

Aiming for 13-16% CC revenue growth in FY24

About the stock: Coforge offers system integration, apps & BPO services to BFSI, travel & healthcare verticals.

- Revenues grew at 21.8% CAGR in the past five years
- Healthy OCF, EBITDA (~75%) and robust return ratios (RoCE > 20%)

Q4FY23 Results: Coforge reported strong revenue growth in Q4FY23.

- Revenue grew 4.7% QoQ in CC terms and 5% QoQ in dollar terms
- Adjusted EBITDA margin grew ~110 bps to 19.6%
- Won fresh order of US\$301 mn and added 10 new logos in Q4

What should investors do? Coforge's share price has grown by ~3.5x over the past five years (from ~₹ 1150 in April 2018 to ~₹ 4020 levels in April 2023).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value Coforge at ₹ 4725 i.e. 25x P/E on FY25E EPS.

Key triggers for future price performance:

- The company has achieved the milestone of annual revenue of US\$1 bn in revenue in FY23 and is now aiming for US\$2 bn revenue annually with sustainable profitability
- Continued momentum in order intake & winning large deals, healthy order book to drive growth. Double digit growth in key verticals of BFS, insurance and recovery in TTH to drive 16.4% revenue CAGR over FY23-25E
- A 40-bps improvement in margins over FY23-25E due to offshoring, higher fresher additions and utilisation improvement

Alternate Stock Idea: Apart from Coforge, in our IT coverage we also like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 1,600

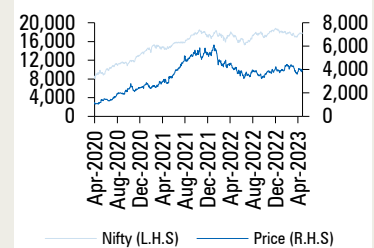
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	25,891
Total Debt (₹ Crore)	338.2
Cash & Investment (₹ Crore)	578.7
EV (₹ Crore)	25,651
52 week H/L	4512/ 3210
Equity capital	61.1
Face value	10.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	40	40	40	30
FII	22	21	21	25
DII	26	26	27	32
Public	12	13	12	12

Price Chart



Recent event & key risks

- FY24 guidance: CC revenue growth of 13-16% and adjusted EBITDA margin of 18.3%
- **Key Risk:** (i) Lower-than-expected growth (ii) Lower-than-expected margins

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Key Financial Summary

Financials	FY21	FY22	FY23	5 Year		2 year	
				CAGR (FY18-23)	FY24E	FY25E	CAGR (FY23-25E)
Net Sales	4,663	6,432	8,015	21.8	9,457	10,851	16.4%
EBITDA	786	1,115	1,405	22.9	1,674	1,942	17.6%
EBITDA Margins (%)	16.9	17.3	17.5		17.7	17.9	
Net Profit	456	662	694	19.9	1,025	1,177	30.2%
EPS (₹)	73.3	106.5	111.5		165.0	189.4	
P/E	54.9	37.7	36.0		24.4	21.2	
RoNW (%)	18.5	24.2	22.5		28.1	27.4	
RoCE (%)	23.3	25.6	27.9		30.3	29.9	

