

India

ADD (no change)

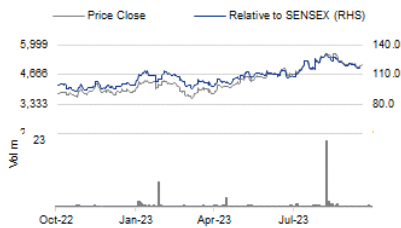
Consensus ratings*: Buy 21 Hold 6 Sell 7

Current price:	Rs5,109
Target price: ▲	Rs5,708
Previous target:	Rs4,579
Up/downside:	11.7%
InCred Research / Consensus:	4.4%
Reuters:	NITT.NS
Bloomberg:	COFORGE IN
Market cap:	US\$3,778m Rs314,437m
Average daily turnover:	US\$34.2m Rs2847.3m
Current shares o/s:	62.4m
Free float:	50.0%

*Source: Bloomberg

Key changes in this note

- Expect 13% revenue CAGR over FY24F-26F.
- Expect 20.6% EBIT CAGR over FY24F-26F.
- Expect 25.8% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.7)	6.0	32.4
Relative (%)	(4.0)	9.1	19.4

Major shareholders	% held
LIC	6.0
Axis mid-cap fund	4.5
UTI FLEXI CAP FUND	3.6

Analyst(s)



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Coforge Limited

Revenue growth OK but not margins

- Expects tepid growth in 3QFY24F and a sharp recovery in 4QFY24F.
- Cash generation was soft in 1HFY24F but OCF/EBITDA could be in the range of 65-70% in FY24F.
- Retain ADD rating on the stock with a higher target price of Rs5,708, rolling forward our valuation to FY26F estimates.

2QFY24 earnings summary

2QFY24 revenue growth of Coforge was in line with expectation but reported EBITDA margin was below estimate led by higher ESOP cost. Management commentary suggests that 3QFY24F could be tepid due to furloughs and macroeconomic uncertainty but 4QFY24F could witness a sharp recovery led by ramp-up of large deals and momentum in the insurance and travel vertical. The significant qoq decline in ESOP cost to aid EBITDA margin recovery in 3QFY24F while growth leverage to aid 4QFY24F. We trim our estimates to account for 2QFY24 miss & significant ask rate in 2HFY24F and introduce FY26F.

Large deal signings continue despite macroeconomic uncertainty

Coforge signed three large deals (>US\$20m), with one in the BFS vertical and two in the travel vertical. Apart from large deals, the company signed one US\$10m+ deal in the BPS segment and another sizable transformation deal with a large US automobile & home insurer. Coforge signed eight new logos during 2Q. Fresh order intake at US\$313m was soft (down 41.1% qoq but up 3% yoy) but TTM intake, at US\$1,490m, is up by a respectable 27.5% yoy vs. 28.7% in 1QFY24 and 17.1% in 2QFY23. The executable book over the next 12 months (US\$935m) is up 16.6% yoy and lends growth visibility.

Miss driven by higher ESOP costs

The EBITDA margin, adjusted for ESOP expenses, stood at 17.6%, up 160bp qoq (down 79bp yoy) but the reported margin at 15.3% was up by a modest 33bp qoq (down 232bp yoy) led by higher ESOP cost. Coforge reiterated its FY24F 50bp gross margin expansion guidance led by tailwinds from pyramid optimization, rising offshore and utilization while lower ESOP costs could aid reported EBITDAM. Although Coforge expects the adjusted FY24F EBITDA margin to be like that in FY23 (18.3%), we feel the ask rate is very steep.

