

Coforge Ltd.

Information Technology | 3QFY24 Result Update

SELL
CMP: Rs6,283 | Target Price (TP): Rs3,818 | Downside: 39%
January 23, 2024

2024 budgets flat

Key Points

- Coforge's 3QFY24 revenue was a tad better than our estimate while EBIT margin was higher as ESOP cost came in lower. It held on to its initial FY24 guidance of revenue growth of 13-16% CC (will come in at the lower end) and ~18.3% adjusted EBITDA margin (same as in FY23). This will be the first year that Coforge will be coming at the lower end of the guidance unlike in the past when it used to generally surpass the upper end of the initial guidance.
- The demand commentary for 2024 was quite subdued with budgets indicated to flat versus 2023 and no indication of a turnaround in spend by its customers in the next couple of quarters. But it indicated its resolve to grow in the coming year through execution led share gain.
- We have been negative on the IT Services sector since April 2022 and continue to be cautious as we believe that the worst on the macro front is ahead of us. We believe that our base case of a shallow US recession in 2024 could pose a risk to both our as well as consensus earnings & PE multiples. We believe that we are in a 'slower for longer' kind of environment.
- While Coforge could be among the top quartile performers in the industry in FY25 in terms of revenue and earnings growth, we believe that the current valuation of 36x FY25E our EPS is high (though not as egregious as that of Persistent systems which is at 47x). We reiterate 'SELL' with a slightly lower target price (TP) of Rs3,818 based on a target PE multiple of 18x Dec. 2025E EPS, 10% discount to benchmark TCS. This is among the highest target PE multiples for Tier-2 companies as we expect faster-than-peer growth and ROICs. But we believe that it is as vulnerable as its Tier-2 peers due to cohort related weaknesses.
- While Coforge under CEO, Sudhir Singh, has done a good job in the last six years to grow to US\$1bn (from a revenue of ~US\$420mn), we believe that as the company grows larger, it will be up against competition from the behemoths in the BFSI space (a very competitive vertical which embraced outsourcing/offshoring decades back). It will also require significant skills in the 'run the business' side and in cost optimization which we believe Coforge is not the best at. While it will grow faster than the Tier-1 IT set over the next five years, we are not in the camp that believes it will go back to growing at 20% plus in the medium term.

Depressed demand environment: The management indicated that the demand environment has remained depressed in 3QFY24 and that is leading to strong competitive intensity and pricing pressure. This has been the scenario in the past 4-5 quarters, and it is expecting this to continue for the next 2-4 quarters.

SG&A to remain elevated: Coforge indicated that the SG&A expenses will continue to remain elevated at ~15% mark. It has been heavily investing in sales and marketing to scale up, win larger deals, expand in newer geographies, sub-geographies, and verticals so it can reach the US\$2bn revenue mark by FY27/FY28.

Expects strong deal ramp-ups in 4QFY24: The management is confident that it will be able to initiate strong deal ramp-ups in 4QFY24 and has also hired to support this growth. It also clarified that leakages in conversion from TCV to revenue (which has been the problem in the industry) are not material due to strong execution.

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Est Change	Downward
TP Change	Downward
Rating Change	No change

Company Data and Valuation Summary

Reuters	NITT.BO
Bloomberg	COFORGE IN
Mkt Cap (Rsbn/US\$bn)	388.0 / 4.7
52 Wk H / L (Rs)	6,789 / 3,565
ADTV-3M (mn) (Rs/US\$)	2,376.8 / 28.6
Stock performance (%) 1M/6M/1yr	4.0 / 30.4 / 53.2
Nifty 50 performance (%) 1M/6M/1yr	0.6 / 12.8 / 19.1

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	30.2	26.6	0.0
DIs	32.2	37.2	54.3
FIs	25.4	24.8	34.4
Others	12.2	11.4	11.4
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	64,320	80,146	91,904	104,857
YoY Growth %	37.9%	24.6%	14.7%	14.1%
Gross Margin	32.0%	32.5%	32.5%	32.7%
EBIT	9,152	11,477	12,215	14,884
% of sales	14.2%	14.3%	13.3%	14.2%
Adj. PAT	6,619	8,264	8,610	10,904
PAT Margin	10.3%	8.7%	9.4%	10.4%
YoY Growth %	45.3%	24.9%	4.2%	26.6%
FDEPS (Rs)	109.0	113.8	140.0	176.8
ROE (%)	25.5	28.4	25.5	27.6
Post Tax ROCE (%)	23.6	24.1	21.4	21.9
Post Tax ROIC (%)	29.3	27.8	27.5	29.4
P/E(x)	57.6	55.2	44.9	35.5
EV/EBITDA	33.1	26.8	23.9	19.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links: Latest Sector update: [A No/Soft Landing](#)

Last results note: [2QFY24 result note](#)

Please refer to the disclaimer towards the end of the document

Exhibit 1: Quarterly Performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	FY23	FY24E	3Q24E	Var
Net Sales (USD mn)	239	247	252	264	272	278	282	288	1,002	1,120	279	1.1
QoQ Change (%)	2.7	3.4	1.9	5.0	2.8	2.3	1.4	2.1			0	-
Net Sales	18,294	19,594	20,558	21,700	22,210	22,762	23,233	23,699	80,146	91,904	23,229	0.0
YoY Change (%)	25.2	24.9	24.0	24.5	21.4	16.2	13.0	9.2	24.6	14.7	13.0	-
Software Expenses	12,739	13,316	13,698	14,306	15,414	15,374	15,680	15,554	54,059	62,022	15,496	1.2
% of Sales	69.6	68.0	66.6	65.9	69.4	67.5	67.5	65.6	67.5	67.5	66.7	-
Gross Profit	5,555	6,278	6,860	7,394	6,796	7,388	7,553	8,145	26,087	29,882	7,733	(2.3)
Margin (%)	30.4	32.0	33.4	34.1	30.6	32.5	32.5	34.4	32.5	32.5	33.3	-
Operating Expenses	2,543	2,682	3,063	3,150	3,264	3,392	3,508	3,535	11,438	13,699	3,443	1.9
% of Sales	13.9	13.7	14.9	14.5	14.7	14.9	15.1	14.9	14.3	14.9	14.8	-
EBIT	2,292	2,835	2,991	3,359	2,559	2,705	3,201	3,750	11,477	12,215	2,983	7.3
YoY Change (%)	34.4	29.5	19.5	21.9	11.6	-4.6	7.0	11.6	25.4	6.4	-0.3	-
Margin (%)	12.5	14.5	14.5	15.5	11.5	11.9	13.8	15.8	14.3	13.3	12.8	-
Other Income	-76	-150	83	-487	-152	-295	-257	-175	-630	-879	-33	-
PBT	2,212	2,680	3,074	1,546	2,242	2,410	2,944	3,575	10,838	11,336	2,950	(0.2)
Tax	493	474	715	379	485	528	516	751	2,061	2,280	646	(20.1)
ETR (%)	22.3	17.7	23.3	24.5	21.6	21.9	17.5	21.0	19.0	20.4	21.9	-
Reported PAT	1,497	2,011	2,282	1,148	1,653	1,813	2,380	2,764	8,777	8,891	2,234	6.5
Adj. PAT	1,497	2,011	2,282	1,148	1,653	1,813	2,380	2,764	8,264	8,610	2,234	6.5
YoY Change (%)	21.0	37.0	24.2	-44.7	10.4	-9.8	4.3	140.8	24.9	4.2	-2.1	-
Adj. EPS	24.6	33.0	37.4	18.8	27.0	29.6	38.6	44.8	113.8	140.0	36.5	5.8

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 2: ESOP costs have not been material in 3QFY24