Key takeaways of recent quarter & conference call highlights

- US\$ revenues grew 5% QoQ to US\$264.4 million (mn) while growth in CC terms was 4.7% QoQ. The company reported rupee revenues of ₹ 2,170 crore, up 5.6% QoQ
- Geography wise, growth was broad based with Americas (48.3% of mix) and EMEA (39.6% of mix) reporting sequential growth of 3.1% & 3.2%, respectively, while RoW grew 21.1%
- Vertical wise, in CC terms, BFS (31% of mix) grew 4.5% sequentially while insurance, TTH & others reported growth 5%, 2.5% & 6.4%, respectively
- The company for Q4FY23 reported adjusted EBITDA margins excluding Esop expenses while one-off items grew ~110 bps QoQ to 19.6%. The company indicated that tailwinds for margin improvement during the quarter were increase in utilisation, increase in offshoring & reversal of furlough impact
- In FY23, the company achieved the landmark of US\$1 bn in annual revenue for the first time. The company reported a revenue of US\$1001.7 mn, up 15.6% (22.4% in CC terms). Coforge, for FY23, reported adjusted EBITDA margin of 18.3% excluding Esop expenditure and one-off items. The company at the start of FY23 had guided for revenue growth of 20% and in Q3FY23 it revised its guidance to 22% revenue growth in FY23. Coforge in FY23 surpassed the guidance growth. The company missed the guided adjusted EBITDA margin band of 18.5-19% due to the hedge loss impact of 60 bps and continued investment in sales & marketing
- The company indicated that it achieved a milestone of US\$1 bn revenue in FY23 despite challenging macros. It also mentioned that this was possible due to broad based growth across verticals, geographies and service lines without heavy loading on any of them. Coforge mentioned that it is committed to sustainable and profitable growth in future as well and maintained its aspiration to reach the US\$2 bn revenue mark in the medium term. It added that FY23 was a foundation year for that aspiration. The company indicated that it has rolled out a new structure effective April 1, 2023 to target higher deals in the range of US\$50 mn, US\$100 mn, etc and is planning to make corresponding investments in people, capabilities and sales & marketing in FY24
- The company indicated that the demand environment is challenging but its pipeline is healthy and is up 20% YoY, which is a testimony to its capabilities, execution while lower attrition also helped. Coforge mentioned that it is confident on achieving the revenue growth guidance. If the macro environment turns supportive, it will try to achieve beyond these numbers. The company also indicated the revenue growth in FY24 is unlikely to be back ended as it is likely to be spread over equally between H1 and H2. Coforge also mentioned that even if it does 3% sequential CC growth for all four quarters in FY24, it is likely to post annual growth around 15% in CC terms. It also mentioned that for FY24, it expects growth to be broad based and its three core verticals of banking, insurance and travel are likely to post growth rates similar to that of company level revenue growth rate in FY23. The company also indicated that cost to run the bank (CTB), airlines & airports in travel & tourism space continue to be growth opportunities for it
- The company indicated that it does not believe in the myth that large IT companies are capturing vendor consolidation opportunities at the cost of smaller peers. Coforge mentioned that at least it has not seen this happening at its end so far and continues to service its clients. The company, however, indicated that large deal execution cycles are reducing now from five years earlier to around three to five years now. It continues to see cost optimisation opportunities in the market. The company indicated that large deal velocity will continue in Q1FY24 while it also mentioned that it won 11 large deals in FY23 out of which two are US\$50mn+ deals while five are US\$30mn+ deals. The company also indicated that it signed a deal as preferred technology partner for one of the largest retailers in the world but also mentioned that the deal is not large currently. It aspires to scale up this account quickly. The company also mentioned that its over-dependence on

Coforge - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	0.0	2.4	0.0
Social	0.0	25.4	0.0
Governance	0.0	78.6	0.0
Overall ESG Score	0.0	35.5	0.0

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

any particular client is gradually reducing, which bodes well for the current challenging environment. The company, however, mentioned its wallet share in top five and top 10 clients continues to increase

- The company mentioned that after achieving 40%+ growth by the banking vertical in FY23, growth will likely decelerate in FY24 due to cost pressures the clients are currently facing to run the bank but the company mentioned that it is currently offering a lot of cost optimisation tools to mitigate this issue. The company indicated that the banking vertical is likely to grow in the range of 13-16% in FY24. Coforge indicated that some sub-verticals in banking like asset management, retail banking, central banking, fintech continue to invest and capabilities like compliance, data & analytics are areas of investments by clients. The company also indicated a slowdown is visible in cloud demand, which along with legacy application & development (ADM) but mentioned there are certain areas like low code no code, integration, data & analytics, product engineering that continue to attract investments
- On margins, the company mentioned that it missed the margin guidance in FY23 on account of 60 bps impact on forex hedge (it reported forex loss of ₹ 23.9 crore in FY23 vs. forex gain of ₹ 22.4 crore). Adjusted to that, it had achieved margins in the guided band. The company also mentioned that its higher exposure to Europe compared to peers exposed it to currency fluctuations. The company is now guiding flat margins in FY24 due to i) elevated investment in sales & marketing, capabilities as the company is not looking to lose out any revenue opportunity as they are currently seeing lot of growth opportunities. These investments are likely to be mitigated by i) offshoring increase: the company mentioned that its offshoring mix is currently at 51%. It has further scope to improve to 53-54% (albeit will cap it at that level), ii) wage hike: the company mentioned that it will give wage hike in Q1 but percentage hike will be much lower than last year due to supply side easing. Coforge mentioned it is difficult to give the impact of hedge on FY24 margins at this moment. The company also mentioned that ADR related expenses for which it booked provision in Q4 are likely recoverable from selling shareholders while the company is awaiting the right time for ADR listing as current market conditions are not appropriate
- The company, during the quarter, added 10 new clients out of which six were in the America region while two each were in EMEA & RoW region. Revenue from top five, top 10 clients grew 1.1%, 2.7% QoQ, respectively
- The company reported an offshore: onshore mix of 50.7%: 49.3% compared to 50.5%: 49.5% in Q3
- LTM attrition declined 170 bps QoQ to 14.1%, which is the lowest among its peers and IT services companies. Net employees during the quarter increased by 719 to 23,224
- The company, during the quarter, declared an interim dividend of ₹ 19 per share taking total dividend announced for FY23 to ₹ 64 per share

