

CMP: INR 4,563

Rating: Accumulate

Target Price: INR 5,127

Stock Info

BSE	533179
NSE	COFORGE
Bloomberg	COFORGE.IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	611
Mkt Cap (INR mn)	279,046
52w H/L (INR)	4650/3210
Avg Yearly Vol (in 000')	377

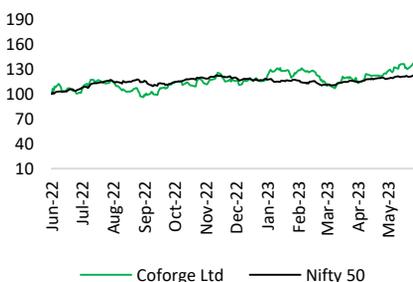
Shareholding Pattern %

(As on Mar, 2023)

Promoters	30.16
FII	25.40
DII	32.2
Public & Others	12.24

	1m	3m	12m
Coforge	9.85	-6.9	-0.97
Nifty 50	4.98	1.29	4.66

Coforge Vs Nifty 50



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Coforge is anticipated to experience significant growth in revenue in the upcoming quarters. The company's projected revenue growth, ranging from 13% to 16%. Considering the uncertainty in the overall economic conditions. Coforge has implemented a new organizational structure that aims to concentrate on clients with a value between US\$50 mn and US\$100 million, while also identifying six service lines to drive sustainable growth in the long term. Moreover, the company expects substantial expansion in areas such as low code, no code, system integration, data, and product engineering. Additionally, the increase in gross margin will be reinvested in expanding sales and capabilities. These factors indicate positive prospects for both long-term growth and margin expansion in the future.

Strong order book, the company remains optimistic about its short-term prospects: Its 12-month order book, which can be executed, has increased by 20.7% compared to the previous year, reaching 869 mn. Furthermore, the company anticipates robust expansion in areas such as low code, no code, system integration, data, and product engineering. It also expects a 15% YoY growth in its key sectors of BFS and insurance. Additionally, the company has introduced a new organizational structure to concentrate on clients with a value range of US\$50-US\$100 mn and has identified six service lines to drive long-term growth.

Margins to improve; Better outcome in FY24: Adj. EBITDA Margin of 19.6% (up from 18.5% in Q3FY23) and came lower than our expectations and company guidance. However, the company anticipates EBITDA margins to remain unchanged. It is expected that the increase in gross margins will be reinvested in sales expansion and enhancing capabilities. This is favorable for long-term growth and also sets the stage for margin expansion in the future. The company has the potential to enhance margins by 150-300bps as it strives to reach \$2 bn in revenue.

The commentary displayed a sense of assurance and seemed unconcerned about macro-level economic conditions: We believe that Coforge will maintain its growth trajectory in FY24, especially in the areas of Low code-no code, Integration, and Data analytics that continue to experience robust demand. Despite a downturn in macroeconomic factors, the management is confident in its capacity to execute effectively and make bold investments that will further drive growth.

Valuations

We see the company's robust growth performance and improvement in deal wins. The company guided for 13-16% revenue growth in FY24 higher than its peers on the basis of 22.4% growth in FY23. Gross Profit is expected to expand by 50 bps and Adjusted EBITDA is expected to remain flat YoY. We believe the flat EBITDA margin guidance is slightly disappointing as we expected gross margin expansion to flow to EBITDA. However, considering the opportunity the company is seeing it plans to invest in sales expansion which will lead to better performance going forward. **We value, Coforge at a PE of 26x its FY25E EPS of 196.4, which yields a target price of INR 5,127 per share (Earlier target price achieved of INR 4,558 per share). We maintain our Accumulate rating on the stock.**

Coforge Ltd- Investor Day 2023 takeaways

Management Team

Sudhir Singh- CEO & Executive Director (Princeton New Jersey)
 Gautam Samanta- BFS, President Global Head, London UK)
 Sanjeev Prasad, Global Leader-Cloud & digital
 John Speight-Customer success officer (London, UK)
 Ajay Kalra-CFO (Greater Noida, India)
 Saurab Goel-Deputy CFO (Greater Noida, India)

Margin

The company aims for a 50 basis points target in gross margin, while focusing on managing resource costs and achieving a robust 23% year-on-year growth. Efforts are being made to hire suitable talent for the BFS account, reduce costs, and ensure freshers are project-ready.