Retain ADD rating with a higher target price of Rs5,708

We retain ADD rating on Coforge with a higher target price of Rs5,708 (Rs4,579 earlier), rolling forward our valuation to FY26F estimates and despite trimming our target PE/G multiple to 1x (vs. 1.1x earlier) for a longer time horizon. We model a 13% US\$ revenue CAGR over FY24F-26F and ~25.8% PAT (Rs) CAGR, applying a 25.8x target P/E to arrive at our target price. Steady cash generation and high payout ratio (average 63% FCF payout over the previous four years) provide cushion, in our view. Moderation in deal velocity & senior leadership attrition are key downside risks to our revenue growth and EBIT margin assumptions.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	64,320	80,146	92,426	107,112	123,884
Operating EBITDA (Rsm)	11,155	14,058	15,386	18,530	21,804
Net Profit (Rsm)	6,618	6,943	8,707	11,324	13,786
Core EPS (Rs)	106.6	111.7	139.5	181.5	221.0
Core EPS Growth	45.3%	4.7	24.9	30.1	21.7%
FD Core P/E (x)	46.92	45.71	36.54	28.14	23.12
DPS (Rs)	52.0	64.0	76.0	101.9	124.1
Dividend Yield	1.00%	1.25%	1.49%	1.95%	2.38%
EV/EBITDA (x)	28.53	22.62	20.75	17.00	14.15
P/FCFE (x)	72.76	43.29	75.76	29.55	23.70
Net Gearing	1.3%	(0.5%)	0.8%	(11.4%)	(23.8%)
P/BV (x)	11.60	10.30	9.16	7.99	6.92
ROE	26.0%	33.0%	27.5%	30.3%	32.1%
% Change In Core EPS Estimates			(13.62%)	(8.34%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var. (%)
Revenue (US\$ m)	278.1	246.9	12.6	271.8	2.3	277.4	0.3
Revenue (Rs m)	22,762	19,594	16.2	22,210	2.5	22,940	(0.8)
USD-INR realization	81.8	79.4	3.1	81.7	0.2	82.7	(1.0)
EBITDA	3,473	3,445	0.8	3,316	4.7	3,785	(8.2)
EBITDA margin (%)	15.3	17.6	(232 bp)	14.9	33 bp	16.5	(124 bp)
EBIT	2,701	2,831	(4.6)	2,559	5.5	3,003	(10.1)
EBIT margin (%)	11.9	14.4	(258 bp)	11.5	34 bp	13.1	(123 bp)
Depreciation	772	614	25.7	757	2.0	782	(1.3)
Net other income	-295	-150	96.7	-152	94.1	-165	79.0
PBT	2,406	2,681	(10.3)	2,407	(0.0)	2,838	(15.2)
Provision for tax	528	474	11.4	485	8.9	624	(15.4)
% tax rate	21.9	17.7	427 bp	20.1	180 bp	22.0	(5 bp)
Net profit	1,809	2,012	(10.1)	1,653	9.4	2,214	(18.3)
EPS (Rs)	29.0	32.4	(10.6)	26.5	9.2	35.5	(18.5)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call take-aways

- The BFS vertical witnessed a 3.8% qoq growth in constant currency or CC terms. Witnessing some green shoots, although the macroeconomic environment remains stressed. Product innovation, digital transformation and legacy modernization continue to witness demand. Coforge won a new account in the BFS space during 2QFY24.
- Productization, digitalization, customer experience and security services in the travel vertical is witnessing good traction. Management highlighted initial signs of normalization in spending in the travel vertical, but growth over the next 12-18 months would be in line with the company average.
- Expansion of Guide wire capabilities and large deals are aiding the growth in the insurance segment.
- The public sector segment has scaled well and now contributes ~7-8% to overall revenue.
- ESOP cost in 2QFY24 was one-off due to accelerated vesting on achievement of a certain milestone. It may normalize from 3QFY24F.
- Increase in the offshore revenue mix has aided margins over the last two years and will continue to aid gradually going ahead.

Figure 2: Operating metrics trends

Operating trends	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m)	212.8	221.6	232.4	238.7	246.9	251.7	264.4	271.8	278.1
Growth YoY (%)	37.7	37.8	35.0	19.5	16.0	13.6	13.8	13.9	12.6
Growth QoQ (%)	6.6	4.1	4.9	2.7	3.4	1.9	5.0	2.8	2.3
Revenue (Rs. m)	15,694	16,581	17,429	18,294	19,594	20,558	21,700	22,210	22,762
Growth YoY (%)	36.0	39.3	38.2	25.2	24.9	24	24.5	21.4	16.2
Growth QoQ (%)	7.4	5.7	5.1	5.0	7.1	4.9	5.6	2.4	2.5
EBIT margin (%)	13.6	14.8	15.5	12.5	14.4	14.5	15.5	11.5	11.9
US\$-INR realized rate	73.8	74.8	75.0	76.6	79.4	81.7	82.1	81.7	81.8
Headcount	20,786	22,130	22,500	22,742	22,991	22,505	23,224	24,224	24,638
Utilization including trainees (%)	78.5	77.1	76.1	76.2	77.3	80.3	81.5	81.0	80.0
LTM attrition (%)	15.3	16.3	17.7	18.0	16.4	15.8	14.1	13.3	13.0