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue in USD	264.4	260.5	232.4	13.8	251.7	5.0	Revenue increased 4.7% QoQ in CC terms
Revenue	2,170.0	2,143.0	1,742.9	24.5	2,055.8	5.6	
Employee expenses	1,430.6	1,407.9	1,162.0	23.1	1,369.8	4.4	
Gross Margin	739.4	735.0	580.9	27.3	686.0	7.8	
Gross margin (%)	34.1	34.3	33.3	74 bps	33.4	70 bps	
SG&A expenses	331.8	332.2	251.6	31.9	324.5	2.2	
EBITDA	407.6	402.9	329.3	23.8	361.5	12.8	
EBITDA Margin (%)	18.8	18.8	18.9	-11 bps	17.6	120 bps	Adj. EBITDA margin increased due to the tailwinds of increase in utilizations, increase in offshoring & recovery of furlough impact
Depreciation & amortisation	71.7	63.0	58.4	22.8	62.4	14.9	
EBIT	335.9	339.9	270.9	24.0	299.1	12.3	
EBIT Margin (%)	15.5	15.9	15.5	-6 bps	14.5	93 bps	
Other income (less interest)	-48.7	8.0	-11.9	309.2	8.3	-686.7	
Exceptional items	132.6	0.0	0.0	NM	0.0	NM	Exceptional items include one-off exp. for by the company on achieving annual turnover of US\$1bn & provision for exp. incurred for issue of ADR
PBT	154.6	347.9	259.0	-40.3	307.4	-49.7	
Tax paid	37.9	80.0	34.2	10.8	71.5	-47.0	
PAT	114.8	260.2	207.7	-44.7	228.2	-49.7	

Source: Company, ICICI Direct Research

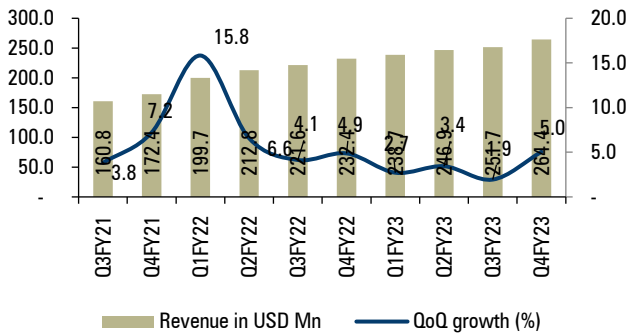
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9,332	9,457	1.3	10,464	10,851	3.7	Re-aligned numbers as per FY23 performance & outlook
EBITDA	1,773.1	1,674	-5.6	1,988	1,942	-2.3	
EBITDA Margin (%)	19.0	17.7	-130 bps	19.0	17.9	-110 bps	Margins trimmed as per guidance as well on elevated expenses towards US\$2bn annual revenues in the medium term
PAT	1,073	1,025	-4.4	1,210	1,177	-2.7	
EPS (₹)	172.7	165.0	-4.4	194.7	189.4	-2.7	

