

Estimate change



TP change



Rating change



Bloomberg	COFORGE IN
Equity Shares (m)	61
M.Cap.(INRb)/(USD\$)	234.7 / 2.8
52-Week Range (INR)	6133 / 3210
1, 6, 12 Rel. Per (%)	16/-7/-30
12M Avg Val (INR M)	1868

#### Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	64.3	80.3	91.2
EBIT Margin (%)	17.8	18.0	18.4
PAT	6.9	8.5	10.3
EPS (INR)	110.9	136.8	166.2
EPS Gr. (%)	43.4	23.3	21.5
BV/Sh. (INR)	448.7	531.9	633.4

#### Ratios

RoE (%)	26.0	28.0	29.0
RoCE (%)	23.7	24.2	25.2

#### Valuations

P/E (x)	34.7	28.1	23.2
P/BV (x)	8.6	7.2	6.1
EV/EBITDA (x)	20.4	16.1	13.6
Div Yield (%)	1.4	1.4	1.7

#### 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: INR3,850**
**TP: INR3,820 (-1%)**
**Neutral**

### Strong growth outlook factored in the valuation

#### Excess stock liquidity concerns to keep share rangebound

- Coforge Ltd (COFORGE) reported 2QFY23 revenue growth of 6.2% QoQ in constant currency (CC), ahead of our estimates of 5% QoQ CC. Reported USD growth was 3.4% QoQ, led by BFS (+11.1% QoQ in USD; 14% QoQ in CC). It reported an order intake of USD309m, with 12-month executable order rising 16.6% YoY to USD802m. EBITDA margin (pre-RSU) of 18.4% (+190bp QoQ) recovered strongly and was 30bp above our estimates. The management reiterated its FY23E EBITDA margin guidance of 18.5-19.0%.
- We see the good topline performance and continued momentum in deal wins as positive, and expect COFORGE to deliver FY23E revenue growth of at least 20% YoY (ahead of its guidance) despite macroeconomic headwinds in 2HFY23. We estimate it to report FY22-24 USD revenue CAGR of c13% despite a 550-700bp cross-currency headwind.
- With strong margin recovery in 2QFY23 and continued gains from offshoring, fresher additions and utilization, we project COFORGE to post 18.7% pre-RSU EBITDA margin in FY23. This, in turn, should help it deliver an FY22-24E PAT CAGR of 22%.
- The stock currently trades at 23x FY24E EPS. Given the additional headwind of the share sale from promoter group, we see limited upside at current level. We raise our FY24 EPS estimate by ~4% on better growth and margin outlook. Our TP of INR3,820 implies 23x FY24E EPS. We **maintain our Neutral** rating on fair valuations.

#### Good topline performance, margin improvement in line

- COFORGE posted USD revenue / Adj. EBITDA / Adj. PAT growth of 16%/23%/33% YoY, respectively, in 2QFY23.
- In 1HFY23, its USD revenue/ Adj. INR EBITDA/ Adj. INR PAT grew 18%/27%/22%, respectively.
- EBITDA margin (pre-RSU) of 18.4% rose 190bp QoQ in 2QFY23 after a sharp decline in 1QFY23 and was 30bp above our estimates.
- Adj. PAT of Rs2.0b (+34% QoQ) was in line with our expectation.
- New TCv was at USD304m, 12m executable order rose 16.6% YoY at USD802m
- The company declared a dividend of INR13 per share during the quarter.

#### Key highlights from the management commentary

- BFS continued to register strong growth. Mortgage was ~2% of revenue so there was no material impact from mortgage. Expect good spends to continue on digital transformation initiatives.
- Travel vertical is expected to perform well in FY23. Though certain clients are cautious on discretionary spending, the outlook remains positive.
- Clients in Insurance vertical are looking to spend more on end-to-end digital transformations along with newer products.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- EMEA will continue to remain strong as it is concentrated to Banking and Travel with fewer and deep client relationships.
- The management will stay in the current band of utilization to prioritize growth. Offshoring, utilization and freshers becoming billable are the key margin levers.

#### Valuation and view: Healthy growth, but valuations priced in

- We see COFORGE's robust growth performance and improvement in deal wins as positives. The company has also been able to expand margins in a tough supply environment.
- While we continue to see good operational performance from the company, we see reduced scope of further improvement from the current high base; we can witness better growth elsewhere in our coverage.
- We value the company at 23x FY24E EPS and maintain our **Neutral** rating on fair valuations.