Y/E March (Rsmn)	3QFY23	2QFY24	3QFY24	YoY(%)	QoQ (%)	3QFY24E	Dev(%)
Net Sales (USD mn)	251.7	278.1	282.0	12.0	1.4	278.9	1.1
Net Sales	20,558	22,762	23,233	13.0	2.1	23,229	0.0
Direct Cost	13,698	15,374	15,680	14.5	2.0	15,496	1.2
Gross Profit	6,860	7,388	7,553	10.1	2.2	7,733	(2.3)
% of Sales	33.4	32.5	32.5	-	-	33.3	-
SG&A	3,063	3,392	3,508	14.5	3.4	3,443	1.9
% of Sales	14.9	14.9	15.1	-	-	14.8	-
EBITDA	3,797	3,996	4,045	6.5	1.2	4,290	(5.7)
EBITDA Margin (%)	18.5	17.6	17.4	-	-	18.5	-
Depreciation	624	772	811	30.0	5.1	788	2.9
Cost of ESOPs	182	519	33	(81.9)	(93.6)	519	(93.6)
ESOP Cost (%age of sales)	0.89	2.28	0.14	-	-	2.23	-
EBIT	2,991	2,705	3,201	7.0	18.3	2,983	7.3
EBIT Margin (%age of sales)	14.5	11.9	13.8	-	-	12.8	-
Other Income	83	(295)	(257)	-	-	(33)	670.6
Acquisition Related Expenses	-	-	-	-	-	-	-
Exceptional Items	-	-	-	-	-	-	-
Profit Before Tax	3,074	2,410	2,944	(4.2)	22.2	2,950	(0.2)
Provision for Taxation - Current & Deferred	715	528	516	(27.8)	(2.3)	646	(20.1)
Effective Tax Rate	23.3	21.9	17.5	-	-	21.9	-
Net Profit	2,359	1,882	2,428	2.9	29.0	2,303	5.4
Minority Share of Net Profit	77	69	48	-	-	69	-
PAT attributable to equity shareholders after Minority Interest	2,282	1,813	2,380	4.3	31.3	2,234	6.5
NPM (%)	11.1	8.0	10.2	-	-	9.6	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
INR/USD	82.6	83.7	86.3	82.5	83.7	86.3	0.1	-	-
USD Revenue (USD mn)	1,120	1,253	1,464	1,116	1,248	1,454	0.3	0.4	0.7
USD Revenue Growth (%)	11.8	11.9	16.9	11.4	11.8	16.5	-	-	-
Revenue (Rsmn)	91,904	104,857	126,372	91,748	104,447	125,458	0.2	0.4	0.7
EBIT (Rsmn)	12,215	14,884	18,176	11,623	14,812	17,721	5.1	0.5	2.6
EBIT Margin (%)	13.3	14.2	14.4	12.7	14.2	14.1	-	-	-
PAT (Rsmn)	8,610	10,904	13,804	8,260	11,300	13,806	4.2	(3.5)	(0.0)
EPS (Rs)	140.0	176.8	223.9	134.9	184.5	225.4	3.8	(4.1)	(0.7)

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 4: Revenue by practice split USD QoQ and YoY revenue growth in 3QFY24

Verticals	Contribution to Revenue	Growth-QoQ(%)	Growth-YoY(%)
Product Engineering	7.8%	(11.1)	(11.7)
Data & Integration	25.7%	6.4	20.5
Intelligent Automation	11.3%	(5.3)	7.3
CIMS	18.9%	3.6	13.8
ADM	27.1%	3.3	13.7
BPM	9.2%	(1.8)	13.3
Total	100%	1.4	12.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Geography mix and USD QoQ and YoY revenue growth in 3QFY24

Geographies	Contribution to Revenue	Growth-QoQ(%)	Growth-YoY(%)
Americas	46.6	(4.3)	6.1
EMEA	40.0	4.5	11.2
APAC	13.4	15.2	43.0
Total	100	1.4	12.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Vertical mix and USD QoQ and YoY revenue growth in 3QFY24

Geographies	Contribution to Revenue (%)	Growth-QoQ(%)	Growth-YoY(%)
BFS	32.2	3.3	16.0
Insurance	22.0	(1.3)	11.5
Transportation	17.8	(2.4)	3.3
Others	28.1	4.4	14.9
Total	100	1.4	12.0

Source: Company, Nirmal Bang Institutional Equities Research

View on the Indian IT services sector: We had downgraded our view on the Indian IT Services sector to UW in a report on 10th April, 2022 ([Positive surprises likely low in FY23; Tier-2 risky](#)) and continued to remain underweight through our notes on 19th May, 2022 ([Customer stress shows up](#)), 8th July, 2022 ([Negatives not in price](#)), 10th October, 2022 ([Growth expectations too high](#)), 20th March, 2023 ([Sell into delayed landing outperformance](#)), 14th June 2023 ([Too early to be positive](#)), 26th September, 2023 ([Cut FY25 estimates; Slower for longer; Sell into the FOMO rally](#)) and 15th December, 2023 ([A No/Soft landing](#)).

We advocate that investors use the 'delayed/no landing' rally seen since October 2022 to pare positions if 'overweight', especially in the Tier-2 set. Nifty IT index has advanced by ~117% from 31st Dec, 2019 till 14th Dec, 2023 while Nifty is up by ~73%. This massive outperformance of Nifty IT has been on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US/Europe. The DT high tide over 2HFY20-1HFY23 lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a shallow recession there and consequently high probability of negative surprises on the fundamental side over the next 12 months. We believe consensus is underestimating growth and margin risks in FY25 as it did in FY24. While DT services will continue to remain a key theme over the medium term, we believe IT spends will be curtailed by an 'ability-to-spend' problem as enterprise customers battle earnings pressure from wage inflation, reduced end customer spending power, higher interest rates and likely below-trend growth in western developed economies. This, in our view, will mean that the corporate profits of S&P 500 for CY24 will likely be weaker than currently estimated (although they have been better than expected in CY2023). We also believe that the broader enterprise customer profit picture might look worse. Beyond FY23, we see customers shifting from the current democratic 'skills/capability' focused vendor model to a more discriminating one based on an 'ability-to-deliver' (1) cost take outs and (2) business model changes - in that order. It is here that one will see divergence in growth and valuation. Incrementally, risks are to the downside from both valuation as well as fundamental perspective. We favor Tier-1 IT companies vs Tier-2.

We persist with our 20-month-old 'UW' stance. This is because: (1) We believe that a conclusive Fed pivot is likely only when US core inflation falls to ~2%, which we think is unlikely in the next six months. Financial stress/accident related stopping/easing of current hawkish monetary policy could induce a short-term rally that may not be sustainable (2) Consensus earnings estimates for FY25 continue to be too high and seem to implicitly assume a soft/no landing for the US economy. We are explicitly pricing in a shallow recession sometime in 2024. (3) Even if one were to ignore the next 12-18 months' risks around recession and take a 5-year view, we believe that starting valuations are expensive and can at best deliver mid to high single-digit total stock returns (including capital return to shareholders) for TCS/Infosys, as we believe that structural revenue/earnings growth is being overestimated by the street. We believe that USD revenue growth over a 5-year period (FY23-FY28) for Tier-1 set in aggregate will at best be at par with the FY15-FY20 period (~7%) whereas consensus believes it will be 300-500bps higher. We also expect margins for most companies to remain in a narrow band at around FY24 levels and not see a material expansion (except for Tech Mahindra where it starts from a very low base). *Ceteris Paribus*, this has valuation/return implications.

In our base case of a shallow recession in the US in CY24, we are expecting mid single-digit USD revenue growth for Tier-1 IT companies in FY25. In our estimates for FY25, we are assuming modest pricing compression while we believe the street is not considering the same. We continue to have a 'SELL' rating on all IT stocks under our coverage, except Tech Mahindra. Despite having EPS estimates lower than the street in FY25, we suspect it could still see downsides if there is a deep recession in the US.

