

## IT Services | Q2FY24 Result Update

## Guidance retained backed by deal wins, momentum to continue

- Coforge reported CC Rev growth of 2.3% QoQ (DE: 2%) led by broad based growth. Deal win stood at \$313mn incl. 3 large deal wins in BFSI & Travel.
- Adj. EBITDA Margin up 234bps QoQ to 17.6% (DE: 17.2%) led by increase in gross margin (110bps) offset by higher SG&A (20bps).
- Management retained Rev. Growth guidance of 13%-16% in CC terms and Adj. EBITDA margin (bef. ESOP) around 18.3% with 50bps improvement in Gross margin. NTM executable TCV up 4.2%/16.6% QoQ/YoY at \$935mn.
- Robust ACV and healthy guidance despite uncertainties in BFSI suggest strong execution and client bond. But we believe most of this is priced in and maintain "Sell" with TP of Rs. 4,880, valued at 25x FY26E.

## Deal velocity remain healthy; Strong execution focus in key verticals

Coforge reported an order intake of \$313mn in Q2 (\$935mn up 16.6% YoY on TTM basis) along with addition of 8 new logos. It has signed 3 large deals, one in BFS (new client and new logo) and two in Travel (with Leading Middle east and Europe airlines) along with \$10mn TCV in BPS biz. and one with large US auto-home insurer. Focus on Improving BPS capabilities will be key. Its BFS segment grew 3.8% QoQ in CC, strongest among Indian IT peers. Management pointed it is seeing some green shoots in BFS and Travel segment and demand uptick in Insurance side but remain cautious about overall stressed demand environment.

## Expect margins to improve sequentially over next 2 quarters

Coforge shared it expects margin expansion of 100 bps in Q3 led by hedge gains (around 40bps), absence of client event in Q3 (40bps), lower ESOP charges (around 30bps) and some benefit from ARC offset by furloughs impact. Company remained confident of achieving around 18.3% margin in FY24. Increase in offshore revenue share (up 220bps YoY) and target to achieve 55% (from 52%).

## Guidance intact; Growth momentum to sustain

Management believes that its strong execution, strong NTM deal momentum & aggressive investments to drive further growth confidence despite weakening macros. We believe Coforge would continue its growth momentum beyond FY24 as evident from large wins in BFSI, confident positioning, and retained guidance.

## Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	22,762	19,594	16.2	22,210	2.5
Total Expense	19,288	16,150	19.4	19,059	1.2
EBITDA	3,474	3,444	0.9	3,151	10.2
Depreciation	772	614	25.7	757	2.0
EBIT	2,702	2,830	(4.5)	2,394	12.8
Other Income	(295)	(150)	96.7	(152)	94.1
Interest	0	0		0	
EBT	2,407	2,680	(10.2)	2,242	7.3
Tax	528	474	11.4	485	8.9
RPAT	1,810	2,011	(10.0)	1,653	9.5
APAT	1,810	2,011	(10.0)	1,653	9.5
			(bps)		(bps)
Gross Margin (%)	30.2	31.3	(113)	28.9	128
EBITDA Margin (%)	15.3	17.6	(232)	14.2	107
NPM (%)	8.0	10.3	(231)	7.4	51
Tax Rate (%)	21.9	17.7	425	21.6	31
EBIT Margin (%)	11.9	14.4	(257)	10.8	109

CMP	Rs 5,092
Target / Downside	Rs 4,880 / 4%
NIFTY	19,671

## Scrip Details

Equity / FV	Rs 611mn / Rs 10
Market Cap	Rs 313bn
	USD 3.8bn
52-week High/Low	Rs 5,763/ 3,565
Avg. Volume (no)	7,81,713
Bloom Code	COFORGE IN

Price Performance	1M	3M	12M
Absolute (%)	(8)	4	34
Rel to NIFTY (%)	(6)	6	21

## Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	30.2	26.6	26.6
MF/Banks/FIs	32.2	37.2	37.2
FIs	25.4	24.8	24.8
Public / Others	12.2	11.4	11.4