However, SG&A expenses are outpacing revenue growth, leading to a 50 basis points washout, but the company is committed to growing SG&A and optimizing pricing and resource allocation.

Exceptional execution Order

The company's 12 month executable order book stood at \$869 Mn, up 20.7% YoY (In FY 13, it was \$252Mn)
 The company has 16 highest potential account.

Demand

Due to client depression and negative factors like geopolitical issues, the business outlook is conservative and caution is necessary in pricing decisions for FY24 due to uncertain recovery timelines and a depressed demand environment impacted by larger players offering extreme discounts.

Segment and Sub Segment

Coforge focuses on three key sub-verticals: BFS (Banking and Financial Services), Insurance, and Travel, with a strong emphasis on BFS. Within these industries, the company targets sub-segments like asset and mortgages, airlines & airports, and specialty travel insurance. Despite earlier challenges due to one of their top accounts, there is optimism for growth in the insurance vertical. Coforge has made investments, hiring functional consultants and retired CIOs & CEOs.

BFS

This segment has achieved a strong 40% CAGR growth over the past 5 years, with revenue from the BFS sector contributing 33%, a 3.5x growth, and has 8,000 employees (added 2k in the last 12 months), along with an impressive NPS of 74.

Insurance

segment is expected to experience improvement and a noticeable surge, with no anticipated drawbacks or downsides. The PMC sector in the insurance industry, especially in tier 2-3 markets, shows pent-up demand, while conservative M&A practices and sustained growth in specialty PMC contribute to overall industry trends. Travel transportation did well for the company.

Additionally, the company has developed a commercial platform specifically for the financial sector.

Client

The year saw strong performance from the top 10 clients (80% constraints), with cross-selling playing a key role in driving growth, client constraints on of 42% from the top 5 clients, and a solid outlook for future execution. The company has 92% repeat client business in FY23. Coforge has strong relationship with existing client .

Partnership

The company has formed partnerships with Salesforce, PEGA, Duck Creek, AWS, and Microsoft, with a belief that the collaboration with Salesforce will contribute to achieving \$100 million in sales.

DSO (Billed +Unbilled)

The attractiveness of doing business in India is primarily due to three factors: 1) the efficient delivery capabilities, ensuring timely completion of projects, 2) robust contract governance practices, ensuring smooth and transparent operations, and 3) the support from clients in the form of timely payment, particularly beneficial for phone business.

Attrition

With a remarkable employee attrition rate of 14.1%, driven by attractive benefits and a positive work environment, coupled with a robust focus on upskilling and reskilling, employee satisfaction has increased from 65% to 84%, all while avoiding social media showboating or promotional interviews.

Acquisition

The company plans to achieve a target revenue of \$2 bn through various strategies, including scaling up the key account by \$450 Mn, expanding new verticals by \$150 Mn, driving partner-led growth with an increment of \$250 Mn, and pursuing acquisitions amounting to \$150 Mn, specifically WHISHWPRKS, SLK, and INCESSANT.

The company prioritizes revenue and EPS accretive opportunities and places importance on promoter involvement for a minimum of two years to build confidence and facilitate investment in such acquisitions.

Geography

Coforge has become the primary technology provider for a global bank's UK entity, strengthening its banking credentials and opening new opportunities. With impressive growth from \$5 Mn to \$50 Mn in three years, Coforge is well-positioned for global scalability, offering expertise beyond automation and unlocking transformational opportunities.

The company observes variations based on verticals, with the UK and North America being prominent in the western geography.

In the EMEA region, the pipeline of opportunities remains steady despite the challenging environment.

Generative AI

Investing in AI presents new opportunities, particularly in the areas of digital transformation and cloud, which continue to be in high demand. Examples like Booking.com utilizing AI-powered chatbots for tasks such as changing or canceling flights highlight the potential and impact of such investments.

GRC

The GRC, being non-discretionary and competitive, shows positive growth prospects. While there may be a temporary slowdown in the cloud market, strong alliances with hyperscalers like AWS and comprehensive partnerships with Microsoft ensure a focus on leveraging cloud services for future growth in key verticals such as data, retail, and healthcare.