Vertical (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFS	24.1	28.4	27.7	29.5	31.7	31.1	31.0	31.1	31.6
Insurance	29.2	27.8	25.7	23.1	23.2	22.1	22.2	22.6	22.6
TTH	18.6	18.3	20.1	19.4	19.3	19.3	18.8	18.5	18.5
Others	28.1	25.4	26.5	28.0	25.8	27.4	28.0	27.8	27.3

Vertical (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFS	51.3	62.9	64.4	70.4	78.3	78.3	82.0	84.5	87.9
Insurance	62.1	61.6	59.7	55.1	57.3	55.6	58.7	61.4	62.9
TTH	39.6	40.6	46.7	46.3	47.7	48.6	49.7	50.3	51.4
Others	59.8	56.3	61.6	66.8	63.7	69.0	74.0	75.6	75.9

Vertical YoY (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFS	95.2	111.6	120.0	67.9	52.6	24.4	27.3	20.0	12.3
Insurance	18.3	21.6	12.0	-10.9	-7.8	-9.7	-1.7	11.4	9.7
TTH	34.8	26.1	42.9	22.0	20.4	19.8	6.4	8.6	8.0
Others	29.0	16.7	8.4	15.4	6.5	22.5	20.2	13.1	19.2

Vertical QoQ (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFS	22.3	22.7	2.3	9.4	11.1	0.0	4.7	3.1	4.0
Insurance	0.4	-0.9	-3.0	-7.7	3.9	-2.9	5.5	4.7	2.3
TTH	4.3	2.5	15.2	-0.9	2.9	1.9	2.3	1.2	2.3

Others	3.3	-5.9	9.4	8.5	-4.7	8.3	7.3	2.1	0.5
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFS	9.3	11.6	1.4	6.0	7.9	0.0	3.7	2.6	3.3
Insurance	0.2	-0.5	-1.9	-4.6	2.1	-1.7	3.1	2.7	1.4
TTH	1.6	1.0	6.2	-0.4	1.3	0.9	1.1	0.6	1.2
Others	1.9	-3.5	5.3	5.2	-3.1	5.3	5.1	1.5	0.4
Geography (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Americas	52.2	53.3	49.9	51.3	51.3	49.2	48.3	49.7	49.4
EMEA	32.5	33.7	39.8	36.9	38.5	40.3	39.6	38.6	38.8
ROW	15.3	13	10.3	11.9	10.2	10.5	12.1	11.7	11.8
Geography (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Americas	111.1	118.1	116.0	122.5	126.7	123.8	127.7	135.1	137.4
EMEA	69.2	74.7	92.5	88.1	95.1	101.4	104.7	104.9	107.9
ROW	32.6	28.8	23.9	28.4	25.2	26.4	32.0	31.8	32.8
Geography YoY (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Americas	49.8	48.7	46.5	17.9	14.0	4.8	10.1	10.3	8.5
EMEA	24.3	29.7	34.4	26.0	37.4	35.8	13.2	19.1	13.5
ROW	31.7	21.0	-0.7	9.4	-22.7	-8.3	33.7	12.0	30.3
Geography QoQ (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Americas	7.0	6.3	-1.8	5.6	3.4	-2.2	3.1	5.8	1.7
EMEA	-1.1	8.0	23.9	-4.8	7.9	6.7	3.2	0.2	2.8
ROW	25.4	-11.5	-16.9	18.7	-11.3	4.9	21.1	-0.6	3.2
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Americas	7.2	7.0	-2.1	6.5	4.2	-2.8	3.9	7.4	2.3
EMEA	-0.7	5.5	17.8	-4.4	7.0	6.4	3.3	0.2	3.0
ROW	6.6	-3.8	-4.9	4.5	-3.2	1.2	5.6	-0.2	1.0
Deal wins (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Order intake	285	248	302	315	304	345	301	531	313
QoQ (%)	-10.7	-13.0	21.8	4.3	-3.5	13.5	-12.8	76.4	-41.1
YoY (%)	42.5	28.5	50.2	-1.3	6.7	39.1	-0.3	68.6	3.0
TTM order intake	998	1,053	1,154	1,150	1,169	1,266	1,265	1,481	1,490
Executable book over the next 12 months	688	701	720	745	802	841	869	897	935
QoQ (%)	6.7	1.9	2.7	3.5	7.7	4.9	3.3	3.2	4.2
YoY (%)	40.7	39.9	38.5	15.5	16.6	20.0	20.7	20.4	16.6
Clients (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	22.5	25.2	23.1	22.9	23.1	23.9	23	25.1	23.5
Top 6-10	10.5	10.9	11.9	12.6	12.7	12.4	12.5	12.6	11.7
Non-top 10	67	63.9	65	64.5	64.2	63.7	64.5	62.3	64.8
Clients (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	47.9	55.8	53.7	54.7	57.0	60.2	60.8	68.2	65.4
Top 6-10	22.3	24.2	27.7	30.1	31.4	31.2	33.1	34.2	32.5
Non-top 10	142.6	141.6	151.1	154.0	158.5	160.3	170.5	169.3	180.2
Clients YoY (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	23.9	42.3	24.8	11.3	19.1	7.7	13.3	24.8	14.6
Top 6-10	31.5	53.3	39.7	33.3	40.3	29.2	19.5	13.9	3.8
Non-top 10	44.2	33.8	38.2	20.3	11.2	13.2	12.9	10.0	13.7
Clients QoQ (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	-2.5	16.6	-3.9	1.8	4.3	5.5	1.1	12.2	-4.2
Top 6-10	-1.0	8.1	14.5	8.8	4.3	-0.5	5.9	3.6	-5.0
Non-top 10	11.4	-0.7	6.7	1.9	3.0	1.2	6.4	-0.7	6.4
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	-1.2	8.0	-2.2	1.0	2.4	3.1	0.7	7.4	-2.9
Top 6-10	-0.2	1.8	3.5	2.4	1.3	-0.1	1.8	1.2	-1.7
Non-top 10	14.6	-1.0	9.5	2.9	4.5	1.8	10.2	-1.2	10.9
Per employee analysis	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m) - TTM	745.4	806.2	866.5	905.5	939.6	969.7	1,001.7	1,034.8	1,066.0
Employees (average TTM)	16,273	18,950	21,477	22,040	22,591	22,685	22,866	23,236	23,648
Revenue per employee (TTM)	45,806	42,545	40,346	41,085	41,592	42,747	43,808	44,534	45,078