## Valuation (x)

	FY24E	FY25E	FY26E
P/E	38.2	29.9	26.1
EV/EBITDA	20.9	17.4	15.1
ROE (%)	25.5	28.6	28.6
RoACE (%)	25.4	27.7	27.9

## Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	93.0	104.1	117.3
EBITDA	14.9	17.7	20.1
PAT	8.3	10.6	12.2
EPS (Rs.)	133.4	170.2	195.1

VP - Research: Rahul Jain

Tel: +9122 40969771

E-mail: rahulj@dolatcapital.com

Associate: Pranav Mashruwala

Tel: +9122 40969789

E-mail: pranavm@dolatcapital.com

Associate: Ayur Bohra

Tel: +9122 40969624

E-mail: ayurb@dolatcapital.com

## Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
USD Revenue	278.1	276.7	273	0.5	2.0	Rev. beat led by BFSI growth
INR Revenue	22,762	22,882	22,456	(0.5)	1.4	
EBIT	2,702	2,939	3,097	(8.1)	(12.8)	OPM miss due to higher ESOP costs
EBIT, margin	11.9	12.8	13.8	(100 bps)	(190 bps)	
PAT	1,810	2,169	2,263	(16.6)	(20.0)	PAT miss from lower OI

Source: Company, DART

## Change in Estimates

We believe Management remain confident on its execution and see no risk on achieve its growth guidance. Factoring in Q2 performance and cautious outlook for Q3, we lower our USD revenue growth marginally by 0.9%/1.7% for FY24E/FY25E. Given the one-time ESOP costs impact in Q2, we have tweaked our OPM estimates by 55bps/8bps for FY24E/FY25E respectively. On an overall basis we our earnings estimates changed by -9%/-3% for FY24E/FY25E respectively. Introduce FY26E estimates with 11.2% Rev. growth, 13.9% OPM and EPS of Rs. 195.1.

## Exhibit 2: Change in Estimates

Particulars (Rs. mn)	FY23A	FY24E			FY25E			FY26E
	Actual	Old	New	Chg. (%)	Old	New	Chg. (%)	Introduced
USD Revenue	1,002	1,139	1,129	(0.9)	1,271	1,249	(1.7)	1,388
YoY growth,	15.6	13.7	12.7	(106 bps)	11.5	10.7	(89 bps)	11.2
INR Revenue	80,146	93,593	93,002	(0.6)	1,04,824	1,04,096	(0.7)	1,17,323
YoY growth,	24.6	16.8	16.0	(74 bps)	12.0	11.9	(7 bps)	12.7
EBIT	10,665	12,410	11,817	(4.8)	14,463	14,282	(1.2)	16,265
EBIT Margin,	13.3	13.3	12.7	(55 bps)	13.8	13.7	(8 bps)	13.9
Net Profit	6,938	9,110	8,327	(8.6)	10,953	10,628	(3.0)	12,186
EPS (Rs)	111.5	146.3	133.4	(8.8)	175.9	170.2	(3.2)	195.1

Source: DART, Company

## What to expect next Quarter

We have factored in revenue growth of 2% QoQ in CC for Q3FY24, due to seasonally weak quarter and incorporating guidance band of 13-16%. OPM is expected to increase by 150bps led by hedge gains, absence of one-off client event cost from Q2 and lower ESOP costs.

