

## Coforge

BUY

Contender on a path of championship

## Summary

We initiate coverage on Coforge Ltd. with a BUY rating and a target price of Rs 4,356 (PE of 22 on FY25 EPS; PEG of 1x). The company's presence in niche sub verticals of BFS, Insurance & TTH, consistent deal wins, lower attrition and lower client concentration distinguishes it from peers. With the advent of new CEO, its performance has improved significantly registering revenue CAGR of 17% and 130 bps improvement in EBIT margin during FY18-FY22. In addition, based on 9 month executable order book over next 12 months i.e. US\$ 841 mn indicates a visibility of 20% revenue growth in next 12 months (based on historical trend). Company's ability to convert challenges to opportunities (as seen in TTH) will help in defending itself from the macro challenges. Considering this, we estimate revenue and profits to increase at 16% and 21% CAGR over FY23E-25E.

## Key Highlights and Investment Rationale

- **Strong near term outlook & revenues to double:** Coforge's order book has been growing at a CAGR of 23% resulting in revenue CAGR of 17% over FY18-FY22. The current order book indicates visibility of 20% revenue growth in FY24E. However, we have conservatively built 16% CAGR during FY23E-FY25E. Further, we expect Coforge to double its revenues (from US\$1 bn to US\$ 2 bn) in less than 5 years based on historical performance and robust tech spends.
- **200 bps margin improvement over 5 years:** Coforge has increased its offshore revenue share from 38% in FY21 to 44% in FY22. Going forward, with easing supply side challenges, pyramid and offshoring, we believe Coforge will record 74 bps improvement in EBITDA margin to 18.4% over FY23E-FY25E. Over the next 5 years, we expect Coforge to register at least 150-200 bps improvement in margins led by operating leverage.

**TP** 4,356  
**CMP** 3,638

Potential upside/downside +20%

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(14.9)	(6.1)	(17.7)
Rel to Sensex	(12.1)	(0.7)	(18.3)

## V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	135	164	198
Consensus	137	168	197
% difference	(1.5)	(2.4)	0.5

## Key Stock Data

Bloomberg / Reuters COFORGE IN /NITT.BO  
 Sector IT Services  
 Shares o/s (mn) 61  
 Market cap. (Rs mn) 222,213  
 3-m daily average value (Rs mn) 67.0  
 52-week high / low 4,604 / 3,210  
 Sensex / Nifty 57,654 / 16,986

## Shareholding Pattern (%)

Promoters	40.0
FII	21.3
DII	26.4
Public	12.3

## Financial snapshot

(Rs mn)

Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	46,628	64,320	79,828	93,468	109,341
Change (yoy, %)	11	38	24	17	17
EBITDA	7,865	11,154	14,118	17,007	20,142
Change (yoy, %)	9	42	27	20	18
EBITDA Margin(%)	16.9	17.3	17.7	18.2	18.4
Adj.PAT	4,916	6,618	8,378	10,164	12,307
EPS (Rs)	79	107	135	164	198
Change (yoy, %)	7.3	34.7	26.6	21	21
PE(x)	46.0	34.2	27.0	22	18
Dividend Yield (%)	0.6	1.4	1.7	2	3
PB (x)	9.2	8.3	7.1	6.1	5.2
RoE (%)	20.2	25.5	28.4	29	30
RoCE (%)	22.9	27.9	28	30	30

Source: IDBI Capital Research;

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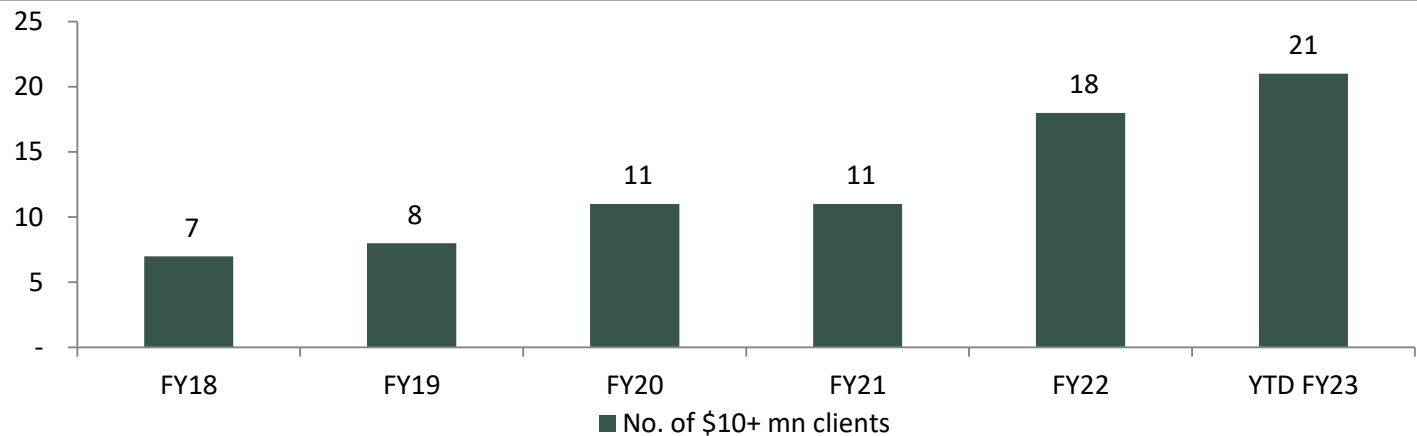
## Investment thesis

■ **Healthy uptick in new logo addition, client mining and addition of Fortune 1000 companies**

*Revenue from top 10 accounts grew at a CAGR of 11.4% during FY18-22 as compared to ~4% during*

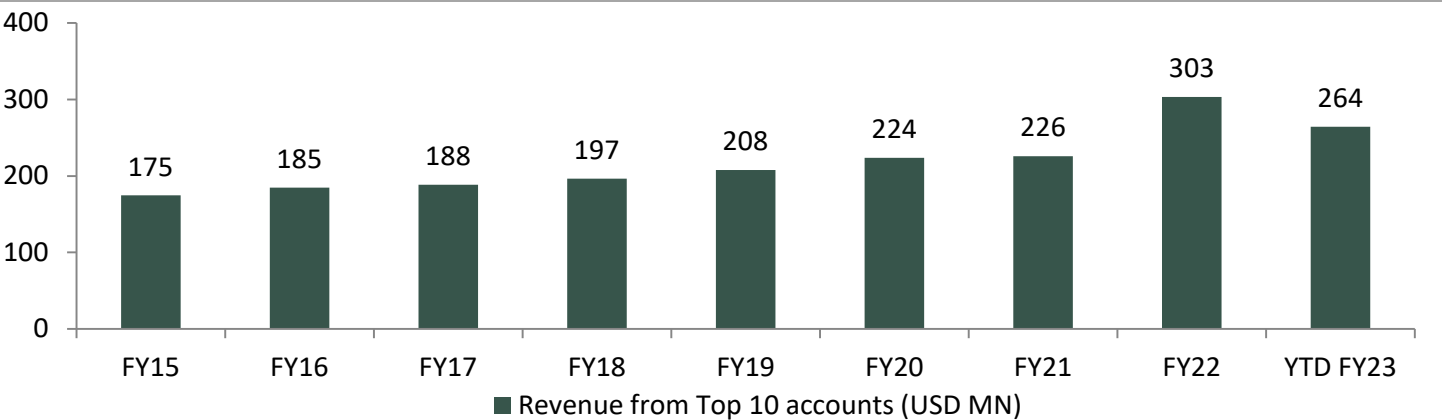
Since 2019, Coforge has invested in hiring senior personnel from Tier I firms with the aim to drive growth. Coforge also set out a policy of providing higher incentives (3.8x of previous compensation) to its sales staff for winning larger deals of TCV more than 20 mn US\$. These investments begun to pay off well in terms of robust new logo additions and client mining. The annual average new clients added during FY19 – FY22 stood at 43 as against 23 during FY15 – FY18. Also, the firm has seen healthy uptick in client mining as the revenue from its top 10 clients which grew at ~4% CAGR during FY15-FY18 recorded robust CAGR of ~11.4% during FY18-FY22. This signifies Coforge’s ability to strengthen client relationships and increase its wallet share.

**Exhibit 1: Consistent addition in \$10+ mn client size**



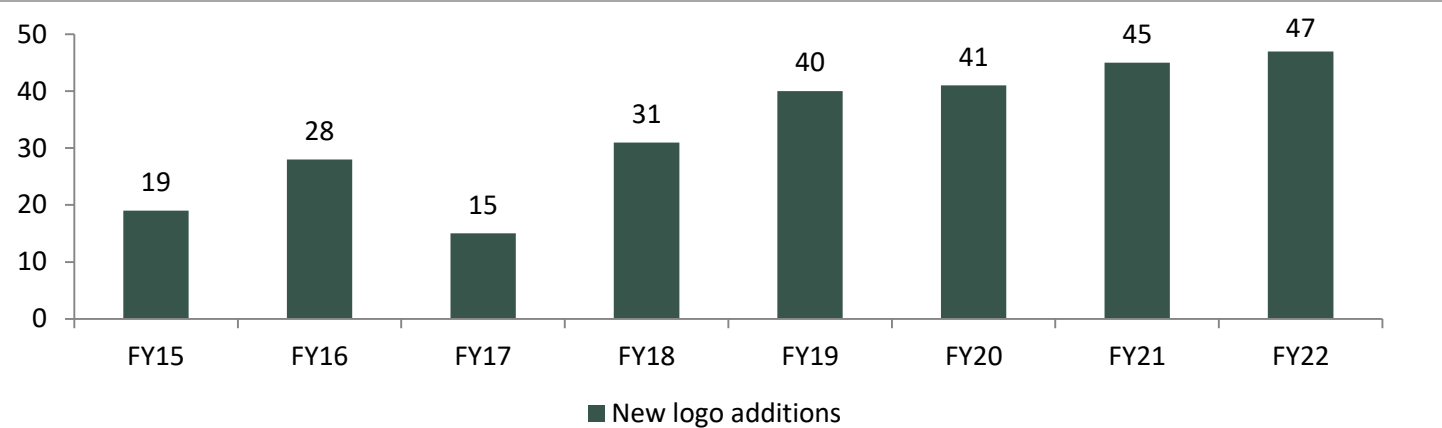
Source: Company, IDBI Capital

**Exhibit 2: Coforge’s focus on client mining has led to constant increase in revenue from top 10 clients**



Source: Company, IDBI Capital

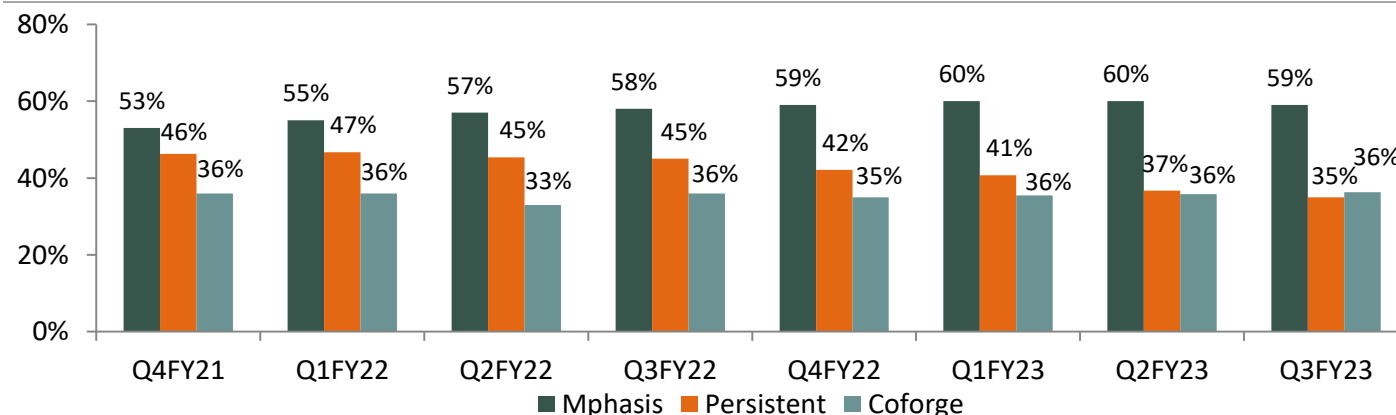
**Exhibit 3: Healthy uptick in new logo additions post FY17**



Source: Company, IDBI Capital

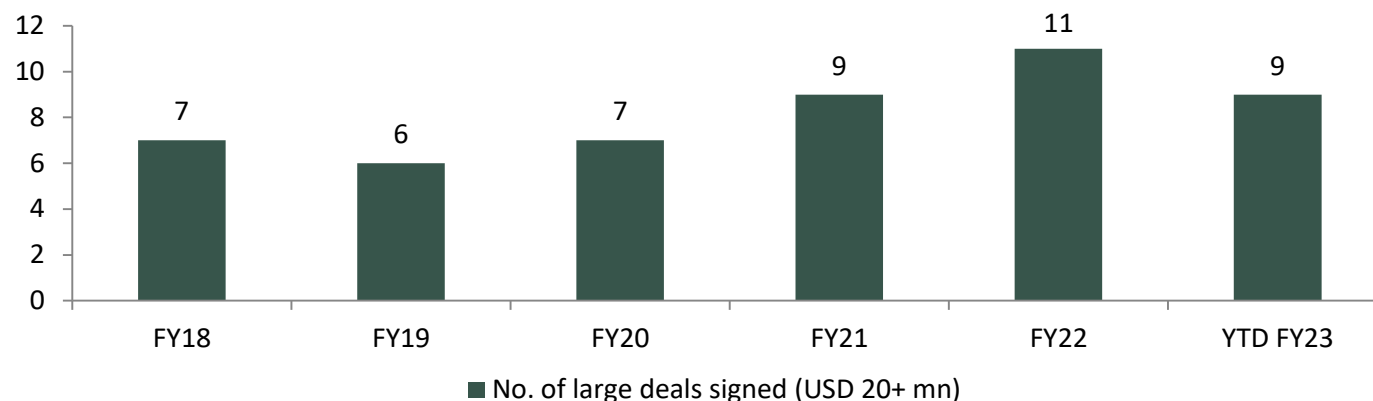
Compared to its peers, company has the lowest contribution from top 10 accounts at 36% of total revenues. This signifies that while Coforge has been able to grow revenue from top 10 accounts, it has also been able to de risk itself from excess dependence on these accounts.