#### Quarterly Perf (Ind-AS)

Quarterly Perf (Ind-AS)											(INR m)	
Y/E March (Consolidated)	FY22				FY23				FY22	FY23E	Est. 2QFY23	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Rev. (USD m)	200	213	222	232	239	247	253	262	866	1,000	245	0.9
QoQ (%)	15.8	6.6	4.1	4.9	2.7	3.4	2.4	3.6	38.0	15.4	2.5	92bp
Revenue (INR m)	14,616	15,694	16,581	17,429	18,294	19,594	20,850	21,591	64,320	80,329	19,503	0.5
YoY (%)	38.3	36.0	39.3	38.2	25.2	24.9	25.7	23.9	37.9	24.9	24.3	58bp
GPM (%)	29.9	32.1	32.4	33.3	30.4	32.0	33.0	33.5	32.0	32.3	31.7	34bp
SGA (%)	13.7	13.5	12.9	13.0	13.9	13.7	13.5	13.5	13.3	13.6	13.6	9bp
EBITDA (INR m)	2,229	2,788	3,068	3,339	2,922	3,449	3,909	4,156	11,424	14,436	3,434	0.4
EBITDA Margin (%)	15.3	17.8	18.5	19.2	16.0	17.6	18.7	19.2	17.8	18.0	17.6	0bp
EBIT (INR m)	1,705	2,190	2,502	2,755	2,292	2,835	3,255	3,479	9,152	11,861	2,761	2.7
EBIT Margin (%)	11.7	14.0	15.1	15.8	12.5	14.5	15.6	16.1	14.2	14.8	14.2	31bp
Other income	52	-77	-122	-119	-76	-150	104	108	-266	-14	98	-253.8
ETR (%)	18.2	21.1	15.1	13.0	22.2	17.7	22.5	22.5	16.5	21.4	22.5	-21.5
Minority Interest	-76.0	-148.0	-135.0	-171.0	-222.0	-195.0	-206.3	-206.3	-530.0	-829.5	-159.4	22.3
Adj. PAT	1,361	1,519	1,885	2,123	1,501	2,016	2,397	2,573	6,888	8,488	2,056	-1.9
QoQ (%)	-1.1	11.6	24.1	12.6	-29.3	34.3	18.9	7.3			37.0	-265bp
YoY (%)	39.0	25.8	54.5	54.3	10.3	32.7	27.2	21.2	44.0	23.2	35.3	-262bp
Adj. EPS (INR)	21.9	24.5	30.4	34.2	24.2	32.5	38.6	41.5	110.9	136.8	33.2	-2.0

#### Key Perfor. Indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	7.0	3.9	5.2	5.0	4.7	6.2				
<b>Margins</b>										
Gross Margin	29.9	32.1	32.4	33.3	30.4	32.0	33.0	33.5	32.0	32.3
EBIT Margin	11.7	14.0	15.1	15.8	12.5	14.5	15.6	16.1	14.2	14.8
Net Margin	9.3	9.7	11.4	12.2	8.2	10.3	11.5	11.9	10.7	10.6
<b>Operating metrics</b>										
Headcount	20,491	20,786	22,130	22,500	22,742	22,991			22,500	
Attrition (%)	12.6	15.3	16.3	17.7	18.0	16.4			15.5	
Deal Win TCV (USD b)	318	285	247	301	315	304			1,151	
<b>Key Verticals (YoY USD %)</b>										
BFS	76.6	95.2	117.4	119.7	67.2	52.6			103.7	
Insurance	32.8	18.3	19.7	11.8	(10.3)	(7.8)			20.2	
Travel and Transport	41.6	34.8	26.1	42.6	22.8	20.4			36.1	
<b>Key Geographies (YoY USD %)</b>										
North America	56.2	49.8	49.9	46.3	18.9	14.0			50.3	
Europe	39.6	24.3	29.0	34.2	25.0	37.4			31.7	

## Key highlights from the management commentary

### Demand outlook

- COFORGE registered 6.2% QoQ CC revenue growth on strong demand environment.
- 2QFY23 had a strong order intake of USD304m, with 11 new logos and two large USD30m+ deals.
- Ground-up conversations with clients indicate continuation of strong demand trend.
- The management reiterated its guidance of 20%+ CC growth for FY23E.
- COFORGE saw healthy increase in the 12-month executable order book, which now stands at USD802m, 93% of which is from repeat businesses.
- BFS continued to register strong growth. Mortgage was ~2% of revenue so there was no material impact from mortgage. Expect good spends to continue on digital transformation initiatives.
- Travel vertical is expected to perform well in FY23. Though certain clients are cautious on discretionary spending, the outlook remains positive.
- Clients in Insurance vertical are looking to spend more on end-to-end digital transformations along with newer products.
- EMEA will continue to remain strong as it is concentrated to Banking and Travel with fewer and deep client relationships.
- Furloughs in 3QFY23 are expected to be in line with the past trends.
- The management has already identified the path to reach USD2b run-rate and shared that the endeavor is to hit the target before the next five years.
- SLK contribution to revenue continued at levels similar to previous quarters and it saw low volumes in mortgage processing. Cross-sell is helping and COFORGE is likely to close one new deal with the help of SLK.