## Exhibit 3: What to expect next Quarter

(Rs Mn)	Q3FY24E	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
USD Revenue	283.7	278.1	2.0	251.7	12.7
INR Revenue	23,544	22,762	3.4	20,558	14.5
EBIT	3,149	2,702	16.6	2,991	5.3
PAT	2,269	1,810	25.4	2,282	(0.6)
EPS (Rs. Abs)	36.3	29.0	25.4	36.7	(1.0)
EBIT Margin (%)	13.4	11.9	151 bps	14.5	(117 bps)

Source: DART, Company

## Valuation

Management remain confident of growth momentum backed by three large deal wins in BFS and travel vertical and continued focus on execution. We believe COFORGE would deliver decent growth momentum over next 4-6 quarters where other IT peers are reporting flat to low single digit growth, raising our growth confidence. Hence, we currently value COFORGE at 25x (Earlier 25x on FY25E) on FY26E Earnings of Rs. 195.1 with TP of Rs. 4,880 per share and maintain our "Sell" Rating on the stock.

**Exhibit 4: Key Assumptions in our estimates**

Assumptions Table	FY22A	FY23A	FY24E	FY25E	FY26E
CC Revenue growth (%)	37.9	22.2	13.9	10.6	11.2
USD Revenue growth (%)	38.0	15.6	12.7	10.7	11.2
USD/INR	74.2	80.0	82.4	83.4	84.5
INR Revenue growth (%)	37.9	24.6	16.0	11.9	12.7
EBIT Margins (%)	13.8	13.3	12.7	13.7	13.9
EPS growth (%)	44.6	4.6	19.6	27.6	14.7

Source: Company, DART

**Exhibit 5: Key Revenue Matrix**

YoY Growth	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
CC Growth	34.7	37.2	37.0	24.3	22.8	21.1	20.7	18.4	14.1
USD Growth	37.7	37.8	35.0	19.5	16.0	13.6	13.8	13.9	12.6
INR Growth	36.0	39.3	38.2	25.2	24.9	24.0	24.5	21.4	16.2

Source: Company, DART.

**Exhibit 6: Quarterly and YTD Trend**

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
USD Revenue	246.9	251.7	264.4	271.8	278.1	12.6	2.3	485.6	549.9	13.2
<b>INR Revenue</b>	<b>19,594</b>	<b>20,558</b>	<b>21,700</b>	<b>22,210</b>	<b>22,762</b>	<b>16.2</b>	<b>2.5</b>	<b>37,888</b>	<b>44,972</b>	<b>18.7</b>
Operating Expense	16,150	16,943	18,427	19,059	19,288	19.4	1.2	31,526	38,347	21.6
Cost of revenues	13,463	13,880	15,277	15,795	15,897	18.1	0.6	26,292	31,692	20.5
as % of sales	68.7	67.5	70.4	71.1	69.8	113 bps	(128 bps)	69.4	70.5	108 bps
SG&A expenses	2,687	3,063	3,150	3,264	3,392	26.2	3.9	5,234	6,656	27.2
as % of sales	13.7	14.9	14.5	14.7	14.9	119 bps	20 bps	13.8	14.8	99 bps
<b>EBITDA</b>	<b>3,444</b>	<b>3,615</b>	<b>3,273</b>	<b>3,151</b>	<b>3,474</b>	<b>0.9</b>	<b>10.2</b>	<b>6,362</b>	<b>6,625</b>	<b>4.1</b>
Depreciation	614	624	717	757	772	25.7	2.0	1,244	1,529	22.9
EBIT	2,830	2,991	2,556	2,394	2,702	(4.5)	12.8	5,118	5,096	(0.4)
Other Income	(150)	83	(487)	(152)	(295)	96.7	94.1	(226)	(447)	97.8
<b>PBT</b>	<b>2,680</b>	<b>3,074</b>	<b>1,546</b>	<b>2,242</b>	<b>2,407</b>	<b>(10.2)</b>	<b>7.3</b>	<b>4,892</b>	<b>4,649</b>	<b>(5.0)</b>
Total Tax	474	715	379	485	528	11.4	8.9	967	1,013	4.8
PAT before MI	2,206	2,359	1,167	1,757	1,879	(14.8)	6.9	3,925	3,636	(7.4)
Minority Interest	195	77	19	104	69	(64.6)	(33.7)	417	173	(58.5)
PAT after MI	2,011	2,282	1,148	1,653	1,810	(10.0)	9.5	3,508	3,463	(1.3)
Reported EPS	32.4	36.7	18.5	26.5	29.0	(10.6)	9.2	56.6	55.5	(1.8)
<b>Margins (%)</b>						(bps)	(bps)			(bps)
EBITDA	17.6	17.6	15.1	14.2	15.3	(232 bps)	107 bps	16.8	14.7	(206 bps)
EBIT	14.4	14.5	11.8	10.8	11.9	(257 bps)	109 bps	13.5	11.3	(218 bps)
PBT	13.7	15.0	7.1	10.1	10.6	(310 bps)	48 bps	12.9	10.3	(258 bps)
PAT	10.3	11.1	5.3	7.4	8.0	(231 bps)	51 bps	9.3	7.7	(156 bps)
Effective Tax rate	17.7	23.3	24.5	21.6	21.9	425 bps	31 bps	19.8	21.8	202 bps