Exhibit 1: From an ADM centric service line to a modern tech stack



Exhibit 2: Growth equation has 4 components that will drive sustained, profitable growth ahead

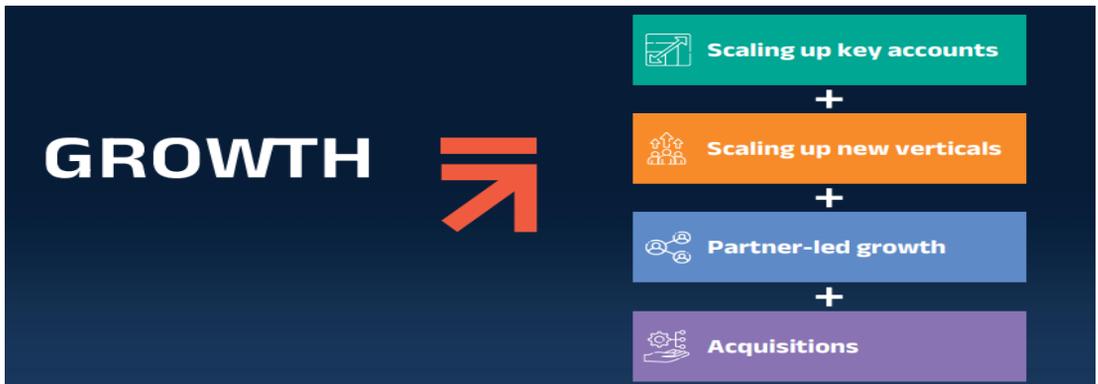
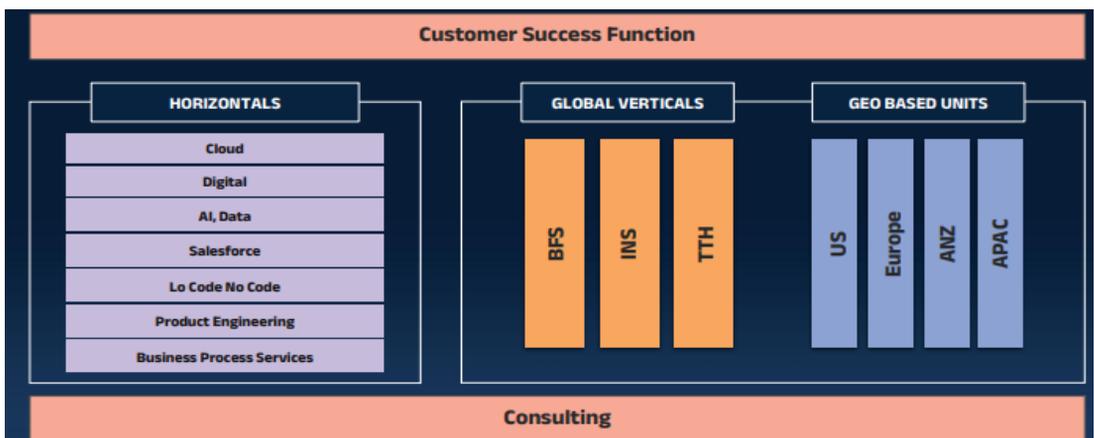


Exhibit 3: Sustained growth



Exhibit 4: next 5-year growth plan has been finalized. The structure to support it is in place