We continue to maintain TCS as our industry valuation benchmark: We are valuing TCS at target 12-month forward PE of 20x on Dec. 25E EPS, which represents 0.5SD below the last 10-year mean. Target multiples for others are at a discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks, including that of TCS and Infosys, had reached single-digit levels during GFC. Our target multiples are in fact at the higher end of the pre-pandemic PE range.

Tier-2 could face significant risks in the new environment: We fear that the Indian Tier-2 set would suffer more because of vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix (client, service line, vertical), which could throw up negative growth surprises (as it has been doing for Mphasis in the last 12 months) and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in the current macro environment. Indian Tier-2 IT is now at a PE premium of ~40% to Tier-1 (peak of ~60% in November 2021 and the recent low of 10% in January 2023). It used to trade at a discount of 14% on 1st January 2020.

This premium reflects expectations of big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY23 and improving return ratios sustaining beyond FY23. We do not agree with that view. We think that the earnings growth gap will compress due to slower revenue growth and next-to-no margin expansion from current levels for most Tier-2 companies. The high PE multiples are also a reflection of the market's view that some Tier-2 IT companies will become US\$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY23 in our view), vendors that have scale – Tier-1 - tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

Highlights from the 3QFY24 analyst call

Revenue beats estimates. On track to meet full year guidance.

- Revenue for 3QFY24 came in at US\$282mn and was above our estimate of US\$278.9mn. It was up by 1.4% and 12% on QoQ and YoY basis, respectively. It stated that the weaker revenue growth QoQ was due to much higher than anticipated furloughs in the BFSI vertical.
- In CC terms, revenue was up by 1.8% on a QoQ basis respectively and above our estimate of 1.2% QoQ growth in a seasonally weak quarter.
- Coforge has maintained its guidance of 13-16% CC YoY growth for FY24 (but said it would hit the lower end of this range) and indicated that another 1.8% CC QoQ growth is enough to meet the lower end of this guidance. It pointed to sharp margin improvement in 4QFY24.
- It expects adjusted EBITDA margin of ~18.3% (that it clocked in FY23) in FY24. It is confident of achieving this on the back of furlough reversals and deal ramp-ups.

Demand environment

- Coforge indicated that it faced higher than normal headwinds because of unusually high furloughs in BFSI. It also indicated that the demand environment in 3QFY24 was depressed generally.
- The demand environment continues to be tough. Clients have finished their budgeting cycle for CY24. It indicated that there will be no significant uptick for CY24 budgets as compared to CY23. The sustained investment in SG&A and in capabilities should support the 'clawing' of growth, as described by the management. This points to execution based share gains.
- BFSI in terms of outlook remains the same, except in the transformation space, where Coforge believes, it is well positioned to capitalize. It sees demand in compliance and regulatory areas. In insurance the focus remains on legacy modernization, digital transformation, cloud migration and supplier consolidation..
- In BFSI, tightening of expenses continues. It pointed out that some studies indicate IT budgets for BFSI to go up by 4-5% and focus on transformation. There are also green shoots in areas like driving agility in software delivery, new product proposition and innovation. BFSI growth reversal will take ~4-6 months.
- The demand in travel across the industry is mixed. Airlines, airports are spending when it comes to travel while there is lower demand across logistics and hospitality. Demand is driven by cost take out initiatives, IT productization, security, and cloud and data solutions. It indicated that it is seeing new interest in sourcing activity from some of the travel mid-caps for global captive centers.
- Coforge indicated that in FY25 it expects macro headwinds to continue, and it has not baked any improvements in macro in its internal calculations for FY25.
- Coforge indicated that competitive intensity is high. It expects next 2-4 quarters to remain the same as demand is depressed and pricing pressure will be high.

Verticals and Geographies

- On a YoY basis in USD terms, BFSI vertical led the growth by 16%, followed by 'others' vertical which grew by 14.9%. Insurance grew by 11.5%, while transportation grew by 3.3%.
- On a YoY basis in USD terms APAC led by 43% growth followed by EMEA which grew by 11.2% and Americas which grew by 6.1%.
- It indicated that BFS vertical was able to grow so well despite unusually high furloughs this year. Most of the top 10 clients for Coforge are BFSI clients.

- Coforge is investing heavily in newer verticals and sub-geographies like California and New York as standalone market regions and in scaling up newer verticals beyond BFSI, travel and public sectors. The focus now of these investments continues to be on healthcare, retail and CMT verticals.
- Coforge indicated that travel has done very well in ROW. In terms of BFSI, Middle-East, Australia, New Zealand and ASEAN have done very well. Australia has been very good in Insurance too.
- In terms of margins, ROW continues to remain a drag as there are significant investments in the geography. It has ramped up the sales team in Australia. It has invested across verticals in this geography and as this is the initial investment phase it expects margins to improve after a period of 6 months or so.

Margins higher than expected

- EBIT margin for 3QFY24 came in at 13.8% and was 190bps higher on QoQ basis. It was 100bps higher than our estimate of 12.8% due to almost no ESOP costs. Coforge indicated that ESOP costs have been normalized now (before a new program kicks in the coming quarters).
- Adjusted (for ESOP costs) EBITDA margin for 3QFY24 came in at 18% and was higher by 39bps on a QoQ basis. Unusually higher furloughs impacted margins (by ~50bps) more than it had anticipated.
- It expects a 150-200bps margin improvement in 4QFY24 (partly on the back of ~50bps furlough reversal). It expects EBITDA margin to come in around the 20% mark for 4QFY24.
- SG&A as a % of revenue came in at 15.1% in 3QFY24 and was higher by 20bps on a QoQ basis. This reflected the investments in sales and marketing that Coforge has been making in the business to deliver industry leading growth. It guided for SG&A to be at 15% levels into the foreseeable future.
- PAT margin showed a 229bps improvement on a QoQ basis. Improvement in efficiency resulted in increase in gross margin by 60bps, ESOP cost was lower as compared to 2QFY24 and lower ETR of 17.5% (will revert to ~21% going forward) on account of higher profits that got realized in lower tax jurisdiction.

Order book remains strong

- Fresh order intake for 3QFY24 came in at US\$354mn which is the 8th consecutive quarter of US\$300mn+ order intake. It signed 3 large deals during the quarter.
- Americas contributed US\$110mn, EMEA US\$172mn and ROW US\$72mn of orders in 3QFY24. The executable order book over the next 12 months stands at US\$974mn, reflecting a 15.8% YoY increase.
- The 3 new deals are in the Insurance, BFSI and Public sector in UK. One of it is fully net new, another is majority net new and the third one is half net new.

Employee Metrics

- Headcount as of end 3QFY24 stood at 24,607 employees indicating a net reduction of 31 employees during the quarter. In comparison to peers, Coforge is so far among the few companies to register a very small net reduction, whereas most IT companies are seeing large net reductions in big numbers.
- Attrition for 3QFY24 came in at 12.1% and was lower by 90bps on a QoQ basis. This is the lowest attrition in the last 10 quarters.

- Utilization for 3QFY24 came in at 79.4% and was lower by 60bps on a QoQ basis. It indicated that there is scope for a 150bps increase and it can peak at ~81% as it includes trainees in the calculation.