Source: Company, DART.

## Earnings call KTAs

- **Revenue:** Revenue grew by 2.3% QoQ in CC terms in Q2FY24. The growth was driven by broad-based growth across all 3 verticals, aided by strong execution and continued order conversions. Coforge added 8 new logos during Q2 and acknowledged the backdrop of challenging market environment amidst uncertain macros.
- **Margin walk:** Gross Margin expanded by 42bps QoQ to 32.5%. Adj. EBITDA margin expanded by 234bps QoQ (Excl. milestone celebration cost of \$2mn) and by 160bps on a reported basis to 17.6%. Margin included headwinds in form of forex loss on hedges of 40bps, higher than trend ESOP expense of 30bps on QoQ basis. For Q3, management expects forex gain of ~100bps and normalization of ESOP costs, which will lead to margin expansion despite expected tepid growth in Q3 on account of seasonality. It expects SG&A to be around 15%. On protecting margins, management stated that cost optimization would be limited to the extent that it does not affect long term growth aspirations. Management reiterated the company's growth focus to continue beyond FY'24.
- **Vertical Commentary:** Vertical-wise growth was led by Banking and Financial Services (31.6%), reporting 3.8% QoQ growth in CC terms. Insurance vertical (22.6%) reported 2.4% QoQ growth in CC terms, while Travel vertical (18.5% of Rev) grew 2.3% sequentially in CC terms. For Banking, management continues to see green shoots for deal wins, but is also seeing caution on account of geo-political uncertainty. Specific areas such as – payment processing, regulatory and compliance, veer largely towards non-discretionary spends, and have not seen impact on spends. For Insurance, Coforge is witnessing good demand in P&C space led by core transformation opportunities with large software companies such as Duckcreek and Guidewire. For Travel, vertical, there is demand in productization, customer experience, and cybersecurity, and although this segment is seeing some normalization of demand, vertical growth will be in-line (if not outperforming) with overall company growth.
- **Guidance:** Coforge has retained revenue guidance of 13-16% growth in CC terms. Coforge also re-affirmed 50bps expansion in Gross margins and Adjusted EBITDA Margin at 18.3% (FY'23 level).
- **Deals TCV:** Coforge saw TCV wins of \$313mn (includes 3 large deals). 3 large deals include: a) New BFS account, b) Travel vertical in EMEA region with a leading Middle East Airline, and c) Renewal deal with a major European airline. Additionally, Coforge won a \$10mn TCV for its BPS business and also won a sizable digital transformation win in Guidewire space for a large US auto and home insurer. 12M executable order book stood at \$935mn, a 16.6% growth on YoY basis. Management also stated that deal velocity remained healthy for Coforge in areas like Product innovation, legacy modernization, and cloud migration.
- **Hiring:** Headcount stood at 24,638, up by 414 employees on a sequential basis. Management highlighted it will continue to hire for both categories – freshers as well as laterals, in line with revenue growth for the rest of FY24. Utilization levels dipped by 100bps on account of campus fresher additions.
- **Dividend:** Announced dividend of Rs. 19/share.