Source: Arihant Research, Company Filings

Exhibit 5: Revenue trend....Fast growing

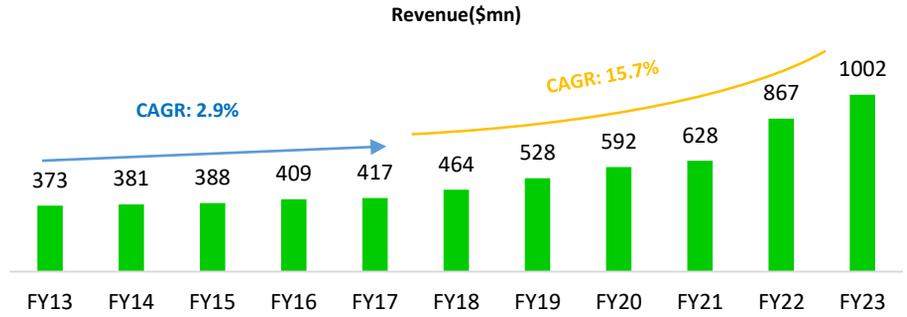


Exhibit 6: Segmental performance

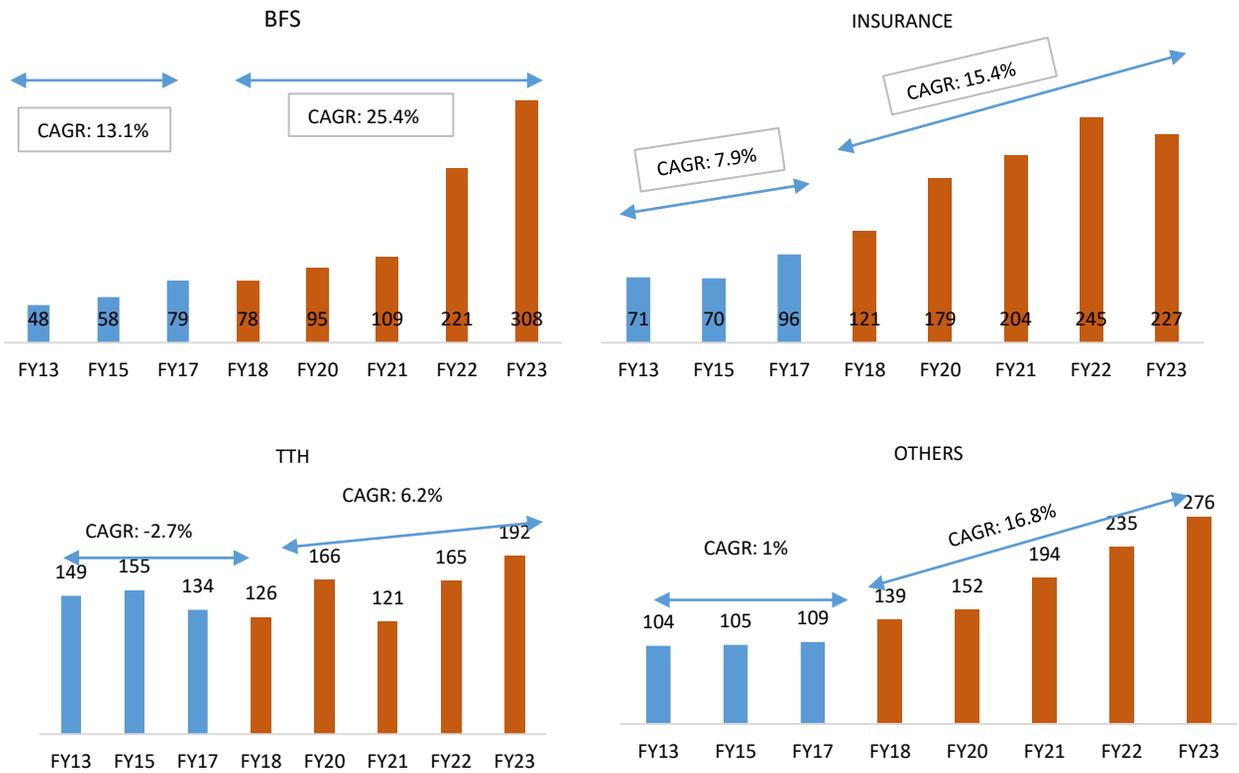
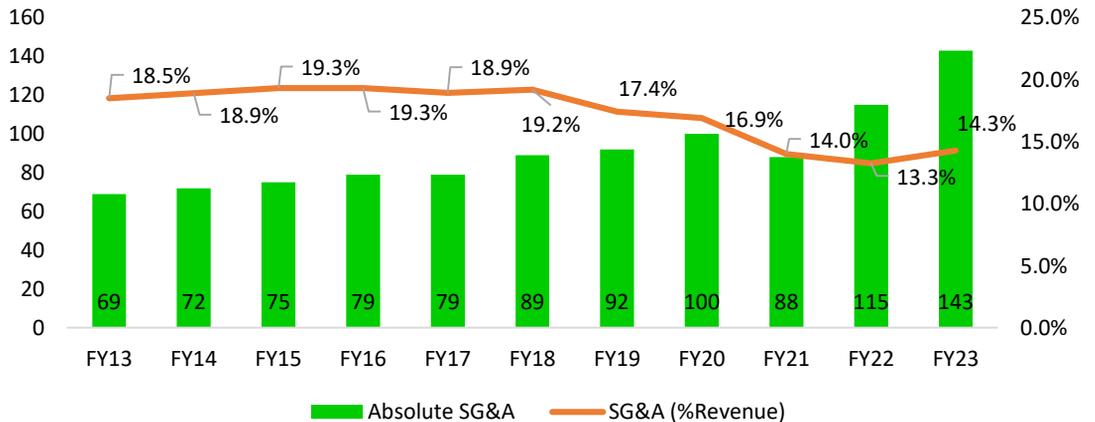