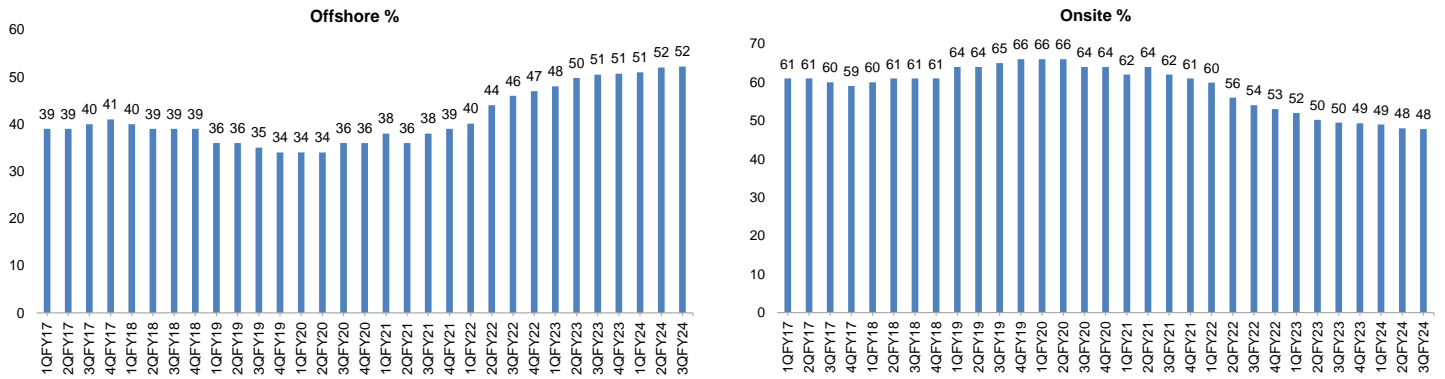
Gen AI capabilities

- Coforge has engaged with ~60 customers in the last 6 months and has undertaken ~22-23 pilots, workshops, assessments, and live revenue generating engagements.
- Within BFSI, it is seeing active revenue generating small projects kicking off over the last few quarters. It indicated that 40% of the incremental investments next year will be in AI.
- In BFS, it is accelerating AI transformation program for a global banking product organization. HR and financial processes for a bank, driving workflow processes efficiency and improving user experience. Partnering with a Tier 1 Australian bank to revamp the financial crime, fraud, lending, corporate and institutional banking processes.
- In insurance, it recently built and deployed an AI based server to a major supplemental insurance provider.
- In travel, it secured an enterprise testing contract from a well-recognised cruise liner firm. Executed a UI mobilization program for an airport in the Middle East.
- It secured a US\$27mn TCV deal in the public sector to implement a unified data hub.
- Gen AI is providing downstream revenue generating opportunities and cross selling possibilities as pilot projects are executed.

Miscellaneous

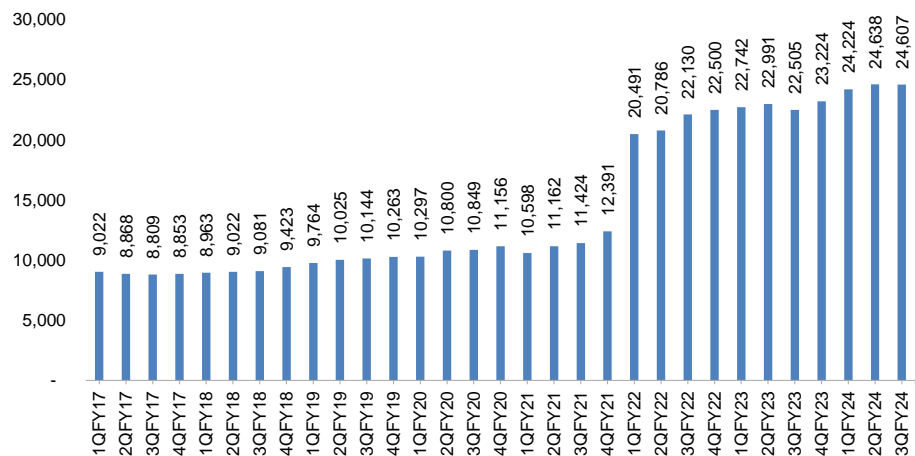
- Billed DSO for 3QFY24 stood at 63 days compared to 67 days in 3QFY23 and 64 days in 2QFY24.
- Coforge paid a dividend of Rs19 per equity share and expects to pay dividends at current levels in the near term.
- Coforge is planning to pay off the offshore debt which carries interest rate of 9.9% by April 2024 and will restructure this into working capital loan which would be ~300-350bps lower in cost.
- Coforge indicated that the current ESOP plan created 5 years ago has ended and the board has recommended an ESOP pool of 3% to be created for the leadership team for the next 5-7 years.

Exhibit 7: Onsite and Offshore split



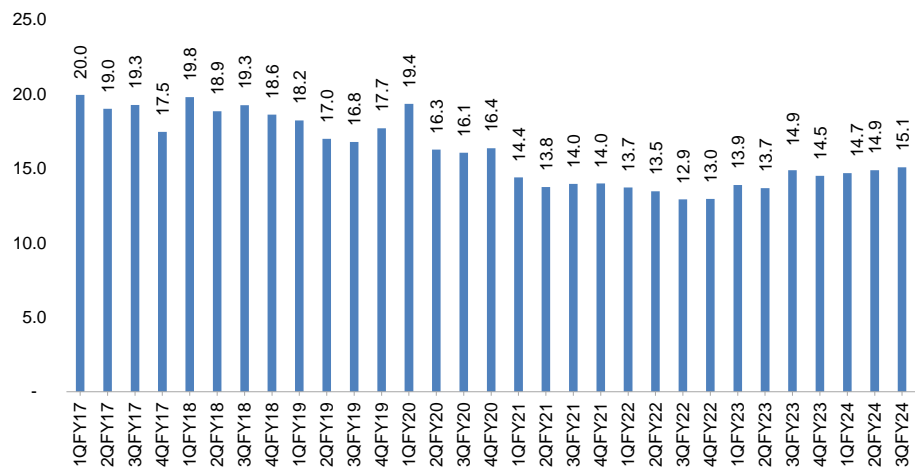
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Total number of employees



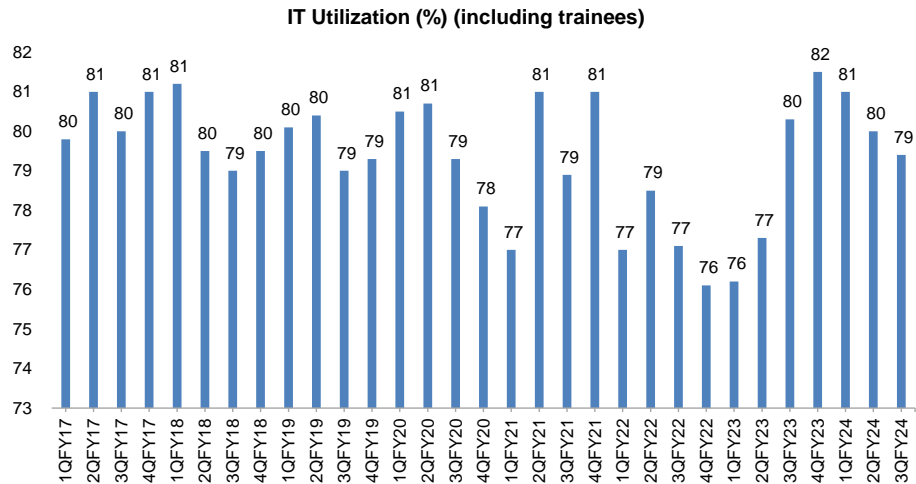
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: SG&A as a % of sales