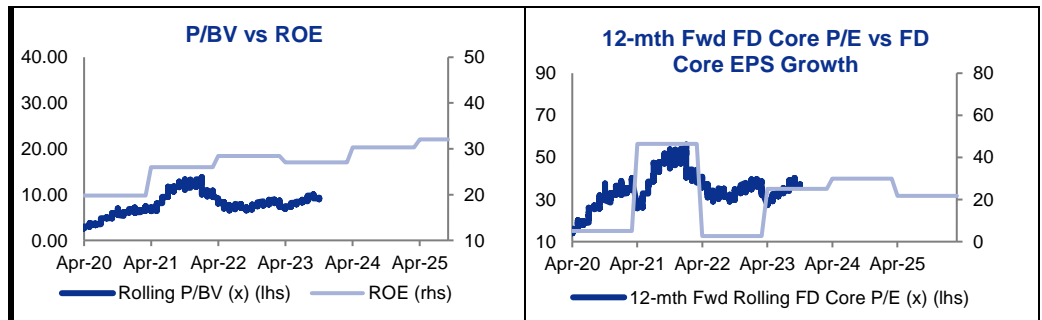
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F		FY26F
	New	Old	% change	New	Old	
US\$ revenue	1,129	1,142	-1.2	1,275	1,279	1,441
Revenue	92,426	94,796	-2.5	1,07,112	1,07,425	1,23,884
EBIT	12,270	13,907	-11.8	14,996	16,178	17,839
EBIT Margin (%)	13.3	14.7	(140) bp	14.0	15.1	14.4
Net PAT	8,707	10,444	-16.6	11,324	12,312	13,786
EPS (Rs)	139.5	168.0	-16.6	181.5	198.0	221.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	64,320	80,146	92,426	107,112	123,884
Gross Profit	20,584	26,087	30,217	35,240	40,882
Operating EBITDA	11,155	14,058	15,386	18,530	21,804
Depreciation And Amortisation	(2,272)	(2,585)	(3,116)	(3,535)	(3,964)
Operating EBIT	8,883	11,473	12,270	14,996	17,839
Financial Income/(Expense)	(538)	(634)	(810)	(559)	(261)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	406	4	77	54	62
Profit Before Tax (pre-EI)	8,751	10,843	11,538	14,491	17,641
Exceptional Items					
Pre-tax Profit	8,751	10,843	11,538	14,491	17,641
Taxation	(1,468)	(2,061)	(2,492)	(3,166)	(3,854)
Exceptional Income - post-tax		(1,326)	(165)		
Profit After Tax	7,283	7,456	8,880	11,324	13,786
Minority Interests	(530)	(513)	(173)		
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,753	6,943	8,707	11,324	13,786
Recurring Net Profit	6,753	9,595	9,037	11,324	13,786
Fully Diluted Recurring Net Profit	6,753	9,595	9,037	11,324	13,786