Exhibit 7: SG&A Investments (\$mn)



Source: Arianth Research, Company Filings

Exhibit 8: Order Book Executable Over Next 12 Months

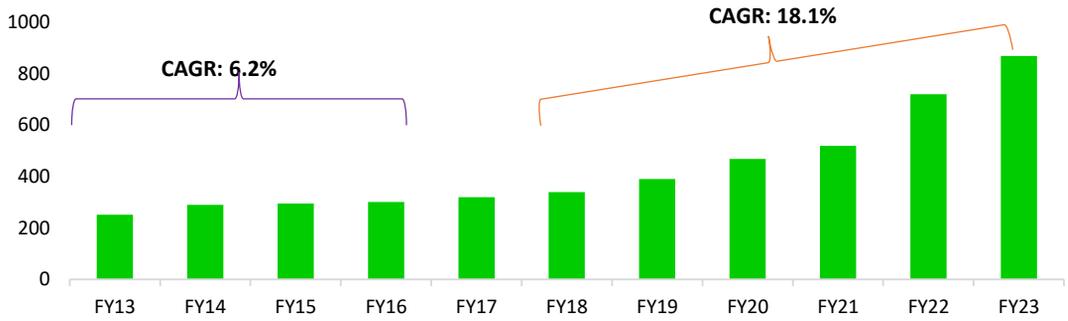


Exhibit 9: Fresh Order Intake TCV

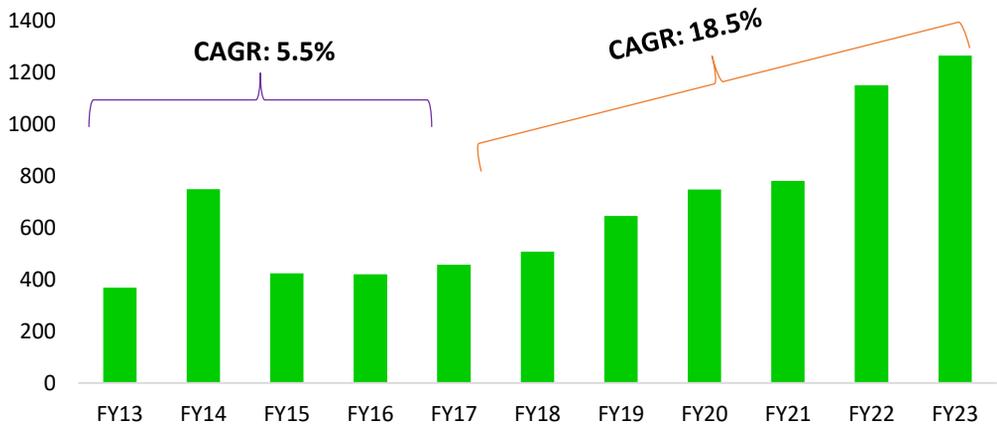
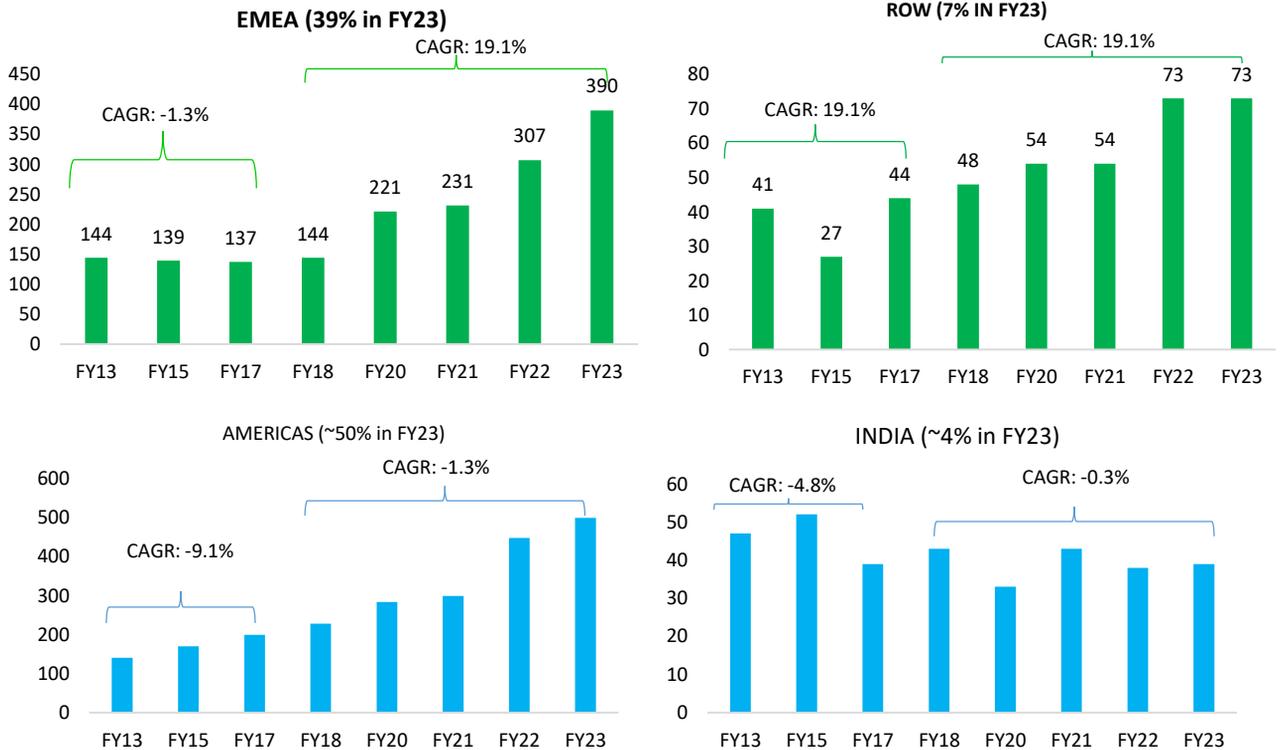


Exhibit 10: Geography Performance



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)				
Year End-March	FY22	FY23	FY24E	FY25E
Revenue (CC Terms) (Mn USD)	866.5	1002	1197	1419
Change (%)	37.0%	15.6%	19.5%	18.6%
Revenues	64,320	80,146	93,333	106,449
Change (%)	37.9%	24.6%	16.5%	14.1%
Operating Costs	1,724	551	2,987	3,087
Gross Profit	62,596	79,595	90,346	103,362
Employee Costs	38,346	48,280	56,000	63,869
Other Expenses	13,231	18,508	17,920	20,119
Total Expenses	53,301	67,339	76,906	87,075
EBITDA	11,019	14,062	16,427	19,374
Other Income	518	619	747	1,064
EBITDA Margin (%)	17.13%	17.54%	17.60%	18.20%
Depreciation	2,272	2,585	3,265	3,369
EBIT	8,747	11,477	13,161	16,005
EBIT Margin	13.60%	14.32%	14.10%	15.04%
Interest	650	806	967	1,161
PBT	8,615	11,290	12,941	15,909
Extra-ordinary	-	523.00	450.00	450.00
PBT after ext-ord.	8,615	10,767	12,491	15,459
Tax	1,468	2,061	2,873	3,556
Rate (%)	17.0%	19.1%	23.0%	23.0%
PAT	7,147	8,706	9,618	11,903
MI & Associates	-530	513	-	-
Consolidated PAT	6,617	8,193	9,618	11,903
Change (%)	39.7%	31.7%	15.5%	22.7%