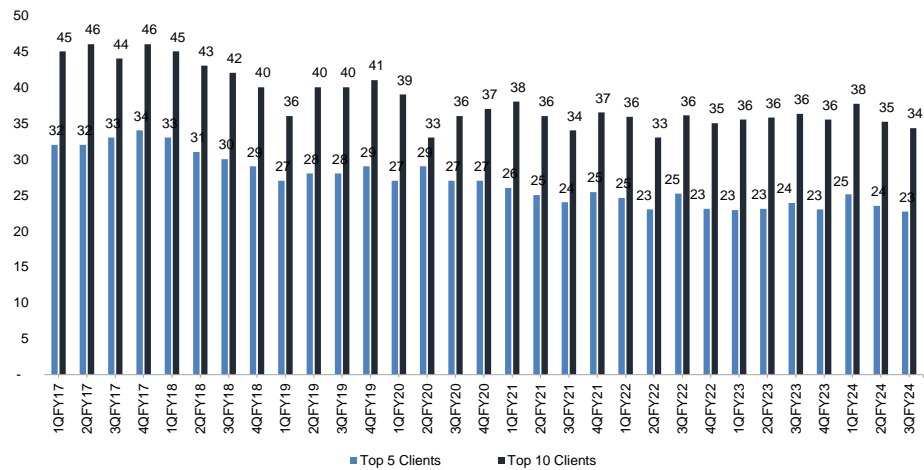
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: IT utilization in 3QFY24



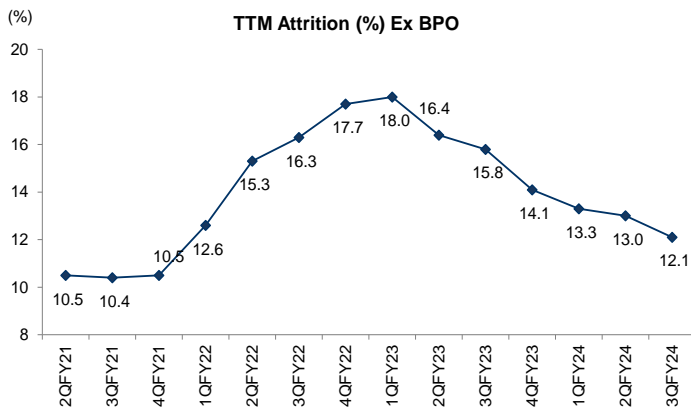
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Client concentration over the quarters



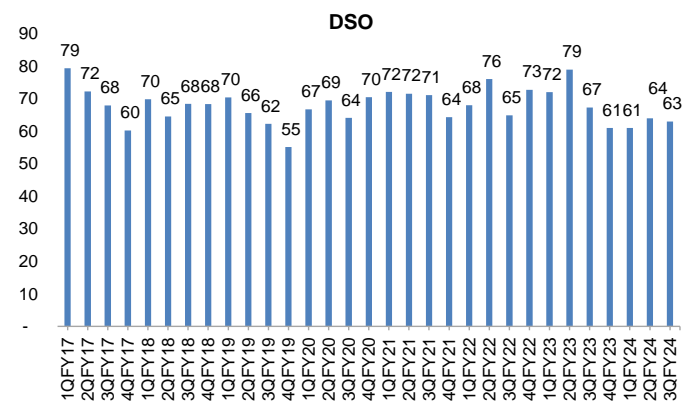
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: TTM attrition trend over the quarters



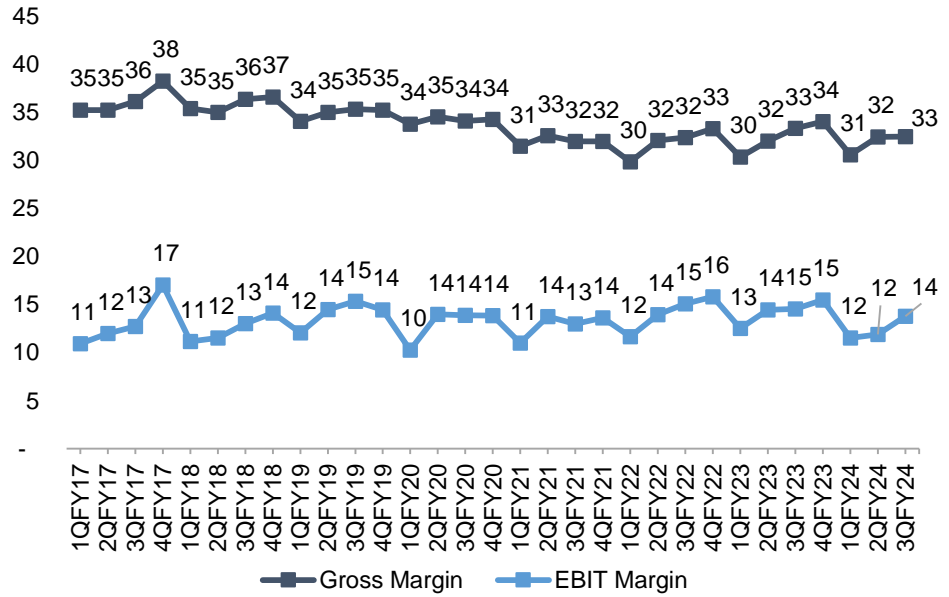
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: DSO situation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Gross margin and EBIT margins



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Quarterly snapshot

Year to 31 March (Rsmn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
INR/USD	73.89	74.87	74.87	76.48	79.28	81.86	82.35	82.15	82.67	83.26
USD Revenue (USD mn)	212	221	232	239	247	252	264	272	278	282
INR Revenue	15694	16581	17429	18294	19594	20558	21700	22210	22762	23233
Gross margin	5038	5371	5809	5555	6278	6860	7394	6796	7388	7553
SGA	2115	2145	2260	2543	2682	3063	3150	3264	3392	3508
EBITDA	2923	3226	3549	3012	3596	3797	4244	3532	3996	4045
Depreciation and Amortisation	598	566	584	630	614	624	717	757	772	811
EBIT	2190	2502	2755	2292	2835	2991	3359	2559	2705	3201
Other income	-77	-122	-119	-76	-150	83	-487	-152	-295	-257
PBT	2062	2332	2590	2212	2680	3074	1546	2242	2410	2944
Tax	446	360	342	493	474	715	379	485	528	516
PAT	1468	1837	2077	1497	2011	2282	1148	1653	1813	2380
EPS Adjusted (Rs)	24.2	30.3	34.1	24.6	33.0	37.4	18.8	27.0	29.6	38.6
YoY Growth										
USD Revenue	37.4	37.7	34.8	19.6	16.2	13.7	13.8	13.9	12.6	12.0
INR Revenue	36.0	39.3	38.2	25.2	24.9	24.0	24.5	21.4	16.2	13.0
Gross profit	34.0	41.0	44.0	27.2	24.6	27.7	27.3	22.3	17.7	10.1
EBIT	37.9	61.7	60.3	34.4	29.5	19.5	21.9	11.6	(4.6)	7.0
Net Profit	21.6	50.6	56.2	21.0	37.0	24.2	(44.7)	10.4	(9.8)	4.3
QoQ growth										
USD Revenue	6.4	4.3	4.9	2.7	3.4	1.9	5.05	2.80	2.32	1.40
INR Revenue	7.4	5.7	5.1	5.0	7.1	4.9	5.6	2.4	2.5	2.1
EBIT	28.4	14.2	10.1	(16.8)	23.7	5.5	12.3	(23.8)	5.7	18.3
Net Profit	18.7	25.1	13.1	(27.9)	34.3	13.5	(49.7)	44.0	9.7	31.3
Margins										
Gross Margin	32.1	32.4	33.3	30.4	32.0	33.4	34.1	30.6	32.5	32.5
SGA	13.5	12.9	13.0	13.9	13.7	14.9	14.5	14.7	14.9	15.1
EBITDA	18.6	19.5	20.4	16.5	18.4	18.5	19.6	15.9	17.6	17.4
EBIT	14.0	15.1	15.8	12.5	14.5	14.5	15.5	11.5	11.9	13.8
PAT	9.4	11.1	11.9	8.2	10.3	11.1	5.3	7.4	8.0	10.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key metrics