Source: Company, ICICI Direct Research

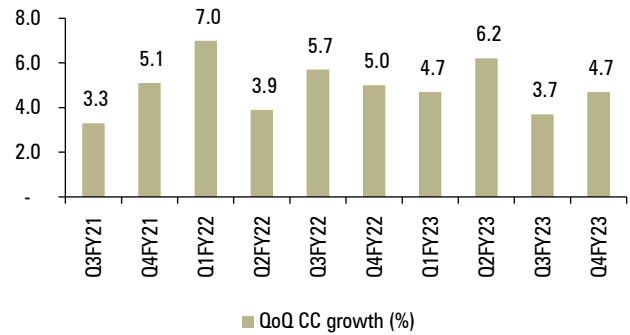
Key quarterly highlights

Exhibit 3: Dollar revenue grew 5% in Q4



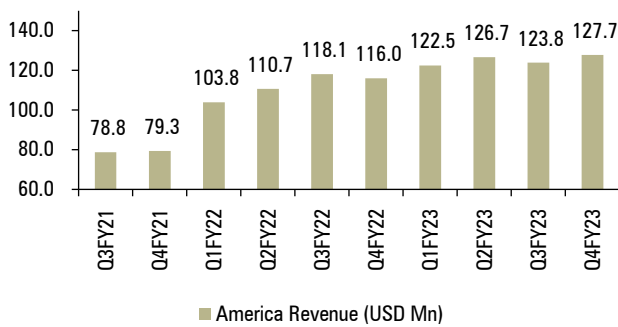
Source: Company, ICICI Direct Research

Exhibit 4: Revenue growth strong in Q4 in CC



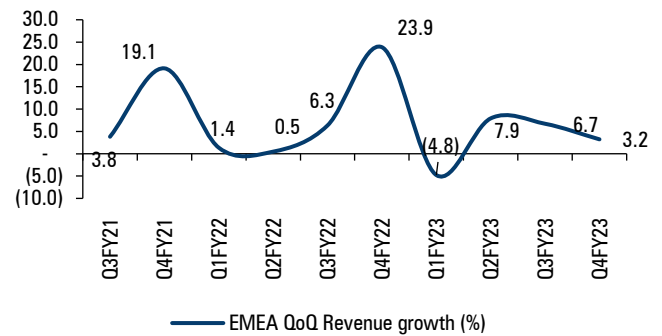
Source: Company, ICICI Direct Research

Exhibit 5: America recovers from furloughs



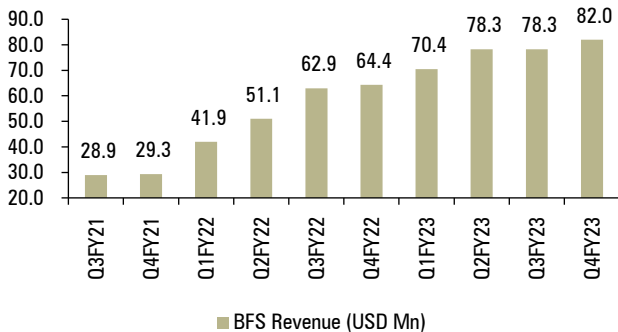
Source: Company, ICICI Direct Research

Exhibit 6: EMEA continues steady growth



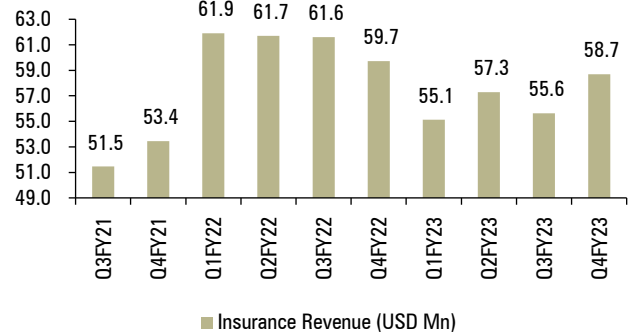
Source: Company, ICICI Direct Research

Exhibit 7: BFS rebounds in Q4



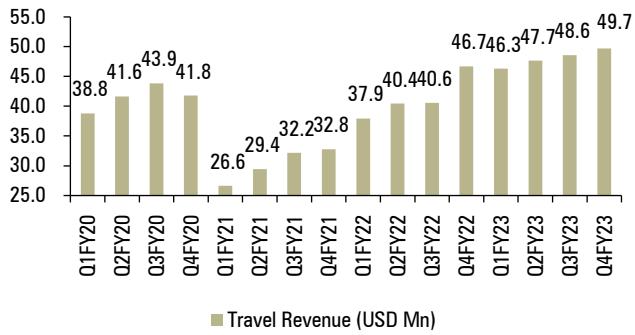
Source: Company, ICICI Direct Research

Exhibit 8: Insurance revenue seeing turnaround



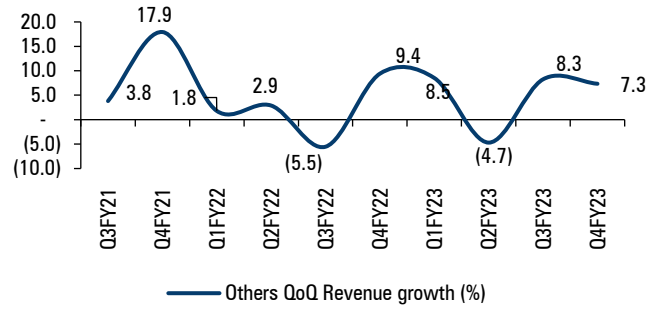
Source: Company, ICICI Direct Research

Exhibit 9: Travel continues steady growth



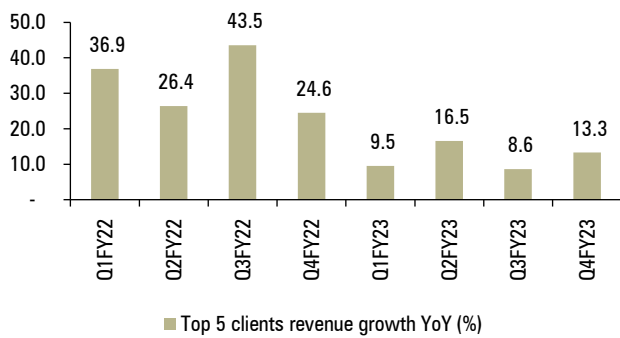
Source: Company, ICICI Direct Research

Exhibit 10: Others continue strong growth



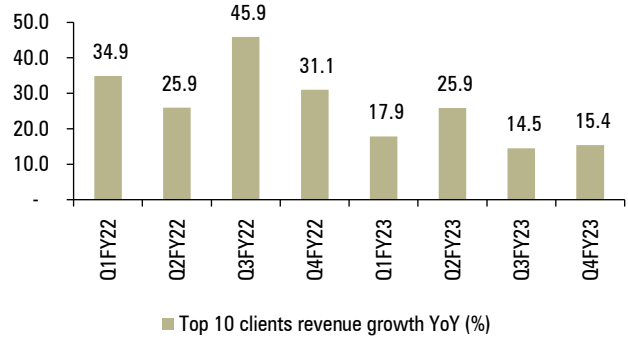