**Exhibit 4: Coforge has one of the lowest contribution to revenue from top 10 accounts in the peer set**



Source: Company, IDBI Capital

The strategy of higher incentivisation has led to winning of 11 large deals in FY22 as against 7 deals in FY18. On a TTM basis, the large deal win as at the end of Q3FY23 stood at 13 on the back of 5 large deals being won in Q3FY23. These large deals usually have better margin profile owing to higher offshore revenue share. Thus, increase in large deals intake benefits the company in terms of both, expanding its revenue and margin. Consequently, the overall fresh order intake has grown from US\$ 507 mn in FY18 to US\$ 1.1 bn in FY22 recording a CAGR of 23%.

**Exhibit 5: Large deal win trend**

Source: Company, IDBI Capital

Coforge has also become empanelled as preferred tech partner across multiple Fortune 100 & Fortune 500 clients. In the past 5 years (FY18), Company has increased its count of Forbes Global 1000 clients from 15-16 to 60+ as of 31<sup>st</sup> March 2022. These strong partnerships open up various growth avenues for Coforge in the form of winning new deals and improved client mining opportunities.

Going forward, Coforge is expected to continue benefiting from cross selling opportunities leading to ongoing client mining. Also, with the sales team being incentivized better, we expect winning new logos to continue at a healthy pace.

Given the focus of management on winning larger deals and investment in sales team, Coforge is expected to continue with robust deal wins going forward resulting in topline and margin growth. We believe, new logo addition coupled with focus on client mining and adding Fortune 1000 companies are key growth drivers.

#### ■ Robust near term outlook...

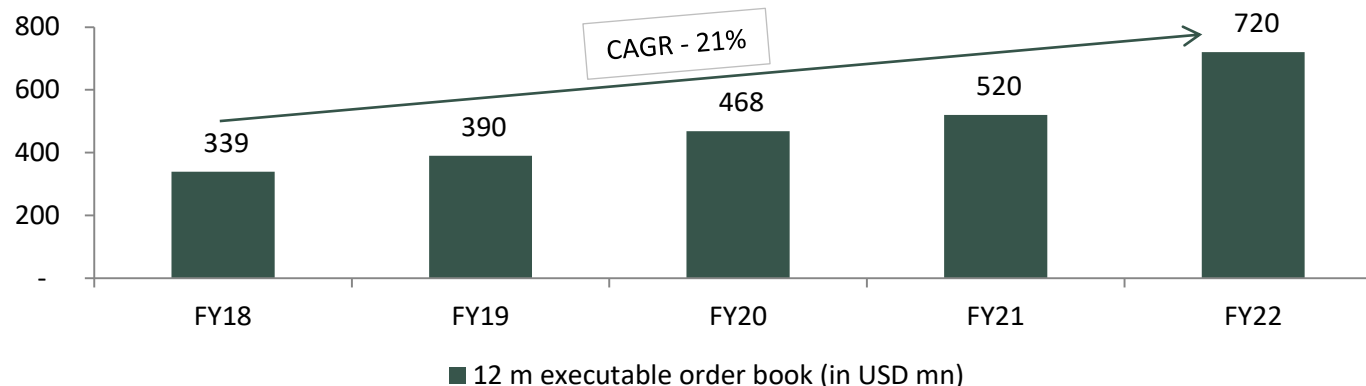
Coforge has consistently been able to close multiple large deals in the past few years. This not only adds to the topline of the company but also shows that it is being able to win the trust of clients and vendors resulting in Coforge being chosen as a preferred partner by various clients. Such partnerships ensure that Coforge enjoys an upper hand over its competitors while winning deals and also aids in adding new logos.

*During Q3FY23, Coforge received its highest ever fresh order worth \$345 mn. This provides healthy near term outlook.*

During Q3FY23, company closed 5 large deals and was able to bag fresh orders worth \$345 mn. This was its highest ever quarterly order bookings win. On TTM basis the order intake stood at \$1.26 bn at the end of Q3FY23. Such healthy order wins by Coforge gives us the confidence of strong near to medium term outlook for the company.

Management's focus on winning and closing large deals (usually greater than 2 years) at scale provides Coforge the push to chase more number of large deals. This is visible in its increasing size of 12 months executable order book. The 12 months executable order book which stood at US\$ 339 mn at the end of FY18 has grown at a strong CAGR of 21% to US\$ 720 mn at the end of FY22. In addition, company's 12 m executable order book at the end of Q3FY23 stood at record high of \$841 mn providing strong expected growth for the coming years.

Management has guided 22% growth in CC terms for FY23E which translates into a 3.5% CC growth for Q4FY23E. We believe, Coforge has levers like strong order book, ramping up of large deals and strong demand in insurance and TTH verticals which will aid in achieving the required growth in Q4FY23E. In addition, based on 9 month executable order book over next 12 months i.e 841 mn indicates a visibility of 20% growth in next 12 months (assumed based on historical trend). However, we have just assumed 14% growth for FY24E as a conservative estimate to factor in the deterioration in macro and banking crisis.

**Exhibit 6: Strong 12m executable order book**

Source: Company, IDBI Capital

*Strong partnership with vendors, large deal wins and cross sell opportunities provide strong long term outlook*

#### ■ ...Leading to strong long term outlook (US\$2 bn aspiration)

Apart from large deals the current macro-economic challenges provide cost take out opportunities in the form of vendor consolidation by clients. We believe, Coforge is well positioned to benefit from these vendor consolidation opportunities given its service offerings, partnerships with top vendors and strong customer relationships. Further, the recent acquisitions of SLK, Ruletek, Incessant and Wishworks provide Coforge various cross selling opportunities which will aid future growth. In FY18, Incessant and Ruletek which were previously acquired by Coforge contributed US\$ ~30 mn to total revenue. These acquisitions currently contribute US\$ ~80-90 mn to the overall revenue registering CAGR of ~27%-31%. Hence, acquisitions are key growth drivers in longer term revenue growth trajectory.

We believe, Coforge's strong partnership with vendors, focus on its three strong verticals BFS, insurance and transportation, improving presence in other verticals and undertaking of acquisitions will aid in achieving its aspiration of \$ 2bn revenue.

■ **Margins have improved historically and will improve in future as well**

Coforge has been successful in improving its EBIT margin despite the increase in cost due to supply side challenges, investments in senior level hires and inorganic growth. During FY18-FY22, EBIT margin improved by 130 bps from 12.5% to 13.8%. Company has been able to do this due to the following margin levers.

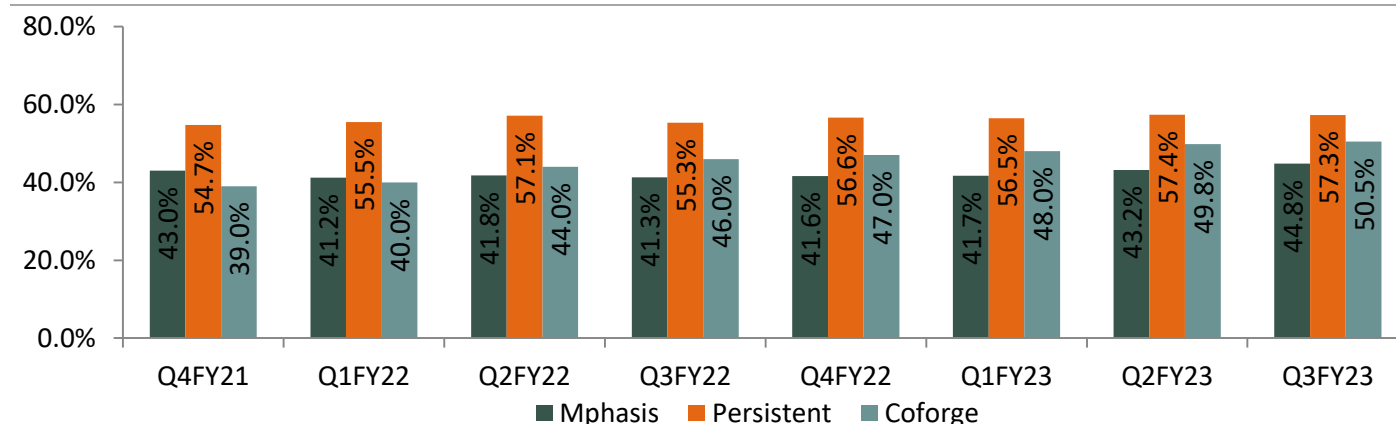
- 1) robust revenue growth (CAGR of 18% over FY18-FY22);
- 2) increasing offshore revenue (+500 bps during FY18-FY22);
- 3) uptick in utilization;
- 4) large deal wins (11 in FY22 v/s 7 in FY18);
- 5) flattening of pyramid; and
- 6) lower sub-contracting cost (at 10.2% of revenues, lower than peers)

Revenue for FY22 stood at US\$ 866.5 mn growing from 463.52 mn in FY18. This has resulted in company posting a healthy CAGR of 16.9%. With such healthy revenue growth, company benefits from operating leverage which results in better profitability. With a record high executable order book, we believe Coforge will further benefit from revenue growth going forward leading to margin expansion.

Higher offshore revenue results in lower cost of delivery thus leading to better margins. Coforge has been focused on increasing the share of offshore revenues in its total revenues as a part of its effort to improve margins. Management has been successful in convincing clients to outsource services to offshore locations like India which has led to increase in the share of offshore revenues from 39% of total revenues in FY18 to 50% in Q3FY23 which is the highest offshore revenue share ever recorded by the company. This has helped Coforge perform better than its peers by expanding its EBIT margin amidst supply side challenges.

While its competitors have managed to maintain the offshore revenue (%) in a narrow range, Coforge has been able to overtake one of its peer and close down the gap with another peer.



**Exhibit 7: Coforge has improved its offshore revenue % significantly**

Source: Company, IDBI Capital

Utilization levels show how well a company is able to utilize its resources. Higher levels of utilization indicate better and optimum use of resources leading to higher margin. Coforge has increased its utilization from 79.8% in FY21 to 80.30% in Q3FY23. We believe, going forward company should be able to operate close to the current utilization levels of ~80%.

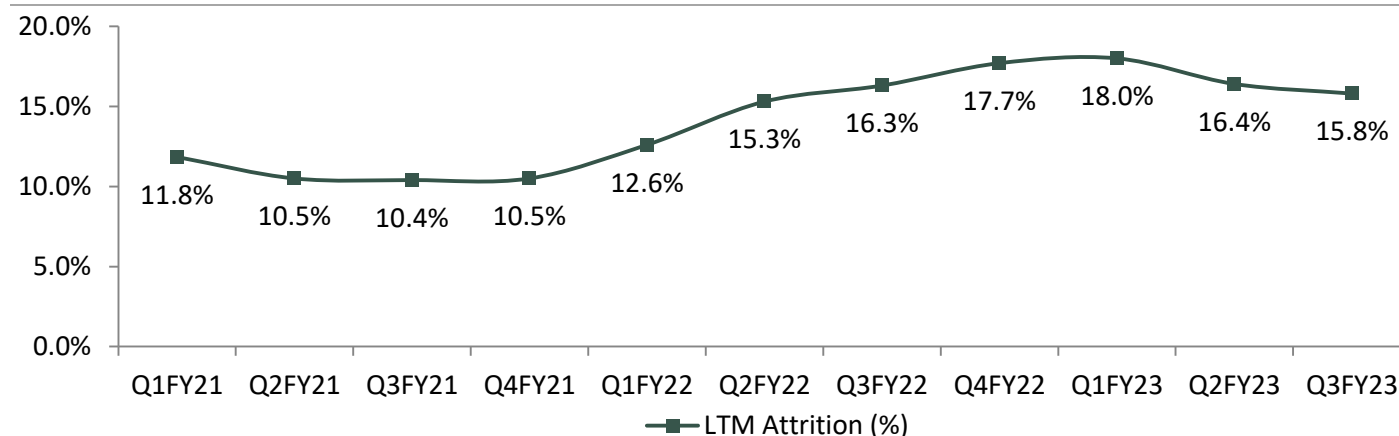
Flatter delivery pyramid helps organizations in improving margin as the fresh talent added to the workforce helps in improving the delivery at a fairly lower cost. During FY22, company hired 1,600 fresh talent which was 15.83% of its net additions during that year. As and when these resources become productive, they add to the revenue growth thus improving the margins.