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	11,155	14,058	15,386	18,530	21,804
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,433)	(1,027)	(1,718)	(1,699)	(1,922)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(530)	(513)	(173)		
Other Operating Cashflow					
Net Interest (Paid)/Received	(650)	(806)	(980)	(880)	(880)
Tax Paid	(2,646)	(2,800)	(2,492)	(3,166)	(3,854)
Cashflow From Operations	5,896	8,912	10,023	12,785	15,147
Capex	(1,541)	(1,582)	(5,823)	(2,000)	(1,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(8,023)	(1,134)	248	375	681
Cash Flow From Investing	(9,564)	(2,716)	(5,575)	(1,625)	(1,019)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,748)	(4,285)	(4,741)	(6,228)	(7,582)
Preferred Dividends					
Other Financing Cashflow	2,190	(1,297)			
Cash Flow From Financing	(1,558)	(5,582)	(4,741)	(6,228)	(7,582)
Total Cash Generated	(5,226)	614	(294)	4,931	6,546
Free Cashflow To Equity	4,355	7,330	4,200	10,785	13,447
Free Cashflow To Firm	(3,018)	7,002	5,427	12,040	15,008

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,535	5,787	5,328	10,259	16,805
Total Debtors	13,894	16,131	18,855	21,637	24,901
Inventories					
Total Other Current Assets	3,780	4,146	4,146	4,146	4,146
Total Current Assets	22,209	26,064	28,328	36,042	45,851
Fixed Assets	6,014	6,866	9,573	8,038	5,774
Total Investments	2,719	2,484	2,484	2,484	2,484
Intangible Assets	14,821	16,299	16,299	16,299	16,299
Total Other Non-Current Assets	3,781	5,121	5,121	5,121	5,121
Total Non-current Assets	27,335	30,770	33,477	31,942	29,678
Short-term Debt	594	454	454	454	454
Current Portion of Long-Term Debt					
Total Creditors	6,160	6,481	7,487	8,569	9,911
Other Current Liabilities	5,038	10,458	10,458	10,458	10,458
Total Current Liabilities	11,792	17,393	18,399	19,481	20,823
Total Long-term Debt	4,302	5,168	5,168	5,168	5,168
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,136	2,574	2,574	2,574	2,574
Total Non-current Liabilities	9,438	7,742	7,742	7,742	7,742
Total Provisions					
Total Liabilities	21,230	25,135	26,141	27,223	28,565
Shareholders Equity	27,331	30,825	34,791	39,887	46,091
Minority Interests	983	874	874	874	874
Total Equity	28,314	31,699	35,665	40,761	46,965

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	37.9%	24.6%	15.3%	15.9%	15.7%
Operating EBITDA Growth	41.8%	26.0%	9.4%	20.4%	17.7%
Operating EBITDA Margin	17.3%	17.5%	16.6%	17.3%	17.6%
Net Cash Per Share (Rs)	(5.82)	2.65	(4.72)	74.33	179.25
BVPS (Rs)	440.34	495.82	557.66	639.34	738.78
Gross Interest Cover	13.67	14.23	12.52	17.04	20.27
Effective Tax Rate	16.8%	19.0%	21.6%	21.9%	21.9%
Net Dividend Payout Ratio	46.7%	48.1%	53.4%	55.0%	55.0%
Accounts Receivables Days	69.73	68.37	69.08	68.99	68.56
Inventory Days					
Accounts Payables Days	39.88	42.68	40.98	40.77	40.63
ROIC (%)	44.9%	29.9%	30.4%	32.5%	38.5%
ROCE (%)	25.2%	26.3%	24.5%	26.7%	28.2%
Return On Average Assets	18.3%	17.5%	16.3%	18.1%	19.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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