Balance Sheet (INR Mn)				
Year End-March	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share Capital	609	611	611	611
Reserves & Surplus	26,722	30,214	38,923	49,917
Net Worth	28,314	30,825	39,534	50,528
Loan Funds	3,365	3,382	3,525	3,673
MI, Deferred Tax & other Liabilities	1,864	1,918	1,918	1,918
Capital Employed	33,543	36,125	44,976	56,120
Application of Funds				
Gross Block	20,667	21,366	22,064	22,761
Less: Depreciation	2,272	2,585	3,265	3,369
Net Block	18,395	18,781	18,799	19,392
CWIP	168	46	46	46
Other Non-current Assets	1,045	1,364	1,364	1,364
Deferred Tax Assets	2,736	3,757	3,757	3,757
Net Fixed Assets	22,344	23,948	23,966	24,559
Investments	-	-	-	-
Debtors	15,585	17,903	17,903	23,915
Inventories	-	-	-	-
Cash & Bank Balance	4,536	5,787	18,137	26,119
Loans & Advances & other CA	4,808	4,858	4,858	4,858
Total Current Assets	24,929	28,548	40,898	54,891
Current Liabilities	14,507	19,835	19,887	23,331
Provisions	-	-	-	-
Net Current Assets	10,422	8,713	21,011	31,560
Total Assets	33,543	36,125	44,976	56,120

Cash Flow Statement (INR Mn)				
Year End-March	FY22	FY23	FY24E	FY25E
PBT	8,615	9,512	12,941	15,909
Depreciation	2,272	2,585	3,265	3,369
Interest & others	(398)	662	221	96
Cash flow before WC changes	10,489	12,759	16,427	19,374
(Inc)/dec in working capital	1,126	2,777	52	(2,568)
Operating CF after WC changes	11,615	15,536	16,479	16,806
Less: Taxes	(1,468)	(2,061)	(2,873)	(3,556)
Operating Cash Flow	10,147	13,475	13,606	13,251
(Inc)/dec in F.A + CWIP	(2,780)	(13,704)	10,967	(697)
Cash Flow from Investing	(2,656)	(13,704)	10,967	(697)
Free Cash Flow (FCF)	9,447	12,776	12,908	12,554
Loan raised/(repaid)	3,362	17	143	149
Equity raised	3	2	0	0
Interest & others	(13,654)	2,612	(11,457)	(3,812)
Dividend	(788)	(1,151)	(909)	(909)
Cash Flow from Financing Activities	(11,077)	1,480	(12,223)	(4,572)
Net inc /(dec) in cash	(3,586)	1,251	12,350	7,982
Opening balance of cash	8,122	4,536	5,787	18,137
Closing balance of cash	4,536	5,787	18,137	26,119

Key Ratios				
Year End-March	FY22	FY23	FY24E	FY25E
Per share (INR)				
EPS	106.5	111.5	158.7	196.4
CEPS	146.7	177.8	212.6	252.0
BVPS	467.2	508.7	652.4	833.8
DPS	13.0	19.0	15.0	15.0
Div. Payout (%)	0.1	0.1	0.1	0.1
P/E	42.8	40.9	28.8	23.2
P/CEPS	31.1	25.7	21.5	18.1
P/BV	9.8	9.0	7.0	5.5
EV/EBITDA	6.4	5.0	3.5	2.6
Dividend Yield (%)	0.3%	0.4%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	17.1%	17.5%	17.6%	18.2%
EBIT Margin	13.6%	14.3%	14.1%	15.0%
PAT Margin	10.3%	10.9%	10.8%	11.6%
ROE	23.4%	28.3%	25.5%	24.4%
ROCE	26.1%	31.8%	29.3%	28.5%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.1	-0.4	-0.4
Turnover Ratios				
Asset Turnover (x)	1.9	2.2	2.1	1.9
Receivable Days	88	82	82	82
Payable days	82	90	80	80

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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