Large deal wins provide the benefit of - 1) higher operating leverage and 2) higher offshore revenue. These lead to increase in revenue and better margins. Coforge has worked on improving the count of large deal wins and has hence seen a healthy rise in the large deal inflow during the last few years. In Q3FY23, company signed 5 large deals which was its highest ever in any quarter. As and when these large deals ramp up, company will see healthy improvement in revenues and margin.

During the past 2 years, IT sector saw a huge uptick in demand led by widespread Cloud adoption globally. This led to significant rise in the attrition rates as companies were in need of resources to fulfill the demand.

Attrition rates at Coforge increased from 11.2% in FY19 to 18% in Q1FY23. High attrition rates put the margins under pressure as the cost to replace the talent shoots up significantly. However, attrition rate are expected to shrink going ahead as the demand environment is normalizing. This can already be seen as the attrition rates have improved from 18% in Q1FY23 to 15.8% in Q3FY23. Going forward, as attrition levels further cool down and utilization level improve we expect margins to show healthy improvement.

#### Exhibit 8: Attrition levels have started to reduce from Q2FY23



Source: Company, IDBI Capital

Despite the robust demand leading to strong order bookings, Coforge has not only kept its sub-contracting costs under check, it has been able to keep it below its peers as well.

During the period FY18-FY22, its peers' sub-contracting costs averaged between 11.8%-12.8%, Coforge has been able to keep this at 7.9%. This has helped the Company record improvement in margins.

Given the various levers like reduction in attrition levels, strong revenue growth, absence of abnormal wage hikes and flatter pyramid we expect EBITDA margin to expand by 150-200 bps to ~19-19.5% in next 5 years (based on it achieving revenue of US\$2 bn).

In the near term, we have built EBITDA margin expansion of 74 bps over FY23E-FY25E.

*Coforge acquisitions has grown at a healthy pace of 18% over the past*

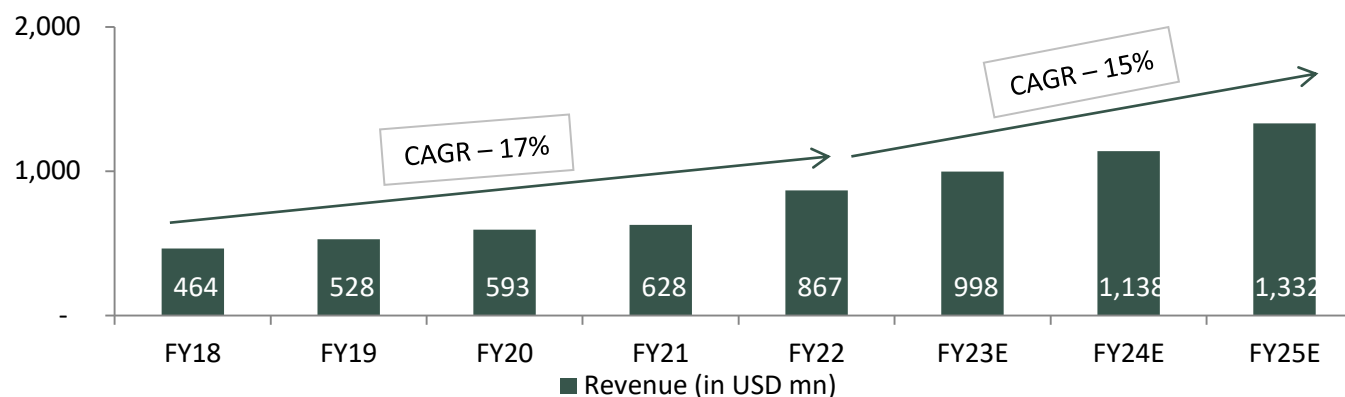
### ■ Inorganic growth to drive revenues

Coforge has acquired various entities with the goal of either expanding its service & product offerings (i.e capabilities) or to gain access to wider customer base & geography. Recent acquisitions of Incessant, Ruletek and Wishworks have strengthened Coforge's digital capabilities. These acquisitions provide it the capabilities to create powerful offerings in the digital integration space led by strong partnerships with Appian, Pega and Mulesoft. Also, acquisition of Ruletek has given Coforge the opportunity to expand its footprint in the North American market with access to Fortune 500 companies. Similarly, with the acquisition of SLK Global, Coforge now has the ability to provide BPM services to its Banking and Financial Services customers leading to cross selling opportunities.

We believe, company has begun capitalizing on cross selling opportunities as it now provides IT services to Fifth third Bank (which is one of the customers of SLK Global) apart from BPM services. In addition, Company has been able to successfully grow its revenue from the acquisitions made in the past few years. We believe, Ruletek and Incessant which at the time of acquisition contributed ~\$30 mn to the total revenues have scaled up to ~\$80-\$90 mn in a matter of ~6 years.

Further through its journey of achieving US\$ 2bn revenue we expect US\$ 100mn – US\$ 150 mn could be added via acquisitions.

**Exhibit 9: Coforge's revenue to grow at 15% CAGR over FY22-FY25E**



Source: Company, IDBI Capital

**Exhibit 10: List of acquisitions**

Acquired	Consideration (Rs mn)	Rationale
ROOMS Solutions Ltd	988.04	The acquisition of ROOM Solutions enhanced the insurance domain capability and competence of the Company and provided the access to the UK non-life insurance segment.
Softec GmbH	164.25	SofTec GmbH, provided Coforge the ability to provide IT solutions and services worldwide in the airline revenue accounting and operations space. This acquisition strengthened the company's leadership position in the Travel, Transportation and Logistics space.
Proyecta Sistemas de Información S.A	338.99	This acquisition enabled Coforge to enhance its European footprint with Proyecta's successful experience in servicing industry leaders in the Travel and Financial Services segments. Also, it provided a gateway to the traditional Spanish speaking countries in Latin America.
Incessant Technologies	4,701.37	Company made its foray into the high opportunity area of Digital Integration by acquiring Incessant Technologies. Incessant enjoys strong alliance partnerships with leading platform providers like Pegasystems and Appian. This acquisition provided Coforge with the capability to be a significant player in the Digital Integration space and also enabled the Company to reinforce its position in the BSFI vertical across geographies including North America, Europe, and Australia
Ruletek	1,965.00	Acquired RuleTek, a BPM architecture services company with a track record of successful implementations for Fortune 500 companies. This transaction further strengthened the Company's Digital Integration capabilities, expanded its footprint in the high-opportunity North American market and added near-shore capabilities to its existing delivery model.
Wishworks	2,912.00	With the acquisition of WHISHWORKS, a MuleSoft® and Big Data specialist, the company will strengthen digital capabilities, complement existing transformation competencies, and create a powerful offerings combination in the Digital Integration space.
SLK Global Solutions	9,183.21	Coforge's 60% stake in this company enables it to further strengthen the financial services vertical and scale up its BPM operations.

*Coforge has strong presence in 3 verticals - TTH, BFS & Insurance which form 19%, 25% & 28% of total revenues respectively.*

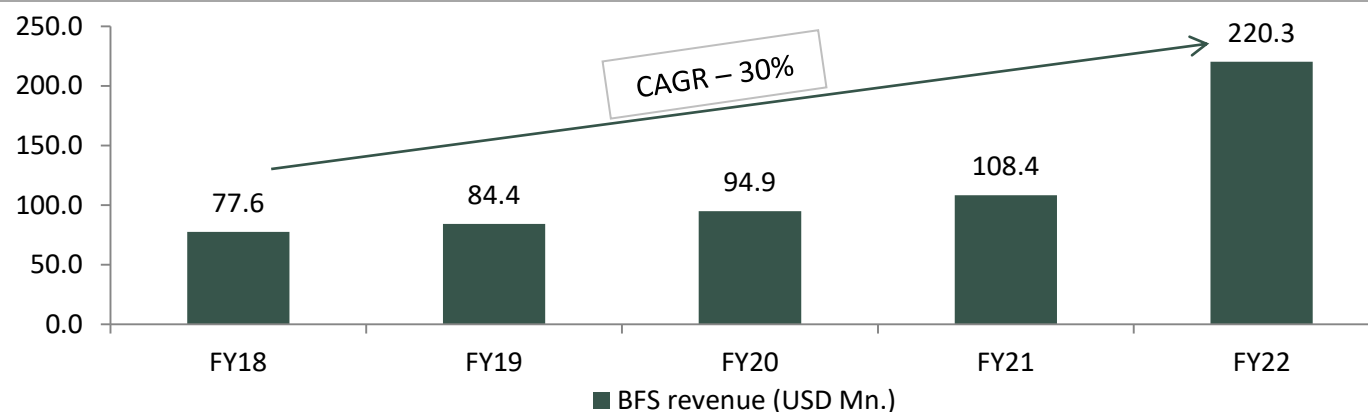
### ■ Strong presence in niche segments

Coforge has strong presence in select industry verticals and their sub segments. In terms of industry the company has presence in select few industries like BFS, Insurance and Travel & Hospitality (TTH). In addition, the company has further dwelled into select few sub verticals for example in BFS its presence is limited to Wealth/Asset management, Risk/Compliance in BFS and as far as Insurance is concerned the company's presence is limited to Life, Non-Life, Commercial/Speciality. In terms of TTH it has presence only in Airlines, Travel Tech, Airports, Surface Transport & Hospitality.

#### **BFS Vertical**

The company generates 25% of its revenues from BFS vertical. During the period FY18-22, this vertical led the overall growth of the company by growing at a CAGR of ~30% (highest among all the verticals) while the total revenues recorded ~16% CAGR. Investment in digital transformation, innovation and compliance have been the key growth drivers. Coforge has been helping its clients in improving operational efficiencies, user experience and is also providing digital transformation services. Company's excellent track record of delivery has led to strong partnership with banks globally. Coforge has been selected as preferred service provider for 2 of the world's top 10 banks.

The company's partnerships with top global banks provide an edge over others in winning deals. Company has been registering consistent large deal wins in this industry (4 out of the 9 large deals signed YTD FY23 came from this vertical) which provides comfort for future growth. We believe that ramp up in these large deals will provide growth opportunities in the near term. In addition, we believe the acquisition of SLK Global which has significant exposure to the BFS vertical will provide further opportunities in the form of cross selling and increasing the contribution of this vertical to the total revenue. In addition, we believe the company's mortgage segment of SLK global (25% of SLK's revenues) has bottomed out and may not be a drag in future. Further, the recent clarification by the company that the recent turmoil in regional banks of US has limited impact on company's financials bodes well for longer term growth in the vertical.

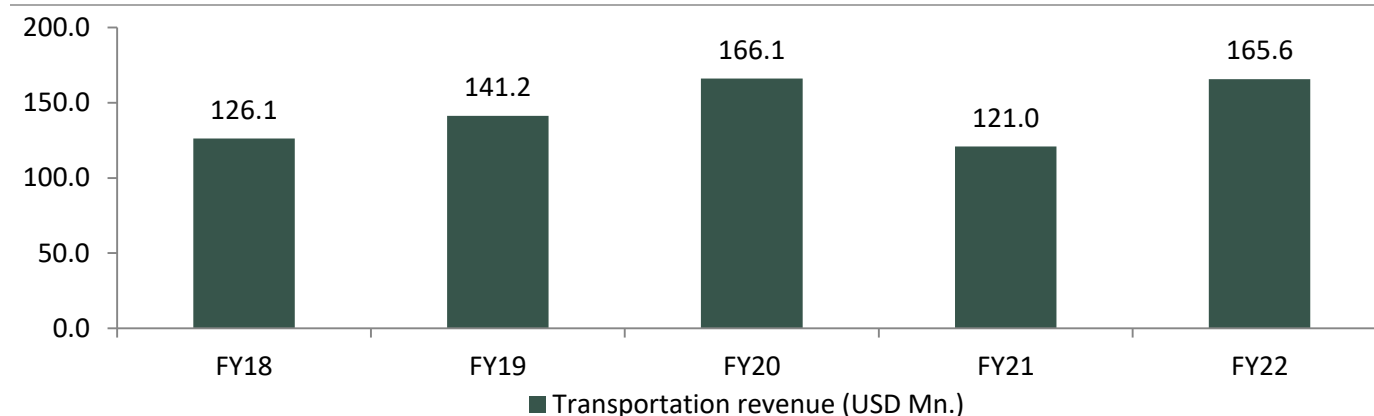
**Exhibit 11: BFS vertical has grown at a CAGR of 30% over FY18-FY22 including acquisitions**

Source: Company, IDBI Capital

### TTH Vertical

Covid had an immense impact on performance of the travel vertical. Revenue from this vertical reduced from \$166 mn in FY20 to \$121 mn in FY21 which was its historical low. In FY22, Coforge was able to bounce back from the lows and bring the revenue to the pre covid levels of \$166 mn mainly led by client mining and benefitting from vendor consolidation during Covid. This vertical currently forms 19% of total revenue and continues to observe healthy traction. This can be seen in the fact that as at the end of Q3FY23, the TTM revenue from travel vertical stood at the highest levels ever of \$189 mn. In Q3FY23, Coforge partnered with one of the global airlines to improve their customer experience when using kiosks. Company has rolled out this kiosk platform for 25+ airports and is planning the roll out for another 20 airports.

