

BUY

TP: Rs 4,830 | ▲ 17%

COFORGE

| Technology & Internet

| 12 May 2023

Stellar quarter; buoyant outlook

- Robust Q4 revenue of US\$ 264mn (+4.7% QoQ CC) with US\$ 1bn milestone reached in FY23
- Order intake at US\$ 301mn, the fifth consecutive quarter of US\$ 300mn+ inflow
- Management confident of above-industry growth in FY24; we assume coverage with BUY and a TP of Rs 4,830

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Stellar growth despite weak macro: Coforge reported Q4FY23 revenue of US\$ 264.4mn, up 4.7% QoQ CC and 5% QoQ in dollar terms. Rupee revenue stood at Rs 21.7bn, up 5.6% QoQ (+24.5% YoY). BFS grew 47% for the year, travel was up 21.5%, insurance declined 3.7%, and the others vertical grew 23% in CC terms. The company achieved a US\$ 1bn revenue milestone in FY23 and is aiming for US\$ 2bn in the coming years

Upbeat topline guidance: After successfully surpassing its guidance for the year, management expects revenue growth of 13-16% CC in FY24. Coforge believes that growth across its three core verticals, including insurance, will be in line with the overall guided range. However, rising concerns over the prospects of large economies along with prevailing supply-side constraints raise uncertainty over near-term growth for the company.

Margin guided to hold at FY23 levels: The Q4 EBITDA margin contracted 120bps YoY to 18.8% largely due to hedge losses, offsetting higher utilisation and a favourable currency mix during the quarter. Management expects margins to hold at this level in FY24. Net profit stood at Rs 2.3bn, rising 2% QoQ.

Robust deal wins continue: Coforge reported robust order intake of US\$ 301mn in Q4 (US\$ 345mn in Q3). It signed two large deals during the quarter, one each in the BFS and travel verticals. The order book to be executed over the next 12 months stood at US\$ 869mn, up 21% YoY. Ten new logos were added during the quarter.

Relatively bullish outlook: Coforge aspires to achieve above-industry growth of 7-10% in FY24 and is confident of clocking quarterly growth of 3-5%. Consistent deal wins and good revenue visibility support our bullish outlook on the company. We assume coverage with BUY and a TP of Rs 4,830 based on 24x FY25E EPS – a 20% discount to midcap peer PSYS.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	COFORGE IN/Rs 4,125
Market cap	US\$ 3.1bn
Free float	43%
3M ADV	US\$ 25.8mn
52wk high/low	Rs 4,512/Rs 3,210
Promoter/FPI/DII	70%/13%/17%

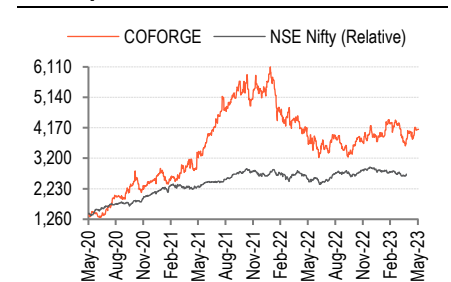
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	80,146	92,191	1,00,830
EBITDA (Rs mn)	14,062	16,318	18,351
Adj. net profit (Rs mn)	6,847	10,566	12,142
Adj. EPS (Rs)	113.4	175.0	201.1
Consensus EPS (Rs)	113.4	176.0	197.0
Adj. ROAE (%)	22.1	28.3	27.5
Adj. P/E (x)	36.4	23.6	20.5
EV/EBITDA (x)	17.6	15.2	13.5
Adj. EPS growth (%)	6.0	54.3	14.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

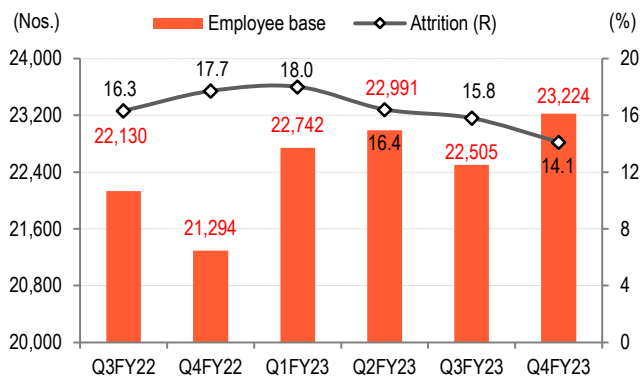


Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY (%)	FY23	FY22	YoY (%)
US\$ Revenue	264	252	232	5.0	13.8	1002	866	15.7
INR Revenue	21,700	20,558	17,429	5.6	24.5	80146	64320	24.6
EBIT	2,872	3,074	2,590	-6.6	10.9	10838	8615	25.8
PAT	2,327	2,282	2,077	2.0	12.0	8117	6617	22.7
EBIT Margin (%)	13.2	15.0	14.9	(172bps)	(163bps)	13.5	13.4	13bps
Adj.PAT Margin (%)	10.7	11.1	11.9	(38bps)	(119bps)	10.1	10.3	(16bps)