## Exhibit 7: Vertical Trend for Q2FY24

Vertical	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
Transportation	51	19	2.3	7.9	1.2	19
BFS	88	32	4.0	12.2	3.3	53
Insurance	63	23	2.3	9.6	1.4	23
Others	76	27	0.5	19.1	0.4	6
<b>Total</b>	<b>278</b>	<b>100</b>	<b>2.3</b>	<b>12.5</b>	<b>6.3</b>	<b>100</b>

Source: Company, DART

**Exhibit 8: Geography Trend for Q2FY24**

Geography	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
America	137	49	1.7	8.4	2.3	36
EMEA	108	39	2.8	13.4	3.0	47
Rest of World	33	12	3.2	30.2	1.0	16
<b>Total</b>	<b>278</b>	<b>100</b>	<b>2.3</b>	<b>12.5</b>	<b>6.3</b>	<b>100</b>

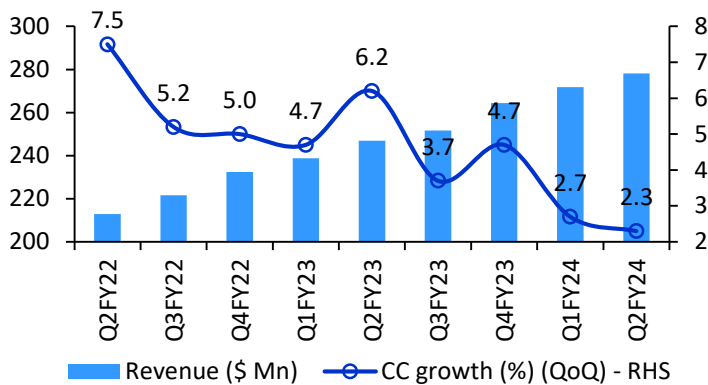
Source: Company, DART

**Exhibit 9: Client Growth Trend for Q2FY24**

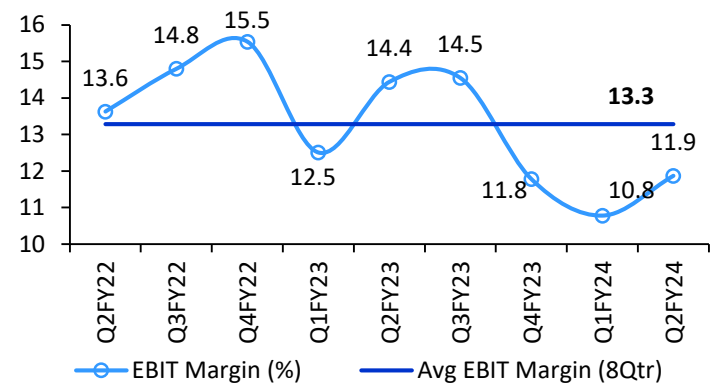
Client	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
Top 5	65	24	(4.2)	14.5	(2.9)	(46)
Top 6 - 10 Client	33	12	(5.0)	3.7	(1.7)	(27)
Top 11-20 client	17	6	(1348)	29.5	18.3	291
Non Top 20 client	163	59	(4.4)	12.1	(7.4)	(118)
<b>Total</b>	<b>278</b>	<b>100</b>	<b>2.3</b>	<b>12.5</b>	<b>6.3</b>	<b>100</b>