In order to capture the future growth, company has entered into partnerships with various airports and airlines globally to improve their operational efficiencies and user experience. Going forward, we expect TTH vertical to be a key growth driver given rapid adoption of cloud, touch-less travel, cyber security and virtual reality.

**Exhibit 12: TTH vertical remains robust during volatile environment, recorded CAGR of 7% during FY18-FY22**

Source: Company, IDBI Capital

### Insurance Vertical

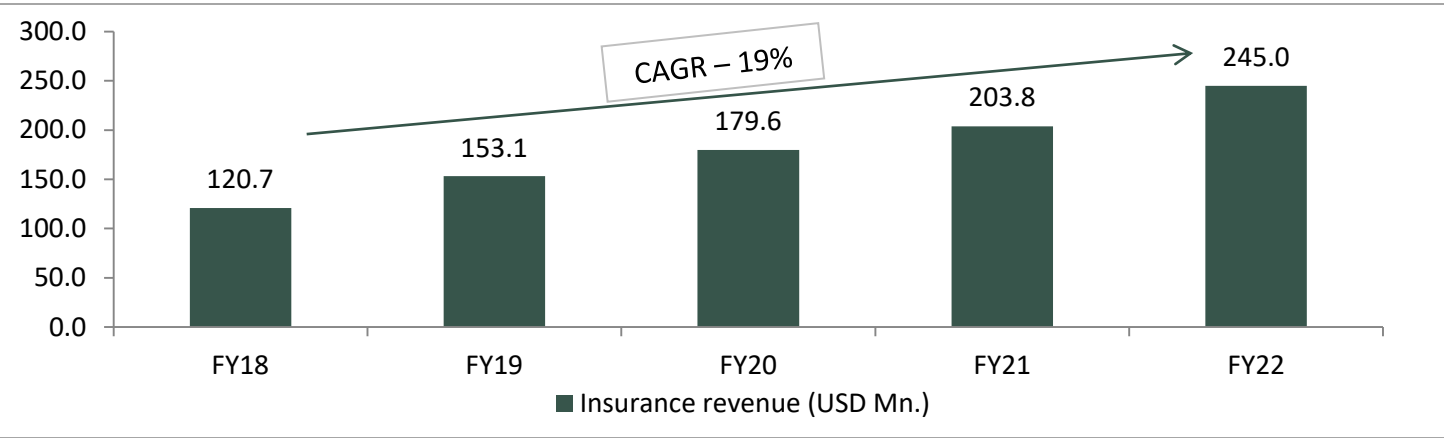
In the Insurance vertical, on the products front, Coforge's AdvantageGo product has been a key differentiating factor. Around 25%-30% of the volumes on the world's largest insurance and re-insurance marketplace, Lloyd's of London run on the AdvantageGo platform built by Coforge. On the services front, Coforge has built expertise around Insurance platforms like Duck Creek, Guidewire and Vantage through which it predominantly serves its American clients. In addition, company has been empaneled as preferred service provider of 10 global insurance companies which are a part of the Fortune 500 list. Further, company has over 700 Subject Matter Experts (SMEs) dedicated to its insurance vertical who provide full cycle services to clients. With the presence of differentiated product, sizeable team of SMEs and strong partnerships, Insurance vertical which contributes ~28% of the total revenue is expected to see healthy traction.

During Q3FY23, Coforge roped in Ian Summers who was the CEO of Sequel, the biggest competitor of AdvantageGo in the Lloyd's of London marketplace. This appointment will give Coforge the ability to further expand its presence in Lloyd's, USA and Bermuda. Also, the Insurance vertical has seen consistent inflow and execution of large deals. During Q3FY23, company signed 2 large deals in this vertical out of which a \$50+ mn

TCV deal was signed with a specialty insurance carrier to support its core systems upgrade as well as servicing and building capabilities in newer areas of operations.

Coforge has been able to cross sell the BPM services it acquired through SLK Global to the insurance clients and remains positive of further cross sell opportunities. This coupled with recent large deal wins provide robust growth outlook.

**Exhibit 13: Insurance vertical grew at a CAGR of 19% over FY18-FY22**



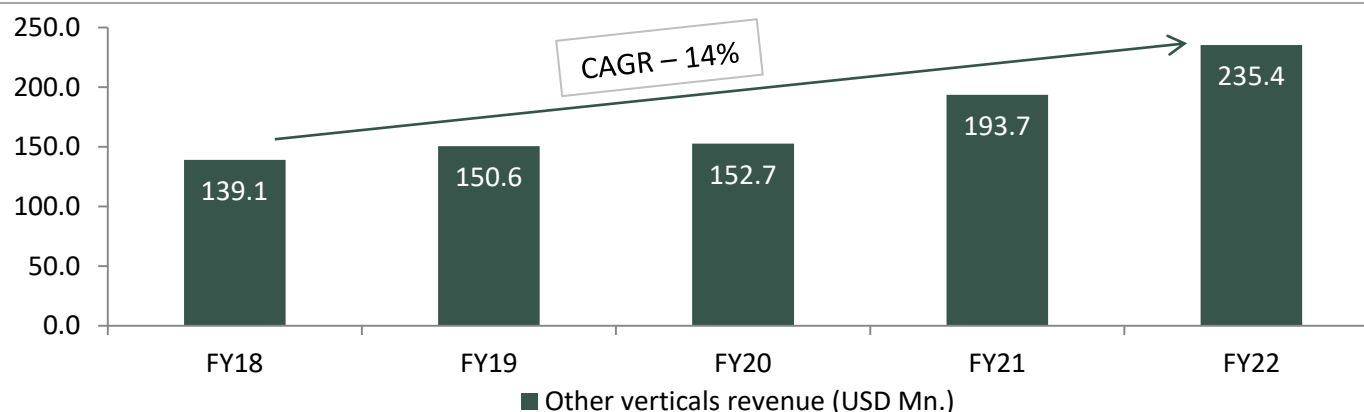
Source: Company, IDBI Capital



## Other Verticals

Amongst the other verticals, Retail & Healthcare and Public Sector (outside India) contribute ~8% and ~7% of total revenues. Company has been winning deals in this space and pipeline remains robust as digital process automation services are seeing increased uptick in demand. In the Retail vertical, Coforge has been working with world's largest retailers and the relationship has significantly ramped up. These verticals have a very healthy outlook and will be the future growth drivers given the increased investment by these industries in user experience, cloud transformation, data integration and AI to mention few. Company possesses deep understanding of these industries and has increased its investments in sales & pre sales of these verticals. This places the company in a differentiated position.

**Exhibit 14: Revenue from other verticals grew at a CAGR of 14% during FY18-FY22**



Source: Company, IDBI Capital

## ■ Products, platform and partnership to aid topline growth

*Coforge has various high margin products which will aid in margin expansion going forward.*

Company has various products like AdvantageGo, Subscribe, Monalisa, etc through which it derives product revenue. Revenue from sale of products proves to be beneficial as these provide better margins and revenue visibility. We believe, Coforge has been able to make margins close to 25% by sale of its products which is significantly higher than the 17.3% EBITDA margin made by the Company during FY22. In addition, Coforge

enjoys strong partnerships with vendors like ServiceNow, Appian, Pega, AWS, Google Cloud to mention a few. These partnerships help the company in improving its visibility and winning more number of deals.

Management's focus on increasing products and IP based revenue coupled with strong partnerships will lead to the overall topline growth in the longer term and also act as a margin tailwind.

#### Exhibit 15: Partnerships with leading industry players across key sectors

Sector	Vendor Partners
BFS	Microsoft Azure, Innoveo, Mulesoft
Insurance	PEGA, Salesforce, Duck Creek, Innoveo
TTH	Salesforce, Artificial Solutions, Sitecore, PEGA, AWS

Source: Company, IDBI Capital

#### Exhibit 16: Coforge is well recognized by its partners

Partner	Awards and Recognitions	Remarks
Duck Creek	Duck Creek Technologies 2022 Innovation Award	Coforge demonstrated innovative concepts that should be helpful in reducing the effort, time, and cost to move into Duck Creek OnDemand.
PEGA	Innovation in Customer Service & Sustainability	Coforge delivered impactful business value for a large government agency using its Pega-built solution to support Covid relief efforts for its citizens.
MuleSoft	JAPAC breakthrough partner of the year	The Salesforce Business Unit of Coforge was awarded for its excellence in enabling customers to accelerate their digital transformation initiatives in the JAPAC region.
PEGA	Global Elite Partner Distinction	Coforge has been a Pega partner for over 12 years, providing Pega implementation, delivery and testing services across Americas, Asia Pacific, EMEA and India.

Source: Company, IDBI Capital

**Exhibit 17: Coforge is well recognized by the industry analysts**

Analyst	Area	Ranking
Everest Group	Salesforce Services in Insurance PEAK Matrix Assessment	Major Contender
NelsonHall	Low Code Application	Leader
Zinnov Zones	Travel & Hospitality and Small & Medium Service Providers	Leader
NelsonHall NEAT	Cloud Infrastructure Brokerage, Orchestration and Management Services	Leader
Novarica	Intelligent Text Ingestion for Insurers	Prominent Provider
Forrester Research	Agile Software Development Services	Leader

Source: Company, IDBI Capital

**Exhibit 18: List of prominent platforms/products**

Platform/Product name	Description
Hyper Intelligence Platform	Helps in removing data silos and create a seamlessly connected ecosystem that allows instant access to information and drives new, data-driven insights. A comprehensive intelligent data platform built on microservices, API and AI can help unleash the competitiveness and differentiation in the market.
Data Xpress Toolkit	Data Xpress Toolkit enables the acceleration of journey to modernization and Analytics.
MuleSoft Migration Toolkit	MuleSoft Migration Toolkit accelerates migration to MuleSoft at rapid pace. This toolkit accelerates time-to-value through reusability, modularity and collaboration while increasing agility and flexible architecture that evolves as the business.
AIOPS Platform	Advanced hyper-automation AI OPS platform (an integrated programmable platform) services to realize current trends, optimization and transformation avenues while balancing performance, availability, and resilience for clients.
Intelligent Process Automation Platform	Leverages COTS and open-source technologies to help mine, automate and standardize processes.
Quasar	“Quasar”, Coforge's proprietary knowledge graph platform provides data and analytics services. It enables the ingestion, preprocessing, processing and decisioning from unstructured to structured data, utilizing micro-services, API and AI.
Trade Finance	This platform fuses Blockchain's best technological advancement with Coforge's extensive domain expertise to ease its' inherent challenges and help clients digitally transform their businesses. Instant issuance of letter of credit, bank guarantees, and other payment methods reduce the delays in payments, whereas instant tracking of shipment status saves time and cost.
A Blockchain & IoT-based cold supply chain solution	provides real-time tracking of temperature, humidity, and other parameters. It ensures the safety and quality of goods, thereby improving confidence in products and the brand.
Advantage Go	This is Coforge's key differentiating product for the insurers. This provides clients with next-generation commercial reinsurance management solutions.
Monalisa	This is a next gen Airline Accounting system. Monalisa ensures compliance with International Air Transport Association's Simplified Interline Settlement (SIS) and American Clearance House, offers seamless integration with legacy systems, effective management, processing, reporting, and audit of sales data, etc.
COSYS+	COSYS+ is the most comprehensive and complete Cargo Terminal Handling & Management System that has been developed to support the operations of air cargo. The solution also allows Cargo Terminal Operators to leverage on SATS network and connectivity to offer best-in class Cargo Handling services.

Source: Company, IDBI Capital

*The CEO, Mr. Sudhir Singh has focused on winning large deals and expanding presence in the focused verticals*

### ■ History of strong growth

Mr. Sudhir Singh was appointed as the CEO in 2018. He embarked on the strategy 'Transform at the Intersect'. This strategy focused on three priorities –

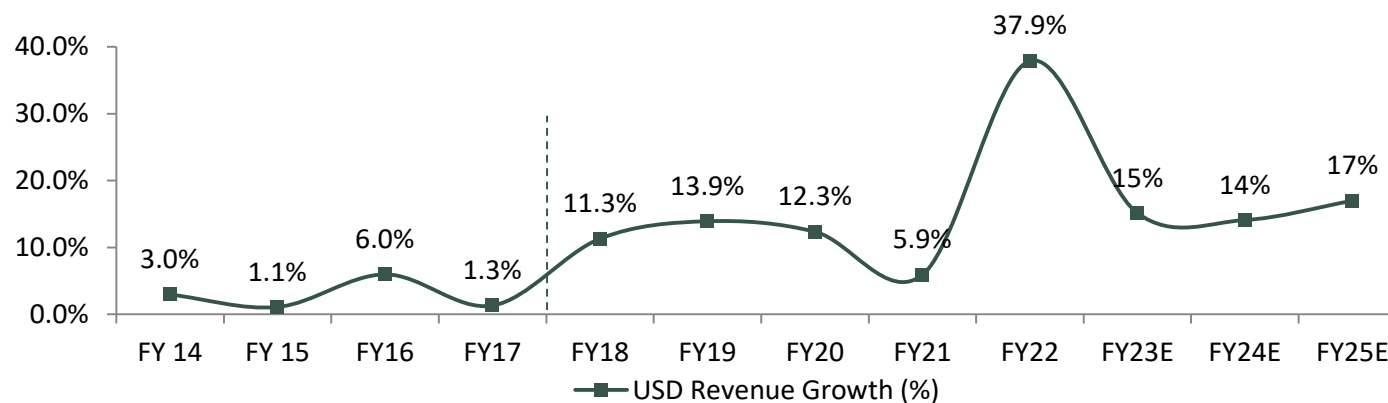
- 1) Innovate – use emerging technologies to drive transformation
- 2) Incubate – focus on 'API fication' and 'Cloud ification' to drive superior experience
- 3) Industrialize – create real world business impact through intelligent automation

This strategy helped Coforge in delivering better services to its clients and build strong relationships.