Key Metrics	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
P and L (Rs mn)											
Revenue	14,616	15,694	16,581	17,429	18,294	19,594	20,558	21,700	22,210	22,762	23,233
EBITDA	2,229	2,788	3,068	3,339	2,922	3,449	3,615	4,076	3,316	3,477	4,012
PAT	1,237	1,468	1,837	2,077	1,497	2,011	2,282	1,148	1,653	1,813	2,380
Vertical Mix (%)											
BFS	21	24	28	28	30	32	31	31	31	32	32
Insurance	31	29	28	26	23	23	22	22	23	23	22
Transportation	19	19	18	20	19	19	19	19	19	19	18
Others	29	28	25	27	28	26	27	28	28	27	28
Geographical Mix (%)											
Americas	52	52	53	50	51	51	49	48	50	49	47
EMEA	35	33	34	40	37	39	40	40	39	39	40
APAC	13	15	13	10	12	10	11	12	12	12	13
Revenue Mix - IT Business (%)											
Onsite	60	56	54	53	52	50	50	49	49	48	48
Offshore	40	44	46	47	48	50	51	51	51	52	52
IT Utilization (%) (including trainees)	77.0	78.5	77.1	76.1	76.2	77.3	80.3	81.5	81.0	80.0	79.4
Clients Concentration (%)											
Top 5 Clients	25	23	25	23	23	23	24	23	25	24	23
Top 10 Clients	36	33	36	35	36	36	36	36	38	35	34
Number of Client											
Between 1 to 5 million	95	92	94	100	98	97	98	101	102	104	109
Between 5 to 10 million	20	22	21	19	24	26	23	23	24	23	23
Above 10 million	15	16	18	18	19	19	21	21	21	23	24
Revenue by Project type											
Fixed Price Project	55	54	54	53	52	50	50	50	49	49	51
Time & Material	45	46	46	47	48	50	50	50	51	51	49
Service Line Mix (%)											
Product Engineering	14	13	11	11	11	11	10	10	9	9	8
Data & Integration	20	21	21	22	23	23	24	24	24	25	26
Intelligent Automation	15	14	14	13	13	13	12	11	12	12	11
CIMS	17	17	19	18	18	18	19	19	20	19	19
ADM	26	24	25	25	24	26	27	28	26	27	27
BPM	8	12	11	11	11	10	9	9	10	10	9
Employees	20,491	20,786	22,130	22,500	22,742	22,991	22,505	23,224	24,224	24,638	24,607
TTM Attrition (%) Ex BPO	12.6	15.3	16.3	17.7	18.0	16.4	15.8	14.1	13.3	13.0	12.1
Profit and Loss Statement (in mn USD)											
Revenue	200	212	221	232	239	247	252	264	272	278	282
EBIT	23	30	33	37	30	36	37	41	31	33	38
PAT	17	20	25	28	20	25	28	14	20	22	29
Productivity Metrics Per Capita (Annualised)											
Revenue	38,962	40,873	40,030	41,316	41,984	42,956	44,737	45,539	44,881	45,150	45,841
EBIT	4,545	5,704	6,040	6,542	5,271	6,221	6,494	7,025	5,144	5,312	6,250
PAT	3,297	3,823	4,435	4,932	3,443	4,413	4,955	2,401	3,323	3,560	4,647

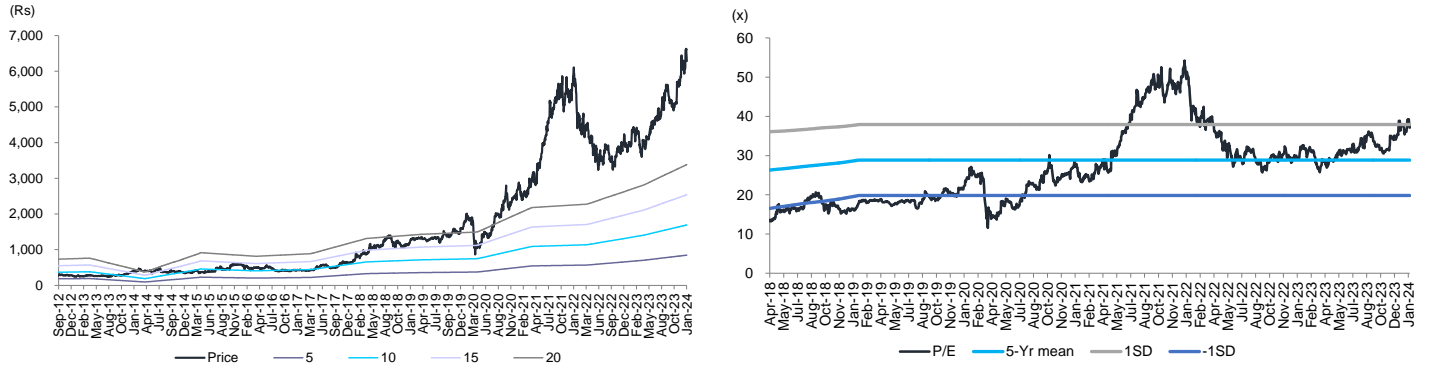
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: QoQ and YoY data on various parameters