Source: Company, ICICI Direct Research

Exhibit 11: Top five client's growth recovers



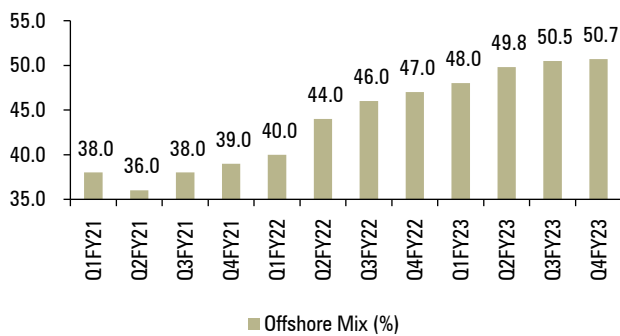
Source: Company, ICICI Direct Research

Exhibit 12: While Top 10 clients' growth steadies



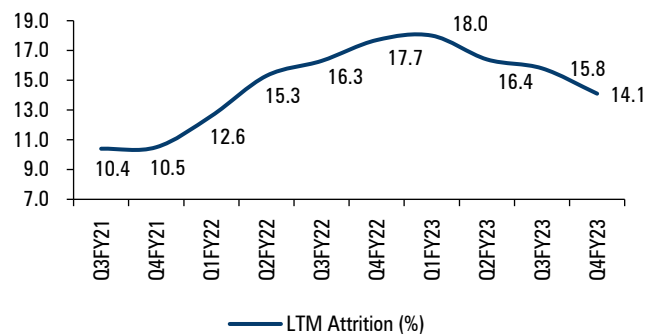
Source: Company, ICICI Direct Research

Exhibit 13: Offshore mix improves moderately in Q4



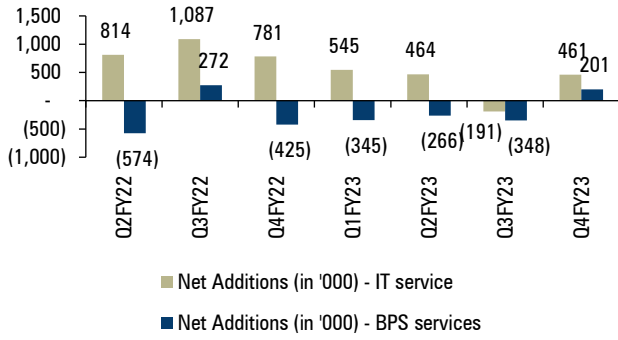
Source: Company, ICICI Direct Research

Exhibit 14: LTM attrition one of the lowest in industry



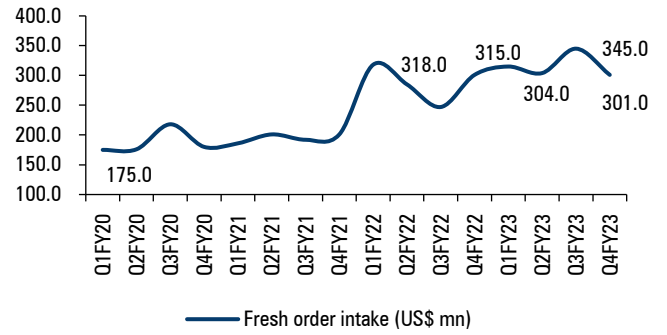
Source: Company, ICICI Direct Research

Exhibit 15: Net hiring trend for IT & BPS



Source: Company, ICICI Direct Research

Exhibit 16: Fresh order intake steady above US\$300 mn



Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and loss statement ₹ crore

	FY22	FY23	FY24E	FY25E
Total operating Income	6,432	8,015	9,457	10,851
Growth (%)	37.9	24.6	18.0	14.7
COGS (employee expenses)	4,374	5,406	6,350	7,270
S,G&A expenses	943	1,203	1,433	1,639
Total Operating Expenditure	5,317	6,609	7,783	8,909
EBITDA	1,115	1,405	1,674	1,942