The new CEO came in with a focus on execution and brought the much required aggression. He focused on providing higher incentives to the sales team and attracting senior level talent from Tier 1 companies which helped in winning large deals.

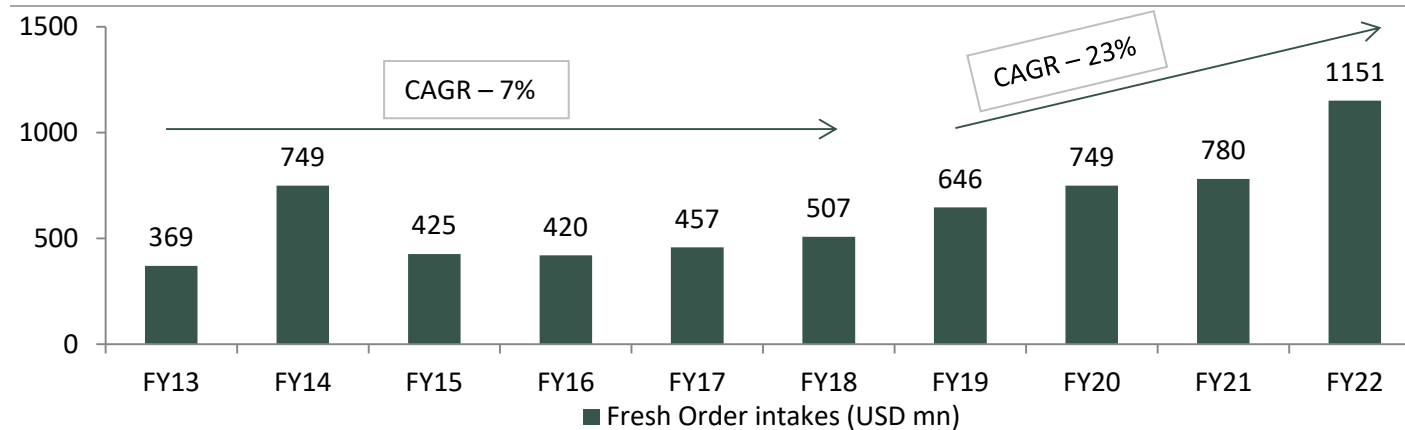
The investment made by the CEO in sales and delivery resulted in a comprehensive growth. This can be seen in uptick in revenue growth (CAGR of 17% over FY18-FY22), order intake (CAGR of 23% over FY18-FY22), margins (130 bps improvement in EBIT margin over FY18-FY22), repeat business (175 bps improvement over FY18-FY22) and offshore revenue (500 bps improvement over FY18-FY22).

Prior to the appointment of the new CEO, US\$ revenue growth used to be in the range of lower to mid single digit. However, post the appointment of the new CEO, Coforge has been able to consistently record double digit growth in US\$ revenue as shown in the graph below.

**Exhibit 19: Significant improvement in revenue growth post new CEO appointment**

Source: Company, IDBI Capital

Average fresh order intake during the period FY13-FY18 stood at US\$ 488 mn with CAGR of 7%. However, during FY18-FY22, this has significantly increased to 832 mn recording CAGR of 23% with order book crossing US\$ 1bn for the first time in FY22.

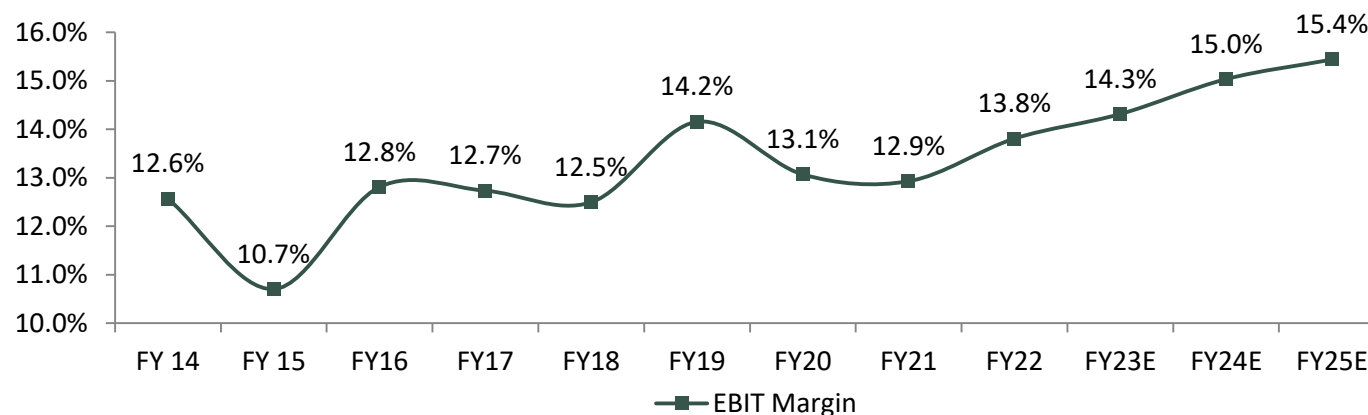
**Exhibit 20: Robust uptick in order intake post the appointment of new CEO**

Source: Company, IDBI Capital

Despite undertaking significant acquisitions and providing increased wage hikes to the employees due to challenging supply side environment, Coforge was able to increase its EBIT margin by 130 bps from 12.5% in FY18 to 13.8% in FY22. One of the key reasons for this healthy margin expansion was the rise in the large deal wins which provide better margin profile owing to higher share of offshore revenue.

We believe Coforge will further improve its margin profile going forward led by ramp up in large deals, reduced attrition levels and flatter pyramid. We expect the company to achieve EBIT margin of 14.3% in FY23E which will further increase to 15.4% in FY25E

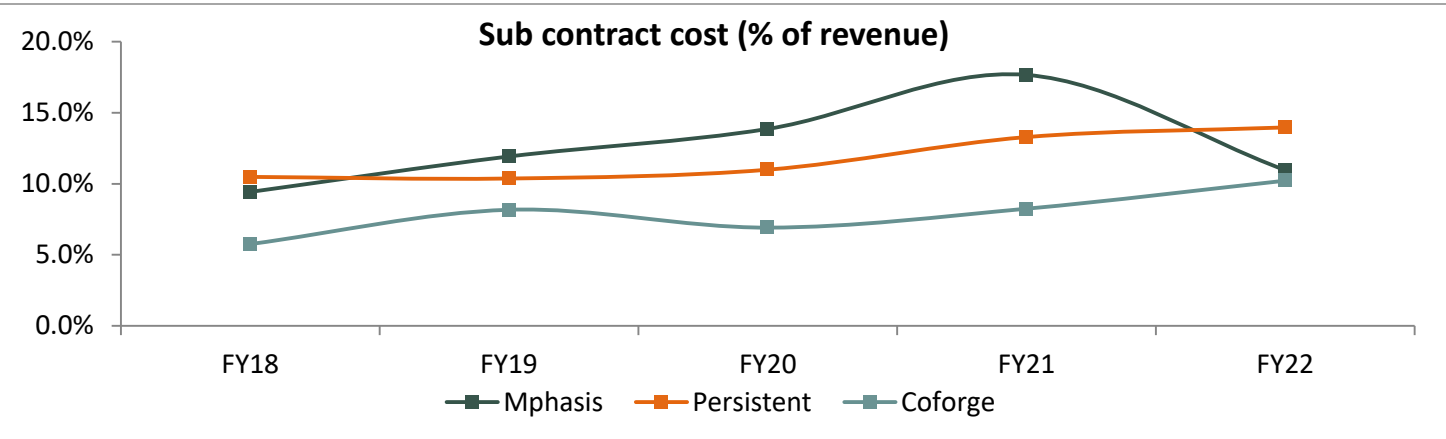
**Exhibit 21: 130 bps improvement in EBIT margin since FY18; Margins to reach 15.4% by FY25E**



Source: Company, IDBI Capital

One of the areas which have been of prime focus of Coforge is to proactively find problems faced by clients and provide solutions. This has led to winning of many larger deals and has also resulted in stronger relationship which eventually led to higher repeat business. In FY18, 91.75% of Coforge's business was in the form of repeat business. This metric has grown to 93.5% in FY22. As at the end of Q3FY23, 94% of the TTM revenue was in the form of repeat business.

Exhibit 22: Lowest sub-contracting costs among peers



Source: Company, IDBI Capital



## Valuation

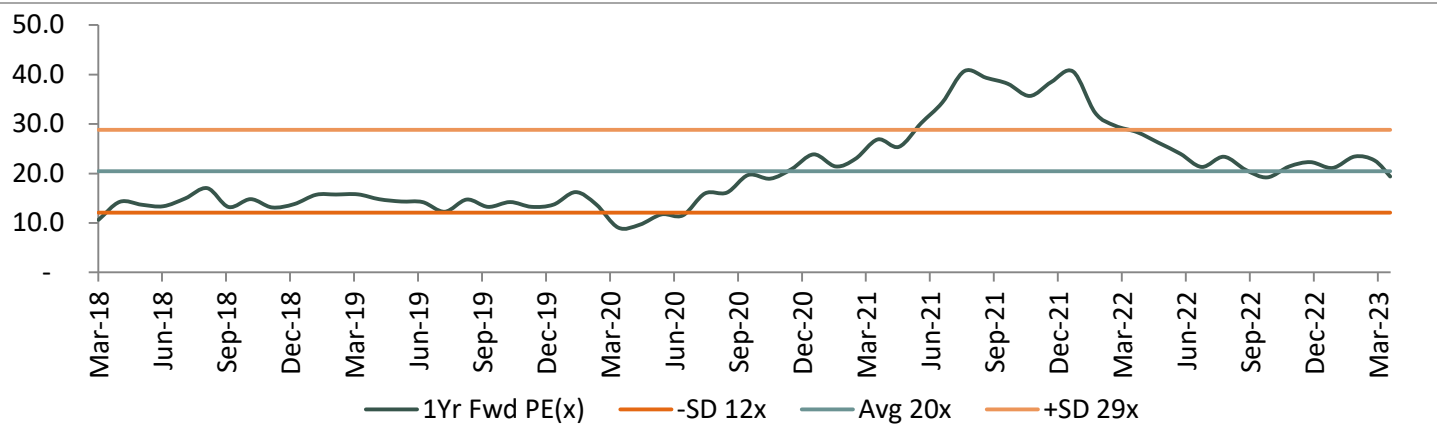
At CMP of Rs 3639, the stock is trading at P/E of 34x FY22 EPS. We believe the company is well poised to grow its revenues & PAT at a CAGR 16% & 21% over FY23E-FY25E mainly led by ramp up in large deals, new account additions, client mining, large deal wins, flatter pyramid, inorganic growth and reduced attrition levels. In addition the company's significant presence in TTH vertical will enable the company to defend any macro uncertainty in the near term. Hence, we initiate coverage on the stock with a target price of Rs. 4,356 per share (PE of 22x on FY25E EPS).

**Exhibit 23: Revenue, PAT and margin comparison with peers**

Company Name	Revenue (Rs Mn.)					PAT (Rs Mn.)					PAT margin			
	FY22	FY23E	FY24E	FY25E	CAGR (FY23E-25E)	FY22	FY23E	FY24E	FY25E	CAGR (FY23E-25E)	FY22	FY23E	FY24E	FY25E
Mphasis	119,614	140,502	154,881	173,454	11%	14,309	16,652	18,843	21,300	13%	12.0%	11.9%	12.2%	12.3%
Persistent	57,107	83,203	98,199	114,219	17%	6,904	9,567	11,843	14,157	22%	12.1%	11.5%	12.1%	12.4%
<b>Average</b>	<b>88,361</b>	<b>111,853</b>	<b>126,540</b>	<b>143,837</b>	<b>13%</b>	<b>10,606</b>	<b>13,110</b>	<b>15,343</b>	<b>17,729</b>	<b>16%</b>	<b>12.0%</b>	<b>11.7%</b>	<b>12.1%</b>	<b>12.3%</b>
<b>Coforge</b>	<b>64,320</b>	<b>79,828</b>	<b>93,468</b>	<b>109,341</b>	<b>17%</b>	<b>6,618</b>	<b>8,378</b>	<b>10,164</b>	<b>12,307</b>	<b>21%</b>	<b>10.3%</b>	<b>10.5%</b>	<b>10.9%</b>	<b>11.3%</b>

Source: Company, Bloomberg, IDBI Capital

Exhibit 24: One-year forward PER trend



Source: Bloomberg, IDBI Capital

## Industry overview

### Digital transformation to be led by cloud

We believe we are in the first phase of a multi-year technology transformation phase. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure, scalable digital core. In subsequent phases, enterprises will see new age technologies like artificial intelligence, augmented reality, virtual reality, data analytics and Internet of Things (IOT) to be developed around cloud leading to a multi-year technology spends. In the next four to five years every major company is expected to migrate to cloud and use of Artificial Intelligence (AI) is at a very nascent stage. In the last phase, there will be emergence of new business models and leverage of technology to drive growth in ancillary business. This, coupled with vendor consolidation opportunities, acquisition of captives and offshoring & automation (for cost take out deals) could lead to double digit revenue growth for IT companies in the longer term.