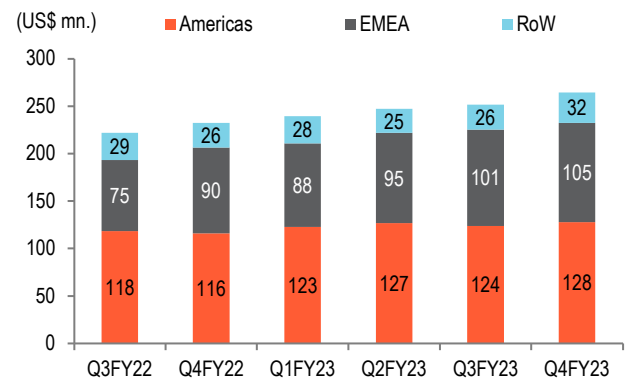
Source: Company, BOBCAPS Research

Fig 2 – Employee base and Attrition



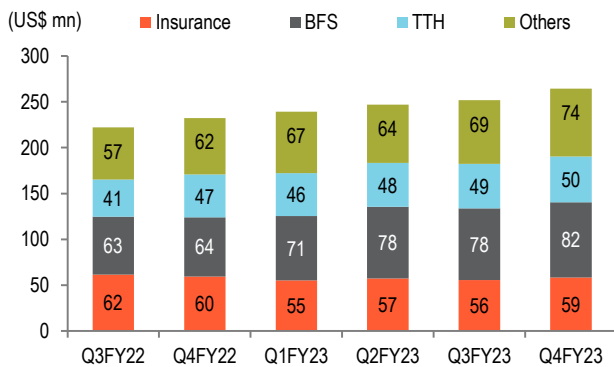
Source: Company, BOBCAPS Research

Fig 3 – Revenue by geography



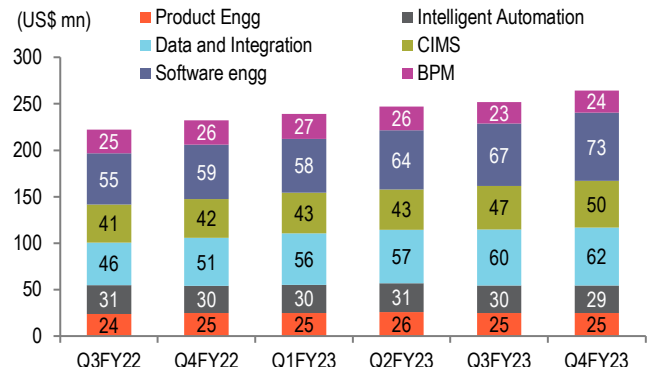
Source: Company, BOBCAPS Research

Fig 4 – Revenue by vertical



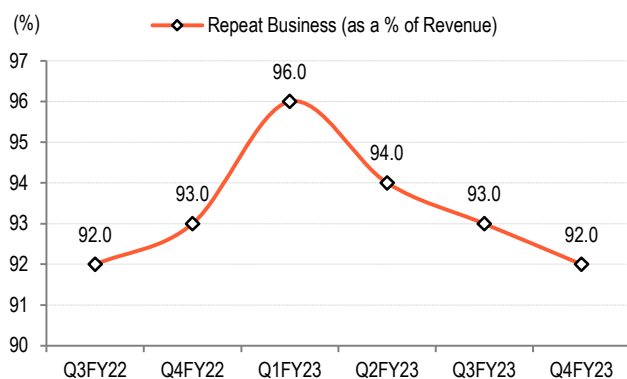
Source: Company, BOBCAPS Research

Fig 5 – Revenue by business segment



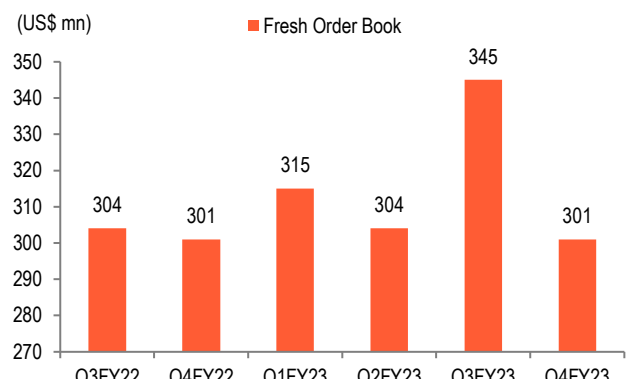
Source: Company, BOBCAPS Research

Fig 6 – Repeat business



Source: Company, BOBCAPS Research

Fig 7 – Fresh order book



Source: Company, BOBCAPS Research

Earnings call highlights

- Management has guided for revenue growth 13-16% CC in FY24. On the profitability front, Coforge expects the gross margin to increase by ~50bps in FY24 and adjusted EBITDA margin to remain at similar levels as FY23. All three core verticals are guided to grow more or less in line with the topline guidance.
- The top 5 clients grew by 1.1% QoQ to US\$ 60.8mn and the top 10 grew by 2.7% to ~US\$ 94mn. On a YoY basis, Coforge added three clients in the US\$ 10 mn+ bucket, four in the US\$ 5mn-10mn bucket and one in the US\$ 1mn-5mn bucket.
- Utilisation including trained employees improved by 120bps QoQ to 81.5%. LTM attrition declined 170bps QoQ to 14.1%, which is one of the lowest levels in the industry. Net employees during the quarter increased by 719 to 23,224.
- The company reported an offshore/onshore mix of 50.7%/49.3% in Q4 compared to 50.5%/49.5% in Q3.
- Market conditions remain unfavorable for the ADR issue and hence, in keeping with business accounting prudence, a provision of INR 523mn for these expenses has been made in Q4FY23.
- Exceptional and one-time expenses for the quarter include the provision of INR 523mn towards expenses incurred on the ADR process and an amount of INR 803mn towards gifts to all employees to commemorate achievement of the US\$ 1bn revenue milestone.
- During the quarter, the board declared an interim dividend of Rs 19/sh, taking the total dividend announced for FY23 to Rs 64/sh.

Valuation methodology