Growth (%)	41.8	26.0	19.1	16.0
Depreciation	227	259	303	380
Other Income (net)	(27)	(63)	(10)	(10)
PBT	862	1,084	1,361	1,553
Total Tax	147	206	286	326
Adjusted 'PAT	662	694	1,025	1,177
Growth (%)	45	5	48	15
Adjusted EPS (₹)	106.5	111.5	165.0	189.4
Growth (%)	45.3	4.7	48.0	14.7

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement ₹ crore

	FY22	FY23	FY24E	FY25E
Profit before Tax	862	1,084	1,361	1,553
Add: Depreciation	227	259	303	380
(Inc)/dec in Current Assets	(392)	(273)	(355)	(343)
Inc/(dec) in CL and Provisions	217	128	313	303
Taxes paid	(265)	(280)	(286)	(326)
CF from operating activities	766	951	1,336	1,566
(Inc)/dec in Investments	-	-	-	-
(Inc)/dec in Fixed Assets	(154)	(158)	(236)	(206)
Others	2	4	(10)	(10)
CF from investing activities	(956)	(272)	(242)	(207)
Issue/(Buy back) of Equity	5	2	-	-
Inc/(dec) in loan funds	(45)	(60)	-	-
Dividend paid & dividend tax	(375)	(429)	(461)	(529)
CF from financing activities	(156)	(558)	(611)	(679)
Net Cash flow	(347)	121	483	680
Exchange difference	(7)	2	-	-
Opening Cash	800	454	579	1,061
Closing Cash	454	579	1,061	1,741