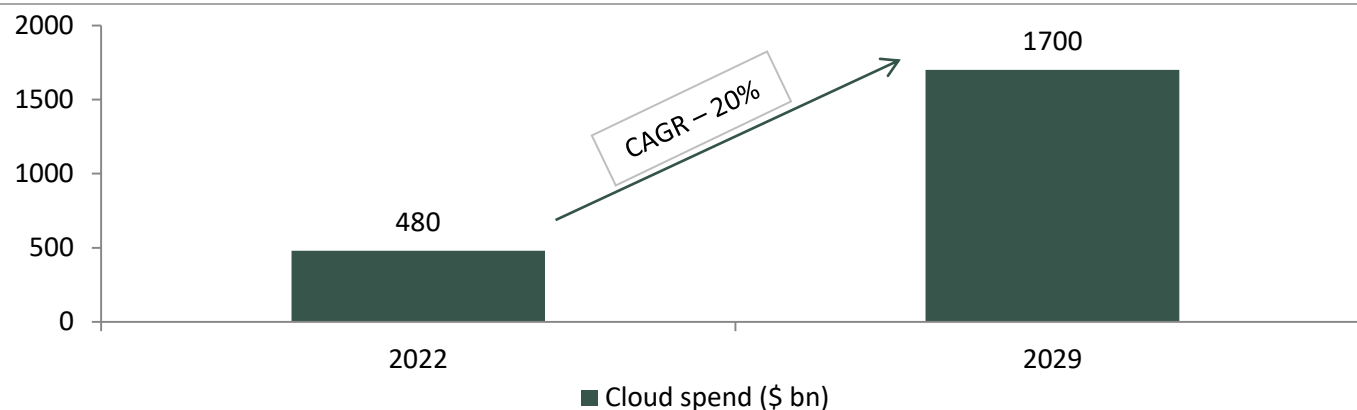
### Some of the key emerging trends of digital are as follows

- **Infrastructure modernisation:** The adoption of cloud has accelerated due to Covid 19 crisis. E-commerce, virtual collaboration requirements, shift from capex to opex, flexibility and ability to scale IT operations has led to increasing spend by enterprise on cloud adoption.
- **Virtualisation of work:** The balancing of work from home and office has led to hybrid work environments. This has led to more spending on systems and tools for virtual communication and collaboration.
- **Contactless customer experience:** The demand for transaction via App or contactless experience is expected to continue even after the pandemic. Investment in technology as enablers for the new digital business model is therefore expected to improve in coming years.
- **Operational efficiency:** Data is becoming very important for forecasting demand, optimizing supply chains, maximizing ROI from promotional spending, predicting fraud and machine failures. Hence, analytics and automation are gaining prominence across industries.

**Across all industries, companies are investing in IT Services providers to implement latest technologies for**

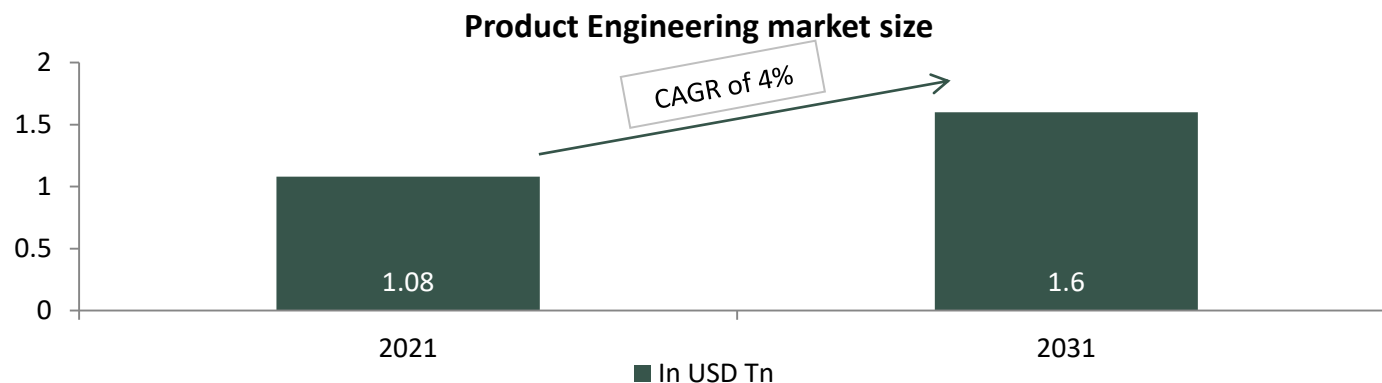
- **Personalized Solutions** — bridge conceptualization with user experience design and graphics to develop bespoke, user-friendly applications accessible anywhere across a variety of devices;
- **Data and Analytics** — convert raw business data from internal teams, business partners and end customers into actionable insights;
- **Digital Automation** — reduce unnecessary human intervention in business processes which increases efficiency across the organization, lowers costs and enables employees to focus on more complex assignments;
- **Artificial Intelligence and Machine Learning** — enhance the speed, precision and effectiveness of human efforts such as improved product recommendations and virtual assistant interactions; and
- **Cloud Computing** — enable businesses to access servers, data and applications through the Internet (“the cloud”) rather than private, local storage devices, which reduces costs and increases speed, performance and security

According to Fortune Business Insights, global cloud spending is expected to grow from US\$ 480 mn in CY22 to US\$ 1.7 Tn during CY22-CY29 registering CAGR of ~20. According to Gartner, by 2025, 51% of Enterprise IT spending under categories like application software, infrastructure software, business process services and system infrastructure will shift to Cloud. This was 41% in 2022. According to McKinsey, Cloud adoption could generate US\$ 3 Tn in EBITDA by 2030 for the Forbes Global 2000 companies. Moreover, Company will also benefit from the opportunities provided by the second leg of cloud transformation which according to Zinnov will unlock new values for enterprises and is poised to grow to US\$ 1.6 Tn market by 2030. %. Lastly, as per SaaSwothy, currently 67% of enterprise infrastructure is based on the cloud and this number will just grow going forward. In order to capitalize on this growth opportunity, Coforge has partnered with leading hyperscalers like Amazon AWS, Microsoft Azure and Google Cloud. These partnerships provide Coforge the ability to become a partner to transform its clients’ legacy systems to cloud based systems.

**Exhibit 25: Cloud spend to grow at a CAGR of 20% over 2022-2029 to US\$ 1.7 Tn**

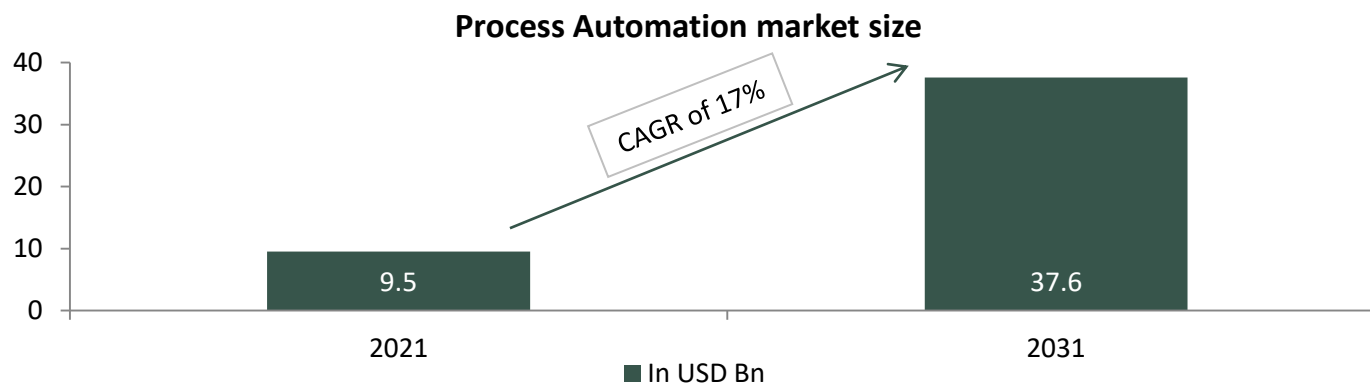
Source: IDBI Capital, Business Insights

**Product Engineering** - Due to the increasing need to reduce time to market, demand for product engineering services is growing. According to Allied market research, the global product engineering services market size was valued at \$1.08 Tn in 2021, and is projected to reach \$1.6 Tn by 2031, growing at a CAGR of 4.1% from 2022 to 2031. Coforge has developed product engineering services capabilities with emphasis on Process Engineering, Cloud Engineering and Product Mindset develop its own products which will aid the company in capitalizing the future growth opportunities.

**Exhibit 26: Product engineering market to grow at a CAGR of 4.1% over 2021-2031**

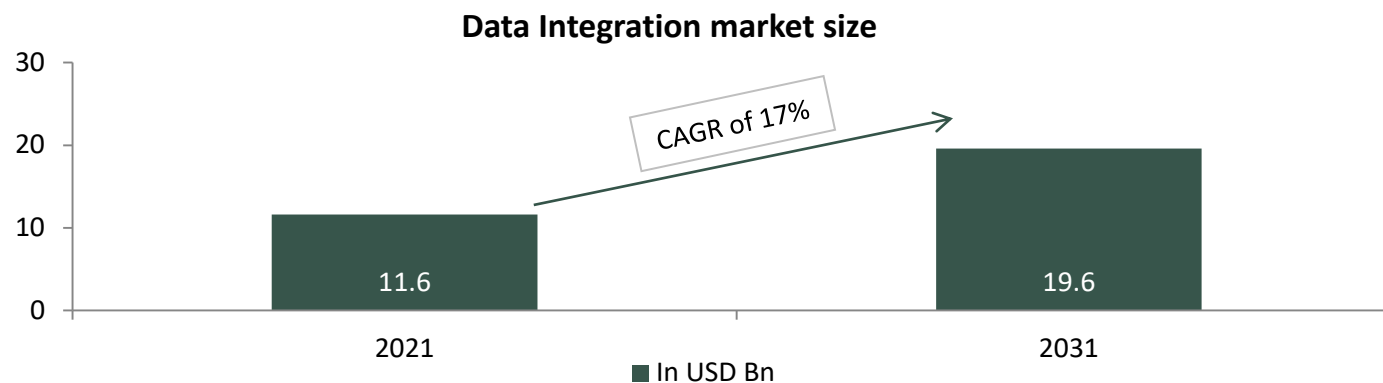
Source: IDBI Capital, Allied Market research

**Artificial Intelligence** - The growing importance of integrating AI technology to streamline the workflow, accelerating innovation and improving customer experience are driving the need for process automation. According to Straits Research, the global intelligent process automation market size was valued at US\$ 9.52 bn in 2021 and is projected to reach US\$ 37.63 bn by 2030 at a CAGR of 16.50% from 2022 to 2030. Coforge operates and supports automation CoE operated at organization level, business unit level and IT level. Company specializes in deploying and operating large scale automations in multiple functions like procurement, order management, loans, cards, build management and contact center etc. Thus, it is well positioned to exploit the growth opportunities.

**Exhibit 27: Process Automation market to grow at a CAGR of 17% over 2021-2031**

Source: IDBI Capital, Straits Research

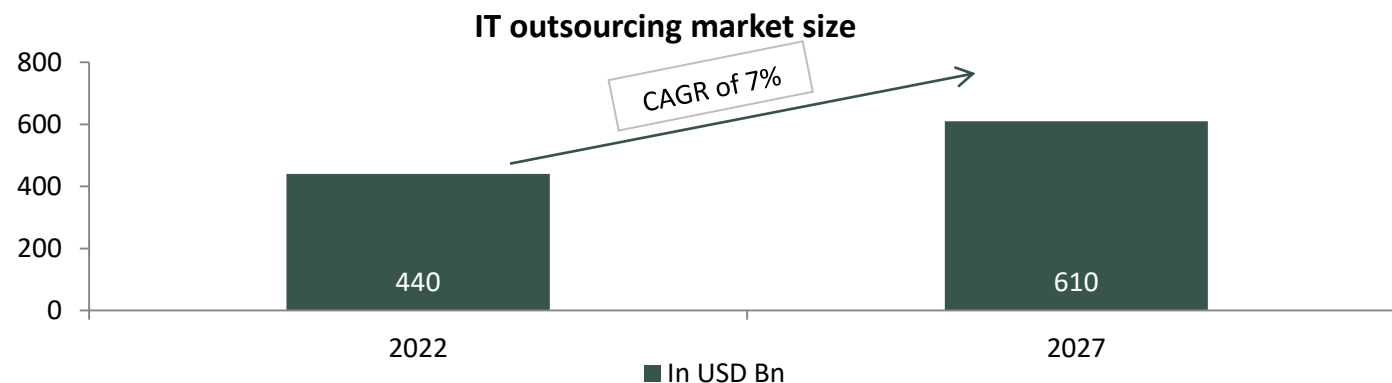
**Data Integration—** As per MarketsandMarkets, the rise in Big Data technologies, cloud computing and increasing amount of on cloud data are expected to increase the market size of Data Integration from \$11.6 bn in 2021 to \$19.6 bn in 2026 registering CAGR of 11%. Coforge specializes in host of services which include Data Modernization, Data Management and Data Security and Privacy, placing it in a sweet spot to exploit the growth opportunities.

