.6	17.8	17.0	17.8	18.1	18.6
Depreciation	1,276	1,273	1,248	1,730	1,836	2,272	2,747	3,102
Other Income	159	298	476	461	113	-266	231	449
PBT	3,465	4,037	5,681	6,181	6,188	8,886	11,935	14,066
Tax	646	950	1,404	1,229	1,302	1,468	2,680	3,165
Rate (%)	18.6	23.5	24.7	19.9	21.0	16.5	22.5	22.5
Minority Interest	0	0	188	238	104	530	696	672
Adjusted PAT	2,819	3,087	4,089	4,714	4,782	6,888	8,559	10,229
Change (%)	-5.5	9.5	32.5	15.3	1.4	44.0	24.3	19.5
Extraordinary Items	0	0	56	128	226	269	4	0
Reported PAT	2,819	3,087	4,033	4,586	4,556	6,619	8,555	10,229

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	614	615	618	625	606	609	609	609
Reserves	16,251	17,125	20,105	23,340	24,055	26,722	31,853	37,991
Net Worth	16,865	17,740	20,723	23,965	24,661	27,331	32,462	38,600
Loans	74	179	100	48	5	3,365	3,365	3,365
Minority Interest	237	222	75	0	0	983	0	0
Other liabilities	2,883	2,710	1,670	2,443	2,043	6,073	3,490	3,938
Capital Employed	20,059	20,851	22,568	26,456	26,709	37,752	39,317	45,903
Net Block	4,802	4,500	4,191	4,013	3,902	4,452	4,254	3,773
CWIP	0	7	14	3	2	86	86	86
Intangibles	3,674	4,293	3,996	5,988	5,690	14,821	14,272	13,651
Investments	0	0	0	0	0	0	0	0
Deferred tax assets	1,296	1,719	1,397	2,884	4,245	7,976	7,251	8,183
Curr. Assets	14,876	16,179	17,992	21,510	21,295	22,209	26,735	34,513
Debtors	4,903	5,858	5,877	8,565	8,895	13,894	14,839	16,745
Cash and Bank Balance	3,502	4,102	5,194	8,195	7,999	4,468	5,344	10,384
Investments	3,731	3,733	4,033	976	247	67	67	67
Other Current Assets	2,740	2,486	2,888	3,774	4,154	3,780	6,484	7,317
Current Liab. and Prov.	4,589	5,847	5,833	7,942	8,425	11,792	13,280	14,303
Trade payables	1,237	1,453	1,647	2,634	3,398	6,160	7,580	8,554
Other liabilities	2,951	3,685	3,852	4,979	4,802	5,316	5,316	5,316
Provisions	401	709	334	329	225	316	384	434
Net Current Assets	10,287	10,332	12,159	13,568	12,870	10,417	13,454	20,210
Application of Funds	20,059	20,851	22,568	26,456	26,709	37,752	39,317	45,903

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	48.1	51.3	66.5	75.5	77.4	110.9	138.0	165.0
Cash EPS	69.9	72.4	85.9	101.2	103.4	143.2	182.3	215.0
Book Value	287.7	294.7	337.0	384.1	407.0	448.7	532.8	633.5
DPS	12.5	15.0	15.0	31.0	20.5	52.0	55.2	66.0
Payout (%)	26.0	29.2	22.6	41.0	26.5	46.9	40.0	40.0

Valuation (x)

P/E ratio	77.7	72.8	56.2	49.4	48.3	33.7	27.1	22.6
Cash P/E ratio	53.5	51.6	43.5	36.9	36.1	26.1	20.5	17.4
EV/EBITDA ratio	46.2	43.3	34.2	30.1	27.6	19.8	15.6	13.2
EV/Sales ratio	7.6	7.3	6.0	5.4	4.7	3.5	2.8	2.5
Price/Book Value ratio	13.0	12.7	11.1	9.7	9.2	8.3	7.0	5.9
Dividend Yield (%)	0.3	0.4	0.4	0.8	0.5	1.4	1.5	1.8

Profitability Ratios (%)

RoE	17.1	17.6	21.1	21.1	19.7	26.0	28.2	28.8
RoCE	13.6	14.0	17.9	18.6	18.0	23.7	23.6	24.8

Turnover Ratios

Debtors (Days)	71	66	58	63	68	65	66	64
Fixed Asset Turnover (x)	5.6	6.4	8.5	10.2	11.8	15.4	18.3	22.4

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
CF from Operations	3,782	3,951	5,240	5,633	7,121	9,089	10,320	13,331
Cash for Working Capital	941	-128	-713	-2,664	502	-1,433	-4,020	-2,199
Net Operating CF	4,723	3,823	4,527	2,969	7,623	7,656	6,300	11,132
Net Purchase of FA	-855	-838	-676	-703	-757	-1,475	-2,000	-2,000
Free Cash Flow	3,868	2,985	3,851	2,266	6,866	6,181	4,300	9,132
Net Purchase of Invest.	-2,208	-1,866	-1,624	1,826	-1,597	-8,089	0	0
Net Cash from Invest.	-3,063	-2,704	-2,300	1,123	-2,354	-9,564	-2,000	-2,000
Proceeds from Equity	70	66	87	275	18	51	0	0
Proceeds from LTB/STB	-1	0	-64	-133	-697	2,139	0	0
Dividend Payments	-738	-810	-1,086	-1,469	-4,852	-3,748	-3,424	-4,092
Cash Flow from Fin.	-669	-744	-1,063	-1,327	-5,531	-1,558	-3,424	-4,092
Net Cash Flow	991	375	1,164	2,765	-262	-3,466	876	5,040
Exchange difference	-368	224	-72	236	66	-65	0	0
Opening Cash Bal.	2,879	3,502	4,101	5,193	8,194	7,998	4,467	5,343
Add: Net Cash	623	599	1,092	3,001	-196	-3,531	876	5,040
Closing Cash Bal.	3,502	4,101	5,193	8,194	7,998	4,467	5,343	10,383

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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