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	61	61	61	61
Reserve and Surplus	2,672	3,021	3,585	4,232
Total Shareholders funds	2,733	3,083	3,646	4,294
Total Debt	337	338	338	338
Provisions	105	128	128	128
Minority Interest / Other non CL	197	338	388	438
Total Liabilities	3,371	3,886	4,500	5,197
Assets				
Net Block	996	1,145	1,225	1,192
Capital WIP	9	5	5	5
Total Fixed Assets	1,005	1,150	1,229	1,197
Goodwill	1,071	1,167	1,167	1,167
Deferred tax assets	155	317	317	317
Debtors	1,389	1,613	1,903	2,184
Other Current Assets	378	415	489	561
Cash	454	579	1,061	1,741
Current Investments	-	-	-	-
Total Current Assets	2,221	2,606	3,454	4,486
Trade payables	652	648	765	877
Other current liabilities	480	1,055	1,245	1,429
Short term provisions	32	36	42	49
Total Current Liabilities	1,164	1,739	2,052	2,355
Net Current Assets	1,057	867	1,402	2,131
Application of Funds	3,371	3,886	4,500	5,197

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Adjusted EPS (Diluted)	106.5	111.5	165.0	189.4
DPS	52	64	76	87
Cash per Share	73.0	93.0	170.8	280.2
BV per share (Diluted)	439.9	495.5	586.9	691.1
Operating Ratios (%)				
EBITDA Margin	17.3	17.5	17.7	17.9
PBT Margin	13.4	13.5	14.4	14.3
PAT Margin	10.3	8.7	10.8	10.8
Debtor days	79	73	73	73
Creditor days	37	30	30	30
Return Ratios (%)				
RoE	24.2	22.5	28.1	27.4
RoCE	25.6	27.9	30.3	29.9
RoIC	29.3	34.7	39.9	45.3
Valuation Ratios (x)				
P/E (Adjusted)	37.7	36.0	24.4	21.2
EV / EBITDA	22.3	17.6	14.5	12.1
EV / Net Sales	3.9	3.1	2.6	2.2
Market Cap / Sales	3.9	3.1	2.6	2.3
Price to Book Value	9.1	8.1	6.8	5.8
Solvency Ratios				
Debt/EBITDA	0.3	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.5	1.2	1.2	1.2
Quick Ratio	1.5	1.2	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
HCL Tech (HCLTEC)	1,065	1,220	BUY	2,89,005	54.8	58.7	64.4	19.4	18.1	16.5	27.1	28.4	30.6	22.7	23.2	24.8
Infosys (INFTEC)	1,228	1,600	BUY	5,14,051	57.6	64.5	73.1	21.3	19.0	16.8	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,200	3,720	BUY	11,70,896	115.2	129.6	143.1	27.8	24.7	22.4	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)*	997	1,130	HOLD	96,990	63.0	74.0	86.3	15.8	13.5	11.6	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)*	374	455	BUY	2,05,000	23.3	26.4	28.4	16.0	14.2	13.2	18.9	20.5	21.0	18.7	20.3	21.0
LTIM (LTINFO)*	4,159	5,320	BUY	1,23,022	153.9	181.0	221.7	27.0	23.0	18.8	33.8	34.2	35.9	27.2	27.6	28.9
Coforge (NIIITEC)	4,020	4,725	BUY	24,483	111.5	165.0	189.4	36.0	24.4	21.2	27.9	30.3	29.9	22.5	28.1	27.4
TeamLease (TEASER)*	2,130	2,335	HOLD	3,642	73.7	77.5	93.4	28.9	27.5	22.8	15.5	14.3	14.9	15.3	14.0	14.5
Infoedge (INFEDG)*	3,640	3,265	HOLD	45,745	52.1	54.6	58.2	69.9	66.7	62.5	6.3	6.3	6.5	4.7	4.8	4.9

Source: Company, ICICI Direct Research, * FY23 EPS figures are estimates

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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