QoQ Growth	FY20-21				FY21-22				FY22-23				FY23-24		
By Geography(%)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Americas	(7.4)	12.5	6.2	0.6	29.9	7.7	6.5	(1.8)	5.6	3.4	(2.2)	3.1	5.8	1.7	(4.3)
EMEA	(18.5)	10.2	4.1	19.1	2.2	(2.0)	8.1	23.9	(4.8)	7.9	6.7	3.2	0.2	2.8	4.5
APAC	10.0	3.7	(2.4)	0.0	8.4	24.3	(11.4)	(16.9)	18.7	(11.3)	4.9	21.1	(0.6)	3.2	15.2
By Industry (%)															
BFS	3.9	8.9	10.2	0.0	45.4	21.5	22.9	2.4	9.4	11.1	0.0	4.7	3.1	4.0	3.3
Insurance	(3.6)	13.5	(2.1)	4.5	14.3	0.9	(0.7)	(3.0)	(7.7)	3.9	(2.9)	5.5	4.7	2.3	(1.3)
Transportation	(34.9)	7.9	9.5	1.3	15.8	4.7	2.6	15.3	(0.9)	2.9	1.9	2.3	1.2	2.3	(2.4)
Others	2.0	8.7	4.1	18.3	2.2	2.4	(5.7)	9.5	8.5	(4.7)	8.3	7.3	2.1	0.5	4.4
By Practise split (%)															
Application Development & Maintenance	(11.9)	8.6	4.1	11.8	-	-	-	-	-	-	-	-	-	-	-
IP Assets	(32.1)	28.6	4.1	7.2	-	-	-	-	-	-	-	-	-	-	-
Managed services	(14.7)	17.1	10.2	1.2	-	-	-	-	-	-	-	-	-	-	-
SI & PI	353.0	10.2	(37.6)	(28.5)	-	-	-	-	-	-	-	-	-	-	-
BPO	(9.4)	10.2	4.1	(28.5)	-	-	-	-	-	-	-	-	-	-	-
By Practice Split (%) - Reinstated															
Product Engineering	(9.4)	-	-	0.9	1.3	(3.5)	(11.3)	4.0	0.8	3.4	(3.9)	0.8	1.7	(3.1)	(11.1)
Data & Integration	(18.0)	-	-	29.8	1.7	8.5	3.8	12.6	8.8	2.5	5.5	3.7	4.5	4.4	6.4
Intelligent Automation	(5.5)	-	-	7.2	11.9	4.9	2.1	(4.8)	1.9	3.4	(4.5)	(1.2)	6.5	7.7	(5.3)
CIMS	(3.4)	-	-	(3.0)	4.2	5.8	14.1	1.6	3.9	(0.5)	8.4	7.3	8.2	(5.4)	3.6
ADM	(9.7)	-	-	7.2	15.4	(1.8)	7.8	7.5	(1.8)	10.3	5.5	9.0	(5.0)	6.3	3.3
BPM	4.2	-	-	(46.4)	872.7	47.0	2.5	3.1	1.8	(3.1)	(10.8)	3.9	8.5	2.3	(1.8)
Revenues from Top Clients															
Top 5	(12.8)	5.9	(0.1)	13.4	12.2	(0.5)	14.2	(3.8)	1.8	4.3	5.5	1.1	12.2	(4.2)	(2.0)
Top 10	(7.0)	4.4	(1.7)	15.1	13.9	(2.2)	14.1	1.7	4.2	4.3	3.4	2.7	9.2	(4.5)	(1.2)
Onsite:Offshore Mix															
Onsite	(12.2)	13.7	0.8	5.5	13.7	(0.5)	0.5	3.0	0.8	(0.1)	0.5	4.6	2.2	0.2	1.0
Offshore	(4.4)	4.4	9.8	10.0	19.1	16.8	9.0	7.2	4.9	7.3	3.4	5.5	3.4	4.3	1.8
YoY Growth															
By Geography(%)															
Americas	(2.9)	1.8	8.5	11.3	56.2	49.5	49.8	46.3	18.9	14.2	4.9	10.1	10.3	8.5	6.1
EMEA	4.1	1.1	3.4	11.3	39.6	24.1	28.9	34.2	25.0	37.7	35.9	13.2	19.1	13.5	11.2
APAC	7.6	18.8	6.3	11.3	9.7	31.4	19.4	(0.8)	8.6	(22.5)	(8.2)	33.7	12.0	30.3	43.0
By Industry (%)															
BFS	8.8	3.9	19.6	24.7	74.6	94.9	117.3	122.3	67.2	52.9	24.5	27.3	20.0	12.3	16.0
Insurance	15.2	14.0	13.4	12.1	32.8	18.0	19.6	11.1	(10.3)	(7.6)	(9.7)	(1.7)	11.4	9.7	11.5
Transportation	(29.9)	(29.5)	(26.7)	(22.1)	38.7	34.6	26.0	43.4	22.8	20.6	19.9	6.4	8.6	8.0	3.3
Others	14.0	29.9	27.6	36.5	36.7	28.7	16.6	7.9	14.7	6.7	22.6	20.2	13.1	19.2	14.9
By Practise split (%)															
Application Development & Maintenance	(1.6)	(3.1)	0.5	11.3	-	-	-	-	-	-	-	-	-	-	-
IP Assets	1.2	45.5	24.0	(2.6)	-	-	-	-	-	-	-	-	-	-	-
Managed services	(4.7)	3.9	19.6	11.3	-	-	-	-	-	-	-	-	-	-	-
SI & PI	406.2	419.6	59.5	122.7	-	-	-	-	-	-	-	-	-	-	-
BPO	(24.1)	3.9	6.3	(25.8)	-	-	-	-	-	-	-	-	-	-	-
By Practice Split (%) - Reinstated															
Product Engineering	-	-	-	11.3	24.5	6.4	(12.5)	(9.8)	(10.3)	(3.9)	4.2	1.0	1.9	(4.5)	(11.7)
Data & Integration	-	-	-	21.9	51.3	47.5	48.6	29.0	37.9	30.4	32.5	22.0	17.3	19.5	20.5
Intelligent Automation	-	-	-	19.3	41.3	31.9	28.5	14.2	3.9	2.4	(4.2)	(0.6)	3.9	8.2	7.3
CIMS	-	-	-	17.5	26.8	12.3	22.0	27.7	27.3	19.7	13.7	20.1	25.1	19.1	13.8
ADM	-	-	-	(0.2)	27.5	22.6	30.8	31.2	11.7	25.5	22.9	24.6	20.5	16.1	13.7
BPM	-	-	-	(44.3)	419.8	739.2	685.0	1,410.1	58.0	4.2	(9.3)	(8.6)	(2.5)	2.9	13.3
Revenues from Top Clients															
Top 5	(2.5)	(10.4)	(5.5)	4.7	34.7	26.5	44.6	22.6	11.3	16.8	7.8	13.3	24.8	14.6	6.4
Top 10	(1.4)	13.4	0.4	9.8	34.5	26.0	46.2	29.3	18.3	26.1	14.3	15.4	20.9	10.7	5.9
Onsite:Offshore Mix															
Onsite	(4.9)	0.8	3.0	6.1	37.5	20.3	20.0	17.2	3.8	4.2	4.2	5.8	7.3	7.7	8.2
Offshore	13.2	10.0	12.2	20.6	50.2	68.0	66.7	62.5	43.2	31.6	24.8	22.7	21.0	17.6	15.8

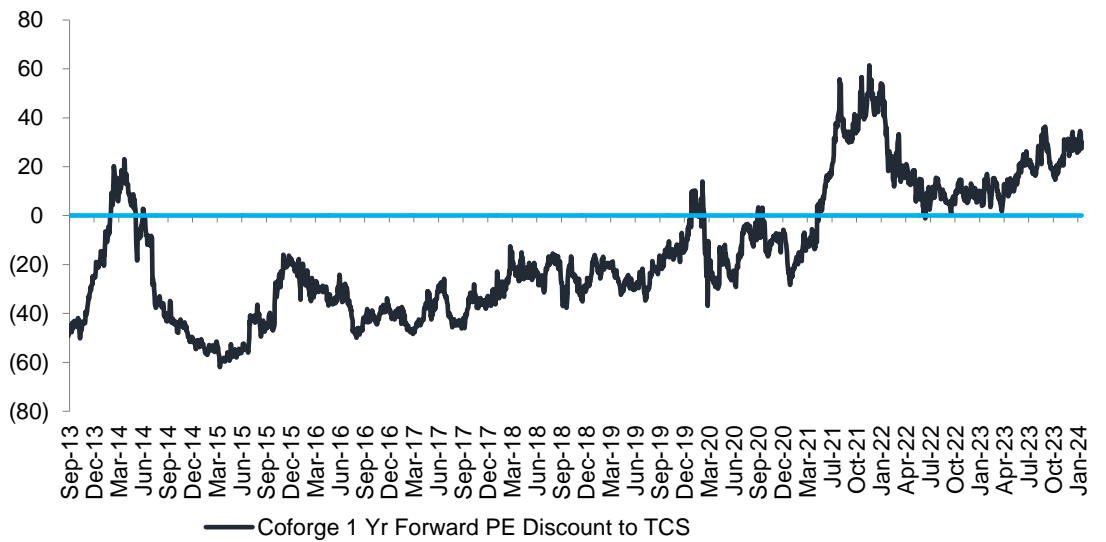
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: P/E charts



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 19: P/E (discount)/premium of Coforge to TCS