Coforge aspires to achieve above-industry growth of 7-10% in FY24 and is confident of clocking quarterly growth of 3-5%. Consistent deal wins and good revenue visibility support our bullish outlook on the company. We assume coverage with BUY and a TP of Rs 4,830 based on 24x FY25E EPS – a 20% discount to midcap peer PSYS.

Key risks

- A further rise in interest rates would be a key downside risk to our estimates as deal wins could soften due to longer client decision-making cycles, especially in the financial services, retail, hi-tech and telecom verticals.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	3.1	4,125	4,830	BUY
HCL Technologies	HCLT IN	36.0	1,088	1,240	BUY
Infosys	INFO IN	64.3	1,256	1,760	BUY
Persistent Systems	PSYS IN	4.5	4,667	5,330	BUY
Tata Consultancy Services	TCS IN	146.3	3,282	3,580	HOLD
Tech Mahindra	TECHM IN	11.1	1,044	1,130	HOLD
Wipro	WPRO IN	25.7	385	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	46,628	64,320	80,146	92,191	1,00,830
EBITDA	7,555	11,395	14,062	16,318	18,351
Depreciation	1,836	2,272	2,585	2,384	2,384
EBIT	5,719	8,669	11,232	13,934	15,967
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	113	(266)	(630)	252	252
Exceptional items	0	0	0	0	1
EBT	6,182	8,647	9,276	14,186	16,219
Income taxes	1,302	1,689	2,061	3,192	3,649
Extraordinary items	350	241	0	0	0
Min. int./Inc. from assoc.	104	495	368	428	428
Reported net profit	4,776	6,462	6,847	10,566	12,142
Adjustments	0	0	0	0	1
Adjusted net profit	4,776	6,462	6,847	10,566	12,142

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	0	0	0	0	1
Other current liabilities	6,238	10,918	11,030	11,417	12,482
Provisions	921	697	1,098	1,263	1,381
Debt funds	0	0	0	0	0
Other liabilities	194	766	766	766	766
Equity capital	606	609	609	609	609
Reserves & surplus	24,055	27,705	33,127	40,307	46,847
Shareholders' fund	24,661	28,314	33,736	40,916	47,456
Total liab. and equities	32,014	40,695	46,630	54,362	62,086
Cash and cash eq.	7,999	4,535	6,542	12,261	16,236
Accounts receivables	5,562	10,567	10,979	12,629	15,194
Inventories	3	3	3	3	3
Other current assets	4,398	4,952	11,053	13,801	14,984
Investments	3,013	3,550	3,550	3,550	3,550
Net fixed assets	9,592	15,591	13,006	10,622	10,622
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	1,447	1,497	1,497	1,497	1,497
Other assets	0	0	0	0	0
Total assets	32,014	40,695	46,630	54,362	62,086