**Exhibit 28: Data Integration market to grow at a CAGR of 11% over 2021-2026**

Source: IDBI Capital, MarketsAndMarkets

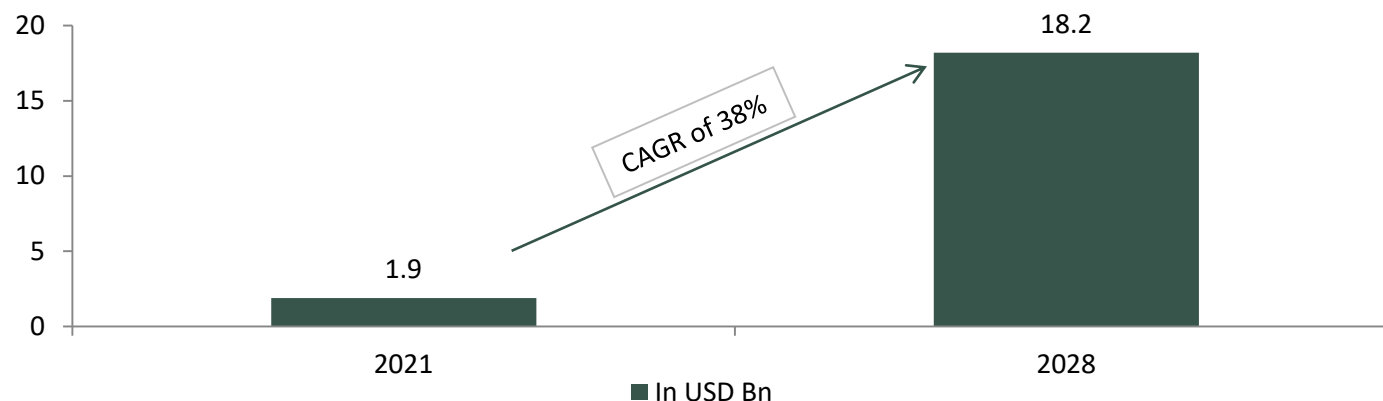
**IT Outsourcing** – According to ResearchAndMarkets, the global IT outsourcing market was valued at \$ 440.41 bn in 2022 & is projected to expand at a CAGR of 6.68% to reach \$ 610.12 bn by 2027. This growth in outsourcing provides enormous opportunity for Coforge to grow and capture market share from competitors. In fact, Coforge has been able to capture market from its competitors by growing at a CAGR of 15.8% during FY17-FY22 while the Indian IT industry grew at a CAGR of 8%.



**Exhibit 29: Global IT outsourcing to grow at a CAGR of 7% over 2022-2027**

Source: IDBI Capital, ResearchAnd Markets

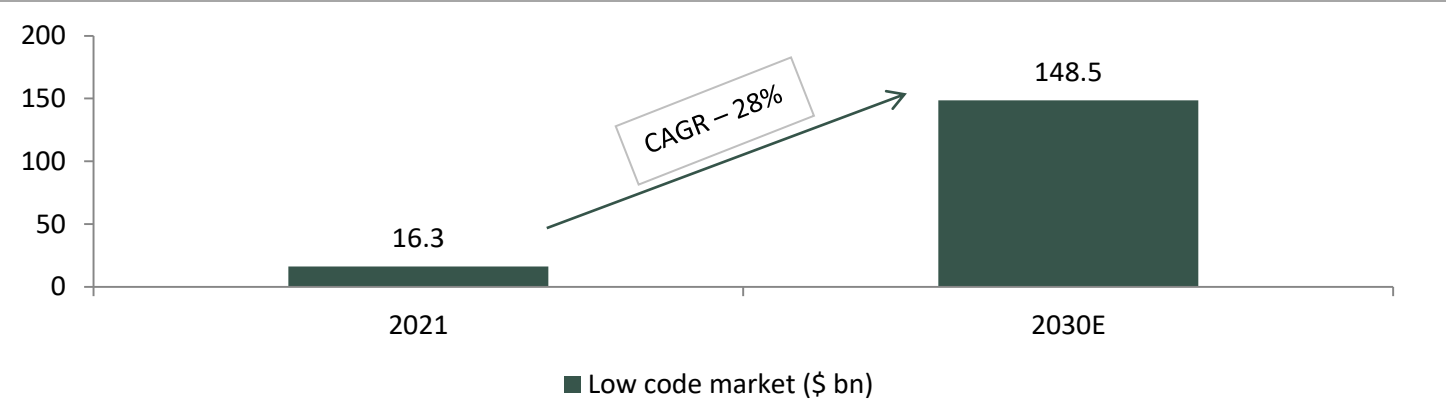
**User Experience (UX)** – According to Forrester, every \$1 invested in UX results in revenues of \$100, providing ROI of 99%. Also, studies suggest that 88% of the customers are less likely to return to a site after a bad experience. The Global User Experience (UX) Service Market Size was estimated at US\$ 1.9 bn in 2021 and is projected to reach US\$ 18.2 bn by 2028, exhibiting a CAGR of 37.80%. Coforge has a global, diverse team of user experience resources that help organizations build positive experiences that ultimately yield deeper customer and brand loyalty. This investment made by the Company to build capabilities will aid in capitalizing the growth of the industry.

**Exhibit 30: UX market to grow at a CAGR of 38% over 2021-2028**

Source: IDBI Capital, Forrester

**Low-Code** - Low-code is a software development approach that helps tech and business professionals collaborate & deliver digital transformative solutions faster by minimizing the amount of coding. Low-code largely replaces the need to create custom code with a collection of ready-to-go UI components, integrations, solution blueprints, visual workflow automation tools, and other user-friendly features. The economic consequences of the COVID-19 pandemic have validated the low-code value proposition. All of the major software-as-a-service (SaaS) vendors currently provide capabilities that incorporate low-code development technologies. Global SaaS spending is expected to grow from \$152 bn in 2021 to \$208 bn by 2023, at a CAGR of 17%. According to Gartner by 2025, 70% of new applications developed by enterprises will use low-code or no-code technologies, up from less than 25% in 2020. As SaaS grows in popularity, and these vendors' platforms are increasingly adopted, the low-code market will see commensurate growth. The global low code development platform market size was worth US\$ 16.3 bn in 2021. It is estimated to reach an expected value of US\$ 148.5 bn by 2030, growing at a CAGR of 27.8% during the period 2022–2030. Coforge has strong partnership with global low code leaders like Pega, Appian & Newgen providing it the opportunity to capitalize on the shift to Low Code.

Exhibit 31: Low code development market to grow at a CAGR of 28% over 21-30E



Source: IDBI Capital, Straits Research

## Company overview

Coforge is a global IT player providing digital services and solutions to help its clients transform operations, adopt emerging technologies and solve real world business problems. The company came into existence as a result of a demerger of NIIT Ltd in 2004. The resulting entity was named NIIT Technology which was further renamed as 'Coforge' in 2020. Coforge is focused on very select industries and possesses a detailed understanding of the underlying processes of those industries. Company's partnerships with leading platforms provide a distinct perspective. Coforge leads with its product engineering approach and leverages Cloud, Data, Integration and Automation technologies to transform client businesses into intelligent, high growth enterprises. Coforge's proprietary platforms power critical business processes across its core verticals. The firm has a presence in 21 countries with 25 delivery centers across nine countries.

**NIIT Technologies to Coforge** – On 6<sup>th</sup> April 2019, company announced that Hulst BV, an entity controlled by Baring Private Equity Asia ("BPEA"), signed definitive agreements to purchase approximately 18.85 mn NIIT Technology shares (approximately 30% shareholding on a fully diluted basis) from NIIT Ltd and other promoters. In accordance with the SEBI regulations, Hulst BV was supposed to make an open offer to acquire additional 26% stake in the company. However, Hulst BV acquired additional 35% stake. It further acquired a 4.39% stake from the open market taking its total stake to ~70%. After offloading its stake through couple of tranches, Hulst BV currently holds ~30% stake in Coforge.

Company has strong presence in select industry verticals and their sub segments that include:

- Banking & Financial Services (Wealth/Asset Management, risk/compliance) makes up 25% of the total revenue
- Insurance (Life, Non-life, Commercial/Speciality) contributes 28% to the revenue
- Travel & Hospitality (Airlines, Travel tech, Airports, Surface Transport, Hospitality/Hotel/Logistics) makes up 19% of the revenue.

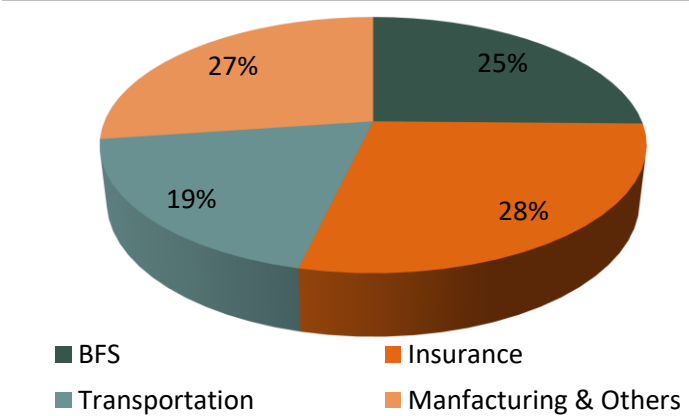
Company has capabilities in Product engineering, Digital solutions, Data analytics, AI/ML, Customer experience, Cloud, Business Process Solutions and Digital Process Automation and derives 72% revenue from product engineering, enterprise integration, intelligent automation, data services, and cloud infra services

In terms of geographic exposure, America contributes 52% to the revenue, followed by Europe at 35% and ROW at 13%.

The firm has also become empanelled as a preferred tech services partner across multiple Fortune 100 and Fortune 500 clients. As of March 31, 2022, Coforge was serving 60+ Forbes Global 1000 clients.

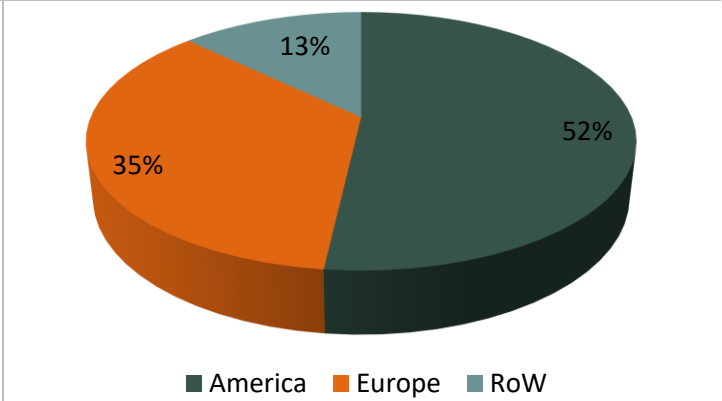
Company enjoys strong partnership with hypersaclers like AWS, Microsoft Azure and Google Cloud and leading software providers like Pegasystems, Appian, ServiceNow & Duck Creek.

**Exhibit 32: Vertical Mix break up (% revenue) – Q2FY23**



Source: Company; IDBI Capital

**Exhibit 33: Geographical break up (% revenue) – FY22**



Source: Company; IDBI Capital

## Few case studies

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### TTH Industry

- One of the leading international Airline group company in Europe was in need of providing an efficient rebooking/free booking experience for its customers in case of flight delay or cancellations.

Coforge developed an app that enabled airport agents to register the disrupted passengers at airports with their rebooking preferences. This information is passed to the back-office agents for rebooking. A virtual queue number is then assigned and sent on email/SMS and a real time status of the request can be tracked using a URL. This registered customer information is further used by back-office agents for rebooking and sending further communications

The solution has not just benefitted the end passenger but also the airlines, airports and travel agents by offering a common platform to all stakeholders for seamless communication with better visibility of events thereby lowering the overall cost of disruption.

### Insurance Industry

- A privately owned, rapidly growing leading specialty insurer was looking for a transformative partner to accelerate its growth, regulate operational costs, improve 'submission to conversion ratio and increase the speed to market for new products.

Coforge helped in identifying the platform of choice to digitize the siloed business & IT systems as part of the core platform modernization and normalized product offerings across business units with a product reconfigurability feature which allowed customers to roll out products quickly and expand into newer markets.

This reduced the quote processing from 3 days to under < 15 mins, major lines of business were rolled out to 50 states in <18 months, \$64Mn in direct written premium in <9 months of roll-out for 2 LoBs and TCO savings of \$1.1Mn in year 1 by sunseting major legacy systems.