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 20: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Average INR/USD	74.2	80.0	82.6	83.7	86.3
Net sales (US\$m)	867	1,002	1,120	1,253	1,464
-Growth (%)	38.0%	15.6%	11.8%	11.9%	16.9%
Net Sales	64,32	80,146	91,904	104,85	126,37
-Growth (%)	37.9%	24.6%	14.7%	14.1%	20.5%
Direct cost	43,73	54,059	62,022	70,555	85,901
Gross Profit	20,58	26,087	29,882	34,302	40,471
Gross Margin	32.0%	32.5%	32.5%	32.7%	32.0%
SGA Expenses	8527	11438	13699	15158	17283
% of sales	13.3%	14.3%	14.9%	14.5%	13.7%
Acquisition Related Expenses	269	9	-	-	-
Cost of ESOPs	633	587	801	600	600
EBITDA	11,15	14,053	15,382	18,544	22,588
% of sales	17.3%	17.5%	16.7%	17.7%	17.9%
Depreciation & Amortisation	2272	2585	3167	3660	4411
% of sales	3.5%	3.2%	3.4%	3.5%	3.5%
EBIT	8883	11468	12215	14884	18176
% of sales	13.8%	14.3%	13.3%	14.2%	14.4%
Other income (net)	(266)	(630)	(879)	(778)	(399)
Exceptional Items	-	1,326	165	-	-
PBT	8,617	9,512	11,171	14,106	17,777
-PBT margin (%)	13.4%	11.9%	12.2%	13.5%	14.1%
Provision for tax	1,468	2,061	2,280	2,962	3,733
Effective tax rate (%)	17.0%	21.7%	20.4%	21.0%	21.0%
Net profit	7,149	7,451	8,891	11,144	14,044
Minority Interest & share of profit/(loss) of associate	530	513	281	240	240
Net reported profit	6,619	6,938	8,610	10,904	13,804
-Growth (%)	45.3%	24.9%	4.2%	26.6%	26.6%
-Net profit margin (%)	10.3%	8.7%	9.4%	10.4%	10.9%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	609	611	618	618	618
Reserves & surplus	26,722	30,214	36,165	41,520	48,541
Net worth	27,331	30,825	36,783	42,138	49,159
Minority Interest	983	874	937	937	937
Lease Liabilities	937	1,786	2,185	2,185	2,185
Provisions	1,047	1,276	1,460	1,460	1,460
Loans	3,780	3,773	9,229	7,229	5,229
Deferred tax liability	766	583	469	469	469
Other financial liabilities	2,908	324	717	1,217	1,717
Total liabilities	37,752	39,441	51,780	55,635	61,156
Net block	4,452	4,455	4,740	5,079	4,668
Right of use assets	1,476	2,365	2,830	3,030	3,230
Capital work-in-progress	86	46	68	68	68
Goodwill	10,708	11,665	11,815	11,815	11,815
Other intangible assets	4,113	4,634	4,572	5,072	4,572
Other financial assets	2,719	2,484	2,258	2,258	2,258
Other non-current assets	1,045	1,364	2,388	2,388	2,388
Investments	0	0	0	0	0
Debtors	13,894	16,131	16,146	18,677	23,122
Cash & bank balance	4,535	5,787	14,339	13,187	17,585
Other current assets	3,780	4,146	4,929	7,978	9,936
Total current assets	22,209	26,064	35,413	39,842	50,643
Total current liabilities	(11,792)	(17,393)	(17,576)	(19,190)	(23,758)
Deferred tax assets	2,736	3,757	5,272	5,272	5,272
Net current assets	13,153	12,428	23,109	25,924	32,157
Total assets	37,752	39,441	51,780	55,635	61,156

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
EBIT	9,152	11,477	12,215	14,884	18,176
(Inc./dec. in working capital)	(1,134)	2,998	(861)	(3,966)	(1,835)
Cash flow from operations	8,018	14,475	11,355	10,917	16,341
Other income (net)	(266)	(630)	(879)	(778)	(399)
Depreciation & amortisation	2,272	2,585	3,167	3,660	4,411
Tax paid	(1,468)	(2,061)	(2,280)	(2,962)	(3,733)
Dividends paid	3,176	3,907	4,423	5,549	6,782
Net cash from operations	11,732	18,276	15,786	16,387	23,402
Capital expenditure	13,513	6,391	6,392	7,530	6,730
Net cash after capex	(1,781)	11,885	9,394	8,857	16,672
Inc./(dec.) in debt	3,269	(7)	5,456	(2,000)	(2,000)
(Inc./dec. in investments)	(124)	0	0	0	0
Equity issue/ (buyback)	0	0	0	0	0
Cash from financial activities	674	(68)	(1,939)	(1,939)	(1,939)
Others	(2,480)	(10,564)	1,097	(8,069)	(10,336)
Opening cash	8,122	4,535	5,787	14,339	13,187
Closing cash	4,535	5,787	14,339	13,187	17,584
Change in cash	(3,587)	1,252	8,552	(1,152)	4,397

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Key ratios

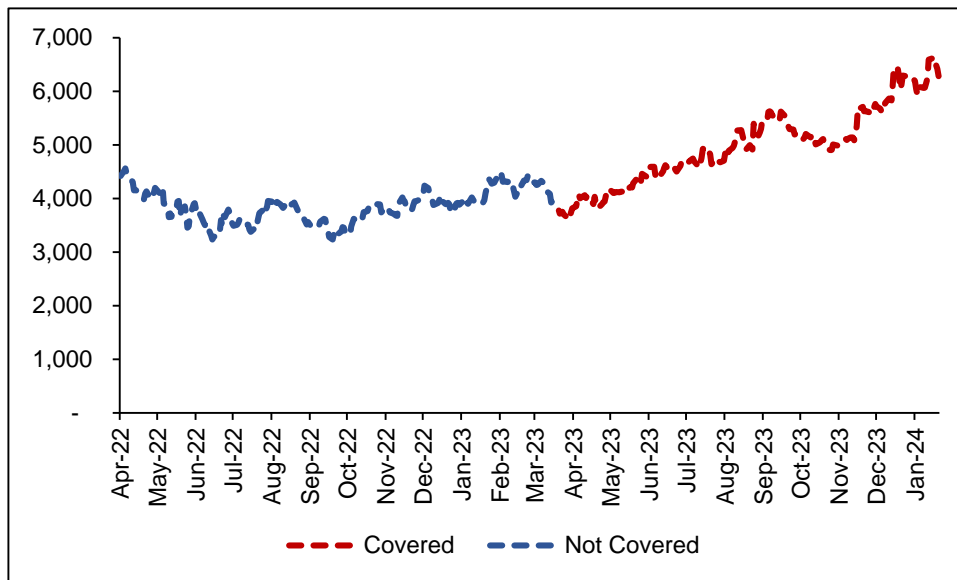
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per Share (Rs)					
EPS	109.0	113.8	140.0	176.8	223.9
FDEPS	109.0	113.8	140.0	176.8	223.9
Dividend Per Share	52.0	64.0	72.0	90.0	110.0
Dividend Yield (%)	0.8	1.0	1.1	1.4	1.8
Book Value	449	505	597	683	797
Dividend Payout Ratio (excl DT)	48.0	47.3	51.4	50.9	49.1
Return ratios (%)					
RoE	25.5	28.4	25.5	27.6	30.2
Post Tax RoCE	23.6	24.1	21.4	21.9	24.6
Post Tax ROIC	29.3	27.8	27.5	29.4	33.4
Turnover Ratios					
Asset Turnover Ratio	1.3	1.4	1.3	1.4	1.5
Debtor Days (incl. unbilled Rev)	79	73	64	65	67
Working Capital Cycle Days	33	13	15	27	28
Valuation ratios (x)					
PER	57.6	55.2	44.9	35.5	28.1
P/BV	14.0	12.5	10.5	9.2	7.9
EV/EBITDA	33.1	26.8	23.9	19.9	16.2
EV/Sales	5.9	4.7	4.0	3.5	2.9
Net Debt/Equity	14.5	13.0	10.9	9.4	8.0
M-cap/Sales	5.9	4.8	4.2	3.6	3.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
20 March 2023	Sell	3,901	3,171
27 April 2023	Sell	4,061	3,279
14 June 2023	Sell	4,506	3,281
20 June 2023	Sell	4,562	3,281
21 July 2023	Sell	4,820	3,581
26 September 2023	Sell	5,536	3,803
19 October 2023	Sell	5,092	3,689
15 December 2023	Sell	6,157	3,873
23 January 2024	Sell	6,283	3,818

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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