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	8,452	8,875	3,913	9,381	12,505
Capital expenditures	(757)	(3,841)	(2,000)	(3,000)	(4,000)
Change in investments	(246)	0	0	0	0
Other investing cash flows	(1,552)	18	(4,433)	3,152	(146)
Cash flow from investing	(2,555)	(3,823)	(6,433)	152	(4,146)
Equities issued/Others	(4,148)	51	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	1,543	0	0	0
Dividends paid	(686)	(3,111)	(2,472)	(3,815)	(4,384)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(4,834)	(1,517)	(2,472)	(3,815)	(4,384)
Chg in cash & cash eq.	1,063	3,535	(4,992)	5,718	3,975
Closing cash & cash eq.	7,999	11,534	6,542	12,261	16,236

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	79.1	107.1	113.4	175.0	201.1
Adjusted EPS	79.1	107.1	113.4	175.0	201.1
Dividend per share	26.1	42.8	34.0	52.5	60.3
Book value per share	396.0	454.7	541.7	657.1	762.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	5.4	3.9	3.1	2.7	2.5
EV/EBITDA	33.1	21.8	17.6	15.2	13.5
Adjusted P/E	52.1	38.5	36.4	23.6	20.5
P/BV	10.4	9.1	7.6	6.3	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	77.3	74.7	73.8	74.5	74.9
Interest burden (PBT/EBIT)	108.1	99.7	82.6	101.8	101.6
EBIT margin (EBIT/Revenue)	12.3	13.5	14.0	15.1	15.8
Asset turnover (Rev./Avg TA)	143.9	176.9	183.6	182.6	173.2
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.4	1.4	1.3
Adjusted ROAE	19.6	24.4	22.1	28.3	27.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	11.4	37.9	24.6	15.0	9.4
EBITDA	1.7	50.8	23.4	16.0	12.5
Adjusted EPS	8.5	35.3	6.0	54.3	14.9
Profitability & Return ratios (%)					
EBITDA margin	16.2	17.7	17.5	17.7	18.2
EBIT margin	12.3	13.5	14.0	15.1	15.8
Adjusted profit margin	10.2	10.0	8.5	11.5	12.0
Adjusted ROAE	19.6	24.4	22.1	28.3	27.5
ROCE	17.3	20.9	21.3	24.2	25.9
Working capital days (days)					
Receivables	44	46	49	47	50
Inventory	0	0	0	0	0
Payables	83	89	83	69	64
Ratios (x)					
Gross asset turnover	4.8	5.1	5.6	7.8	9.5
Current ratio	2.6	1.7	2.4	3.1	3.4
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

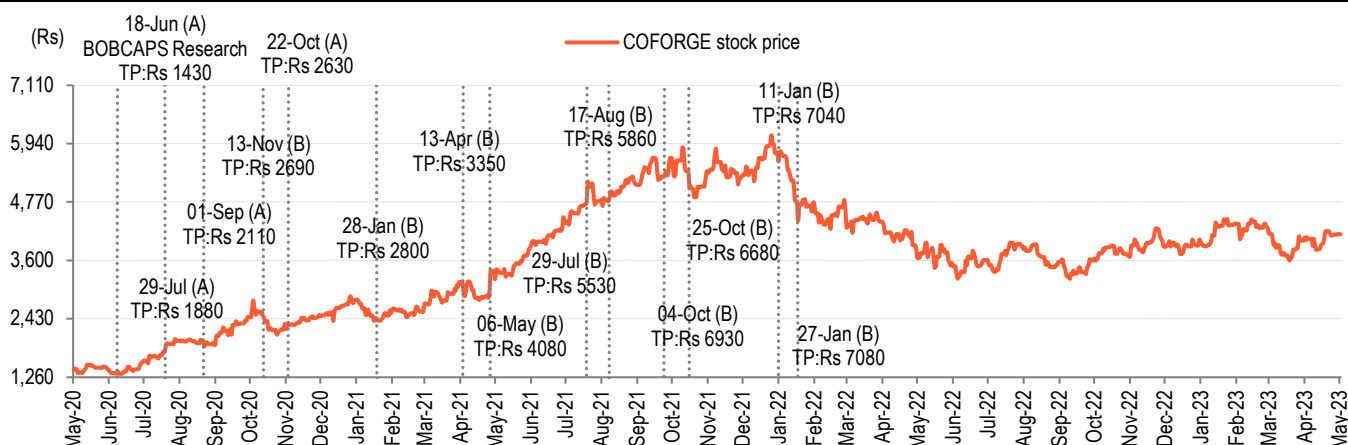
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): COFORGE (COFORGE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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