## Key Managerial Personnel

Name	Designation	Description
Sudhir Singh	CEO & Executive Director	Sudhir joined Coforge in May 2017 bringing 24 years of experience across industries. In his prior roles he was associated with Unilever (Hindustan Lever), Infosys and Genpact. At Coforge he is responsible for the growth strategy of the company. Sudhir is a graduate of Indian Institute of Technology and Indian Institute of Management.
Gautam Samanta	EVP & Global Head - BFS	Gautam leads the BFS vertical and as an additional responsibility, he oversees Coforge's Europe business with clients who fall outside the core industry verticals of Travel, Transportation, Hospitality and Insurance. With over 24 years of experience, Gautam comes with a deep understanding of the technology and business consulting landscape acquired through working in a leading financial services institution, a leading software product company as well as two large global consulting and technology services organizations. Gautam joins from Infosys where he served as Vice President and Global Client Partner - Financial Services and managed fastest growing portfolio of accounts in the Europe. He is an alumnus of IIT Kharagpur and IIM Calcutta
John Speight	Chief Customer Success Officer	John Speight is Customer Success Officer and heads the business advisory group globally across Banking Financial Services, Insurance, Travel Transport & Hospitality and the Geos. He is an experienced, business focused IT professional with 30+ years of experience within the financial sector. Having a successful career working as the client and for consulting services enables John to have a view from both perspectives, what challenges, opportunities are faced and how to address.
Sanjeev Prasad	EVP & Global Head - APAC and Cloud & Infrastructure	Sanjeev brings more than 30 years of experience as a Serial Entrepreneur, Business leader and CIO for large global corporations. He has been part of the Global Leadership team at Genpact and Sutherland, and was a founder, COO and director of STG International Ltd., a training and IT services organization which was successfully listed on the BSE in 1999. Sanjeev has a MS in Industrial Engineering from University of Texas. He has also been on the Advisory Board of Oracle, Gartner and Avaya. He is a Certified Coach and an advisor to start-ups.
Ajay Kalra	CFO	Ajay is a Chartered Accountant and a commerce graduate from Delhi University and brings 25 years of experience as a seasoned Finance Professional with a proven record of being a business partner. He has an established track record and an extensive experience in establishing a solid foundation of compliance & internal controls and creating a Center of Analytical Excellence incorporating specialized resources & a knowledge repository. His expertise also encompasses partnering with information technology experts, implementing digital tools and optimization programs, and supporting deal structuring in large US\$ 100+ mn deals to maximize shareholder value. In his 20 years stint in Genpact, Ajay has held critical roles in Genpact Finance including leading the Pricing function.

Name	Designation	Description
Ruchi Kulhari	EVP, People Function	Ruchi is the Executive Vice President, People Function. She is responsible for driving Coforge's people strategy and fostering a vibrant culture focused on bold innovation, flawless execution, and continuous personal & professional development of our global teams. She also leads senior executive hiring, immigrations & and the talent strategy for Coforge. She has close to two decades of experience managing people in the technology sector serving clients in all industry segments. A psychologist by education, Ruchi also studied organizational change management from Harvard Business School. She is a part of the prestigious Forbes Leadership Council.
Pankaj Khanna	EVP - Revenue Assurance & Head HR - BPS	Pankaj has over three decades of experience in Human Resources, Staffing, HR Analytics, Business Development & Workforce Management, and Operations. At Coforge, Pankaj heads the global Revenue Assurance function that encompasses Talent Acquisition, Workforce Management, and Mobility Programs. Alongside, Pankaj also heads the HR function of the Business Process Solutions division of Coforge. Prior to joining Coforge, he was the VP of Revenue Assurance at Mindtree, and Senior Director at Fidelity Investments heading Staffing and HR-IT & Business Analytics business units. Pankaj has a BTech degree from Anna University and has completed his Masters in Personnel Management & Industrial Relations (PM&IR) from Tata Institute of Social Sciences.
Kishore Krishnan	Global Sales Leader	Kishore Krishnan is responsible for growing Coforge's presence in Europe in Public sector, Media & Telecoms, Healthcare & Life-sciences verticals. He specializes in partnering with clients to deliver strategic large programs which have annuity revenues and sustainable margins for Coforge. He is also responsible to develop Low code practice across Europe - helping clients improve their development velocity by leveraging our alliances with Pega and Appian. With over 22 years' experience in the industry, he has worked across Europe and successfully delivered large scale transformation programmes that were aimed at improving client's operational efficiencies and cost optimization. Prior to joining Coforge, he was with Capgemini (Patni/Igate) for 14 years where he led their Insurance, Life-sciences and Healthcare verticals in Europe.
Madan Mohan	Head, Enterprise Application Services	With over 31 years of experience, Madan has a deep understanding of multiple industries with strong expertise in delivering successful large programs, joint ventures, large deals in the areas of Automation, Data, Analytics, Digital, and BPM. Madan spent the last 16 years at Infosys. Prior to that, he was with TCS where he ran the manufacturing business of global 10 corporations and established an aggressive growth path for the business, structured a JV. Madan holds a bachelor's degree in computer science from the National Institute of Technology, Rourkela.

Source: Company, IDBI Capital



## Key risks

- **Risk of revenue growth slowdown:** We expect Coforge to record revenue CAGR of 16% over FY23E-25E led by ramp up in large deals and bounce back of travel vertical. In case the developed nations which contribute 87% of total revenue see any slowdown, Coforge's future growth will be hampered.
- **Offloading of stake by promoter:** Coforge's promoter, BPEA has reduced its stake in the company from ~40% to ~30% during Dec 2022 to Feb 2023. Large stake sell off remains a key overhang for the stock.
- **Supply side challenges:** Coforge has been able to improve its margins on the back of increase in offshore revenue. While we believe Coforge should be able to improve its EBIT margin to 15.4% by FY25, if the supply side challenges increase or continue for longer period of time the margin might be under pressure.
- **Significant exposure to BFS:** Coforge derived 25% of its revenue from the BFS vertical in FY22. Given the current situation in global banks a significant downturn in growth or delay in decision making could impact Coforge adversely.
- **Acquisitions may impact margin:** We believe Coforge will be able to expand its EBITDA margin by 74 bps during FY23E-FY25E. However, in order to drive growth, the company may make significant acquisitions which might put some pressure on the margin.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Net sales</b>	<b>41,839</b>	<b>46,628</b>	<b>64,320</b>	<b>79,828</b>	<b>93,468</b>	<b>109,341</b>
<i>Change (yoy, %)</i>	13.8	11	38	24	17	17
Operating expenses	(34,641)	(38,763)	(53,166)	(65,710)	(76,461)	(89,199)
<b>EBITDA</b>	<b>7,198</b>	<b>7,865</b>	<b>11,154</b>	<b>14,118</b>	<b>17,007</b>	<b>20,142</b>
<i>Change (yoy, %)</i>	11.6	9	42	27	20	18
<i>Margin (%)</i>	17.2	16.9	17.3	17.7	18.2	18.4
Depreciation	(1,730)	(1,836)	(2,272)	(2,691)	(2,953)	(3,260)
<b>EBIT</b>	<b>5,468</b>	<b>6,029</b>	<b>8,882</b>	<b>11,428</b>	<b>14,054</b>	<b>16,881</b>
Interest paid	-	-	-	-	-	-
Other income	558	113	(266)	(132)	(219)	(130)
<b>Pre-tax profit</b>	<b>6,026</b>	<b>6,142</b>	<b>8,616</b>	<b>11,296</b>	<b>13,835</b>	<b>16,751</b>
Tax	(1,278)	(1,302)	(1,468)	(2,347)	(2,905)	(3,518)
<i>Effective tax rate (%)</i>	21.2	21.2	17.0	20.8	21.0	21.0
Minority Interest	(236.0)	(104.0)	(530.0)	(571.0)	(765.1)	(926.4)
<b>Net profit</b>	<b>4,441</b>	<b>4,556</b>	<b>6,618</b>	<b>8,378</b>	<b>10,164</b>	<b>12,307</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>4,583</b>	<b>4,916</b>	<b>6,618</b>	<b>8,378</b>	<b>10,164</b>	<b>12,307</b>
<i>Change (yoy, %)</i>	10.6	7	35	27	21	21
EPS	73.7	79.1	106.5	134.8	163.6	198.1
Dividend per sh	31.0	23.6	50.7	63.4	76.9	93.1
<i>Dividend Payout %</i>	42	30	48	47	47	47

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Shareholders' funds</b>	<b>23,965</b>	<b>24,661</b>	<b>27,331</b>	<b>31,771</b>	<b>37,158</b>	<b>43,681</b>
Share capital	625	606	609	609	609	609
Reserves & surplus	23,340	24,055	26,722	31,162	36,549	43,072
<b>Total Debt</b>	<b>48</b>	<b>5</b>	<b>3,365</b>	<b>3,365</b>	<b>3,365</b>	<b>3,365</b>
Other liabilities	2,285	1,723	9,074	10,451	11,661	13,070
<b>Curr Liab &amp; prov</b>	<b>8,477</b>	<b>8,895</b>	<b>15,585</b>	<b>19,684</b>	<b>23,047</b>	<b>26,961</b>
Current liabilities	8,148	8,750	12,156	15,091	17,611	20,571
Provisions	329	225	316	392	459	537
<b>Total liabilities</b>	<b>10,433</b>	<b>10,473</b>	<b>21,230</b>	<b>25,542</b>	<b>29,272</b>	<b>33,641</b>
<b>Total equity &amp; liabilities</b>	<b>34,398</b>	<b>35,134</b>	<b>49,544</b>	<b>58,867</b>	<b>68,750</b>	<b>80,568</b>
Net fixed assets	10,796	10,208	20,835	19,741	18,657	17,584
Investments	-	-	-	-	-	-
Other non-curr assets	2,092	3,631	4,809	5,309	5,748	6,260
<b>Current assets</b>	<b>21,510</b>	<b>21,295</b>	<b>23,900</b>	<b>33,817</b>	<b>44,344</b>	<b>56,724</b>
Inventories	-	-	-	-	-	-
Sundry Debtors	8,565	8,895	15,585	19,684	23,047	26,961
Cash and Bank	9,171	8,246	4,535	9,442	15,804	23,338
Loans and advances	-	-	-	-	-	-
<b>Total assets</b>	<b>34,398</b>	<b>35,134</b>	<b>49,544</b>	<b>58,867</b>	<b>68,750</b>	<b>80,568</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	6,026	6,142	8,616	11,296	13,835	16,751
Depreciation	1,766	138	724	2,691	2,953	3,260
Tax paid	(1,548)	(1,548)	(2,656)	(2,347)	(2,905)	(3,518)
Chg in working capital	(661)	272	(3,284)	(1,164)	(843)	(954)
Other operating activities	(2,614)	2,619	4,256	(121)	(117)	(302)
<b>Cash flow from operations (a)</b>	<b>2,969</b>	<b>7,623</b>	<b>7,656</b>	<b>10,355</b>	<b>12,922</b>	<b>15,238</b>
Capital expenditure	(4,361)	450	(11,351)	(1,597)	(1,869)	(2,187)
Chg in investments	-	-	-	-	-	-
Other investing activities	1,970	(2,817)	1,663	(409)	(242)	(185)
<b>Cash flow from investing (b)</b>	<b>1,123</b>	<b>(2,354)</b>	<b>(9,564)</b>	<b>(2,006)</b>	<b>(2,111)</b>	<b>(2,372)</b>
Equity raised/(repaid)	7	(19)	3	-	-	-
Debt raised/(repaid)	(52)	(43)	3,360	-	-	-
Dividend (incl. tax)	(1,927)	(1,467)	(3,150)	(3,938)	(4,777)	(5,784)
Chg in minorities	(311)	(104)	453	-	-	-
Other financing activities	1,194	(3,898)	(2,224)	496	328	451
<b>Cash flow from financing (c)</b>	<b>(1,089)</b>	<b>(5,531)</b>	<b>(1,558)</b>	<b>(3,442)</b>	<b>(4,449)</b>	<b>(5,333)</b>
<b>Net chg in cash (a+b+c)</b>	<b>3,003</b>	<b>(262)</b>	<b>(3,466)</b>	<b>4,908</b>	<b>6,362</b>	<b>7,533</b>

**Financial Ratios**

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	385.3	397	440	511	598	703
Adj EPS (Rs)	73.7	79.1	106.5	134.8	163.6	198.1
Change (YoY, %)	9.1	7	35	27	21	21
EBITDA margin (%)	17.2	16.9	17.3	17.7	18.2	18.4
Pre-tax margin (%)	14.4	13.2	13.4	14.2	14.8	15.3
Net Debt/Equity (x)	-0.4	-0.3	0.0	-0.2	-0.3	-0.5
ROCE (%)	22.4	23	28	28	30	30
ROE (%)	20.5	20	25	28	29	30

**DuPont Analysis**

Asset turnover (x)	1.3	1.3	1.5	1.5	1.5	1.5
Leverage factor (x)	1.4	1.4	1.6	1.8	1.9	1.8
Net margin (%)	11.0	10.5	10.3	10.5	10.9	11.3

**Working Capital & Liquidity ratio**

Inventory days	0	0	0	0	0	0
Receivable days	75	70	88	90	90	90
Payable days	30	35	45	45	45	45

**Valuations**

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	49.4	46.0	34.2	27.0	22.2	18.4
Price/Book value (x)	9.4	9.2	8.3	7.1	6.1	5.2
EV/Net sales (x)	5.2	4.7	3.5	2.8	2.3	1.9
EV/EBITDA (x)	30.2	27.7	20.2	15.6	12.6	10.2
Dividend Yield (%)	0.9	0.6	1.4	1.7	2.1	2.6



# Notes

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