### Margin performance and outlook

- The company reported strong 190bp QoQ improvement in Adj. EBITDA margin on account of FX (10bp), while offshoring, utilization, freshers, revenue mix, and operating leverage contributed ~180bp.
- The management will stay in the current band of utilization to prioritize growth. Offshoring, utilization and freshers becoming billable are the key margin levers.
- Pricing is another lever but it is not a material lever for COFORGE.
- The management continued with 18.5-19.0% margin guidance for FY23E.
- Profitability of BPS business is growing with lower headcount and automation.

### Other highlights

- Attrition dipped 160bp QoQ to 16.4%, amongst the lowest in the industry.
- It has delayed ADR listing due to unfavorable conditions in the US.

### Exhibit 1: BFS led the sequential growth

Verticals	Contribution to revenue	Growth - QoQ (USD)	Growth - YoY (USD)
BFS	31.7	11.1	52.6
Insurance	23.2	3.9	(7.8)
Transportation	19.3	2.9	20.4
Others	25.8	(4.7)	6.5

Source: Company, MOFSL

**Exhibit 2: US and Europe strong, APAC muted**

Geography	Contribution to revenue	Growth – QoQ (USD)	Growth – YoY (USD)
US	51.3	3.4	14.0
EMEA	38.5	7.9	37.4
APAC	10.2	(11.3)	(22.7)

Source: Company, MOFSL

**Valuation and view – Healthy growth, but valuations priced in**

- We see COFORGE's robust growth performance and improvement in deal wins as positives. The company has also been able to expand margins in a tough supply environment.
- While we continue to see good operational performance from the company, we see reduced scope of further improvement from the current high base; we can witness better growth elsewhere in our coverage.
- We value the company at 23x FY24E EPS and maintain our **Neutral** rating on fair valuations.

**Exhibit 3: Revisions to our estimates**

	Revised		Earlier		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
INR/USD	80.2	82.5	79.9	81.8	0.3%	0.9%
USD Revenue – m	1,000	1,106	993	1,082	0.7%	2.2%
Growth (%)	15.4	10.5	14.6	8.9	80bps	160bps
EBIT margin (%)	14.8	15.3	14.6	14.9	20bps	30bps
PAT (INR M)	8,488	10,310	8,464	9,899	0.3%	4.2%
EPS	136.8	166.2	136.5	159.6	0.2%	4.1%

Source: MOFSL

## Exhibit 4: Operating metrics

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
<b>Revenue Mix Geography-wise (%)</b>	48.0	49.0	46.0	51.6	52.2	53.3	49.9	51.3	51.3
Americas	36.0	36.0	40.0	35.3	32.5	33.7	39.8	36.9	38.5
EMEA	16.0	15.0	14.0	13.1	15.3	13.0	10.3	11.9	10.2
RoW									
<b>Revenue mix Vertical-wise (%)</b>	17.0	18.0	17.0	21.1	24.1	28.4	27.7	29.5	31.7
BFS	34.0	32.0	31.0	30.8	29.2	27.8	25.7	23.1	23.2
Insurance	19.0	20.0	19.0	18.9	18.6	18.3	20.1	19.4	19.3
Transportation	30.0	30.0	33.0	29.2	28.1	25.5	26.5	28.0	25.8
Manufacturing/Media/Others									
<b>Revenue Mix (%)</b>									
Top Clients contribution (%)	25.0	24.0	25.0	24.6	22.5	25.2	23.1	22.9	23.1
Top – 5	36.0	34.0	36.0	35.9	33.0	36.1	35.0	35.5	35.8
Top -10									
<b>Fresh order Intake - USD m</b>	121	116	119	46	123	91	158	123	141
USA	58	45	65	227	114	110	104	151	134
EMEA	21	32	17	46	48	47	40	41	29
RoW	201	192	201	318	285	247	301	315	304
Deals signed - USD m	489	501	520	645	688	701	720	745	802
Executable Order Book (NTM) - USD m									
<b>Employee Metrics</b>	10281	10538	11469	18739	19579	20938	21294	21494	21692
Billable Personnel	191	189	188	258	297	281	278	285	291
Sales and Marketing	690	697	734	1494	910	911	928	963	1008
Others	<b>11162</b>	<b>11424</b>	<b>12391</b>	<b>20491</b>	<b>20786</b>	<b>22130</b>	<b>22500</b>	<b>22742</b>	<b>22991</b>
<b>Total</b>	81	78.9	81	77	78.5	77.1	76.1	76.2	77.3
Utilization	10.5	10.4	10.5	12.6	15.3	16.3	17.7	18	16.4
Attrition	48.0	49.0	46.0	51.6	52.2	53.3	49.9	51.3	51.3

Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
<b>Sales</b>	<b>27,750</b>	<b>29,914</b>	<b>36,762</b>	<b>41,809</b>	<b>46,628</b>	<b>64,320</b>	<b>80,329</b>	<b>91,204</b>
Change (%)	3.5	7.8	22.9	13.7	11.5	37.9	24.9	13.5
Cost of revenue	17,856	19,179	23,907	27,502	31,692	43,736	54,383	61,297
SGA expenses	5,312	5,723	6,402	6,840	6,545	8,527	10,955	12,451
RSU costs	0	0	0	17	480	633	556	685
<b>EBITDA</b>	<b>4,582</b>	<b>5,012</b>	<b>6,453</b>	<b>7,450</b>	<b>7,911</b>	<b>11,424</b>	<b>14,436</b>	<b>16,772</b>
% of Net Sales	16.5	16.8	17.6	17.8	17.0	17.8	18.0	18.4
Depreciation	1,276	1,273	1,248	1,730	1,836	2,272	2,575	2,861
Other Income	159	298	476	461	113	-266	-14	456
<b>PBT</b>	<b>3,465</b>	<b>4,037</b>	<b>5,681</b>	<b>6,181</b>	<b>6,188</b>	<b>8,886</b>	<b>11,847</b>	<b>14,367</b>
Tax	646	950	1,404	1,229	1,302	1,468	2,530	3,233
Rate (%)	18.6	23.5	24.7	19.9	21.0	16.5	21.4	22.5
Minority Interest	0	0	188	238	104	530	830	825
<b>Adjusted PAT</b>	<b>2,819</b>	<b>3,087</b>	<b>4,089</b>	<b>4,714</b>	<b>4,782</b>	<b>6,888</b>	<b>8,488</b>	<b>10,310</b>
Change (%)	-5.5	9.5	32.5	15.3	1.4	44.0	23.2	21.5
Extraordinary Items	0	0	56	128	226	269	9	0
<b>Reported PAT</b>	<b>2,819</b>	<b>3,087</b>	<b>4,033</b>	<b>4,586</b>	<b>4,556</b>	<b>6,619</b>	<b>8,479</b>	<b>10,310</b>

Balance Sheet							(INR m)	
Y/E March	2017	2018	2019E	2020	2021	2022	2023E	2024E
Share Capital	614	615	618	625	606	609	609	609
Reserves	16,251	17,125	20,105	23,340	24,055	26,722	31,806	37,992
<b>Net Worth</b>	<b>16,865</b>	<b>17,740</b>	<b>20,723</b>	<b>23,965</b>	<b>24,661</b>	<b>27,331</b>	<b>32,415</b>	<b>38,601</b>
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	3,520	3,996
<b>Capital Employed</b>	<b>20,059</b>	<b>20,851</b>	<b>22,568</b>	<b>26,456</b>	<b>26,709</b>	<b>37,752</b>	<b>39,299</b>	<b>45,962</b>
<b>Net Block</b>	<b>4,802</b>	<b>4,500</b>	<b>4,191</b>	<b>4,013</b>	<b>3,902</b>	<b>4,452</b>	<b>4,392</b>	<b>4,103</b>
CWIP	0	7	14	3	2	86	86	86
Intangibles	3,674	4,293	3,996	5,988	5,690	14,821	14,306	13,734
Investments	0	0	0	0	0	0	0	0
Deferred tax assets	1,296	1,719	1,397	2,884	4,245	7,976	7,313	8,303
<b>Curr. Assets</b>	<b>14,876</b>	<b>16,179</b>	<b>17,992</b>	<b>21,510</b>	<b>21,295</b>	<b>22,209</b>	<b>26,689</b>	<b>34,463</b>
Debtors	4,903	5,858	5,877	8,565	8,895	13,894	14,965	16,992
Cash & Bank Balance	3,502	4,102	5,194	8,195	7,999	4,468	5,117	9,979
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	6,540	7,425
<b>Current Liab. &amp; Prov</b>	<b>4,589</b>	<b>5,847</b>	<b>5,833</b>	<b>7,942</b>	<b>8,425</b>	<b>11,792</b>	<b>13,348</b>	<b>14,436</b>
Trade payables	1,237	1,453	1,647	2,634	3,398	6,160	7,644	8,679
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	388	440
<b>Net Current Assets</b>	<b>10,287</b>	<b>10,332</b>	<b>12,159</b>	<b>13,568</b>	<b>12,870</b>	<b>10,417</b>	<b>13,341</b>	<b>20,027</b>
<b>Application of Funds</b>	<b>20,059</b>	<b>20,851</b>	<b>22,568</b>	<b>26,456</b>	<b>26,709</b>	<b>37,752</b>	<b>39,438</b>	<b>46,253</b>

## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
<b>EPS</b>	<b>48.1</b>	<b>51.3</b>	<b>66.5</b>	<b>75.5</b>	<b>77.4</b>	<b>110.9</b>	<b>136.8</b>	<b>166.2</b>
Cash EPS	69.9	72.4	85.9	101.2	103.4	143.2	178.2	212.3
Book Value	287.7	294.7	337.0	384.1	407.0	448.7	531.9	633.4
DPS	12.5	15.0	15.0	31.0	20.5	52.0	54.7	66.5
Payout %	26.0	29.2	22.6	41.0	26.5	46.9	40.0	40.0

### Valuation (x)

P/E	80.0	75.1	57.9	51.0	49.8	34.7	28.1	23.2
Cash P/E	55.1	53.2	44.8	38.0	37.2	26.9	21.6	18.1
EV/EBITDA	47.7	44.7	35.3	31.0	28.4	20.4	16.1	13.6
EV/Sales	7.9	7.5	6.2	5.5	4.8	3.6	2.9	2.5
Price/Book Value	13.4	13.1	11.4	10.0	9.5	8.6	7.2	6.1
Dividend Yield (%)	0.3	0.4	0.4	0.8	0.5	1.4	1.4	1.7

### Profitability Ratios (%)

RoE	17.1	17.6	21.1	21.1	19.7	26.0	28.0	29.0
RoCE	13.6	14.0	17.9	18.6	18.0	23.7	24.2	25.2

### 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	18.2	21.5

### Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
CF from Operations	3,782	3,951	5,240	5,633	7,121	9,089	10,210	13,324
Cash for Working Capital	941	-128	-713	-2,664	502	-1,433	-4,165	-2,338
<b>Net Operating CF</b>	<b>4,723</b>	<b>3,823</b>	<b>4,527</b>	<b>2,969</b>	<b>7,623</b>	<b>7,656</b>	<b>6,044</b>	<b>10,986</b>
Net Purchase of FA	-855	-838	-676	-703	-757	-1,475	-2,000	-2,000
<b>Free Cash Flow</b>	<b>3,868</b>	<b>2,985</b>	<b>3,851</b>	<b>2,266</b>	<b>6,866</b>	<b>6,181</b>	<b>4,044</b>	<b>8,986</b>
Net Purchase of Invest.	-2,208	-1,866	-1,624	1,826	-1,597	-8,089	0	0
<b>Net Cash from Invest.</b>	<b>-3,063</b>	<b>-2,704</b>	<b>-2,300</b>	<b>1,123</b>	<b>-2,354</b>	<b>-9,564</b>	<b>-2,000</b>	<b>-2,000</b>
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	-3,395	-4,124
<b>Cash Flow from Fin.</b>	<b>-669</b>	<b>-744</b>	<b>-1,063</b>	<b>-1,327</b>	<b>-5,531</b>	<b>-1,558</b>	<b>-3,395</b>	<b>-4,124</b>
<b>Net Cash Flow</b>	<b>991</b>	<b>375</b>	<b>1,164</b>	<b>2,765</b>	<b>-262</b>	<b>-3,466</b>	<b>649</b>	<b>4,862</b>
Exchange difference	-368	224	-72	236	66	-65	0	0
<b>Opening Cash Bal.</b>	<b>2,879</b>	<b>3,502</b>	<b>4,101</b>	<b>5,193</b>	<b>8,194</b>	<b>7,998</b>	<b>4,467</b>	<b>5,116</b>
Add: Net Cash	623	599	1,092	3,001	-196	-3,531	649	4,862
<b>Closing Cash Bal.</b>	<b>3,502</b>	<b>4,101</b>	<b>5,193</b>	<b>8,194</b>	<b>7,998</b>	<b>4,467</b>	<b>5,116</b>	<b>9,978</b>

(INR m)

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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