Source: Company, DART

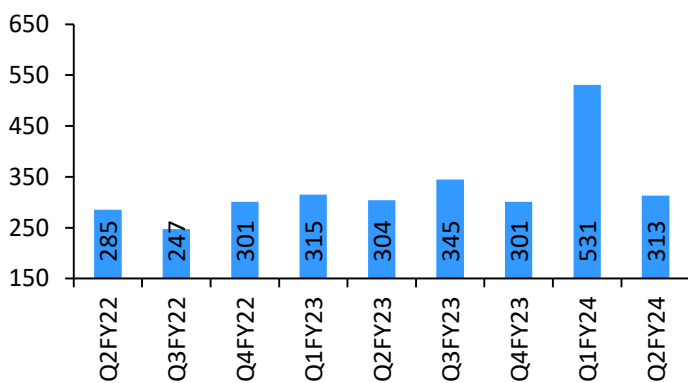
## Story in Charts

**Exhibit 10: Rev. grew 2.3% QoQ in CC terms**


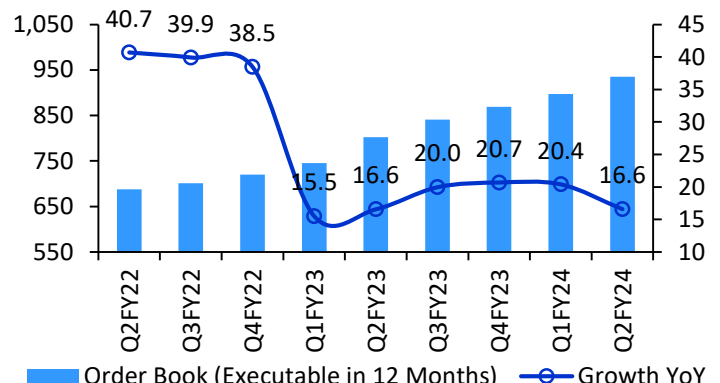
Source: Company, DART

**Exhibit 11: OPM expanded by 110bps on QoQ Basis**


Source: Company, DART

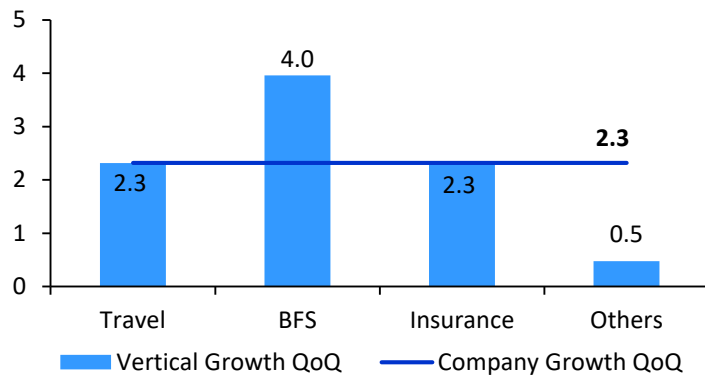
**Exhibit 12: Robust Deal wins continues (\$313mn)**


Source: Company, DART

**Exhibit 13: 12m Order Book rose to \$935mn (up 16.6% YoY)**


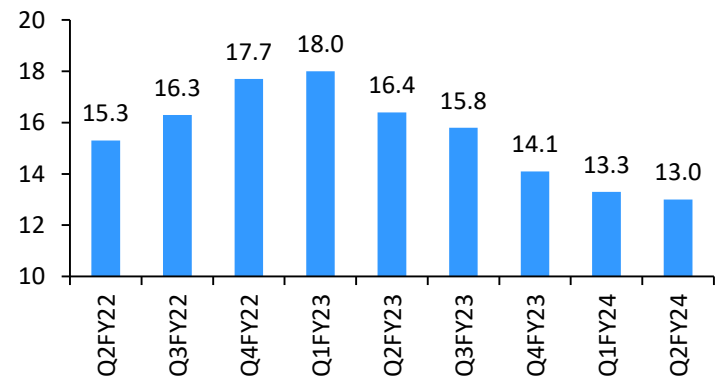
Source: Company, DART

**Exhibit 14: BFS vertical outperformed**



Source: Company, DART

**Exhibit 15: Attrition (13%) declined by 30bps QoQ**



Source: Company, DART



**Exhibit 16: Operating Metrics 1**

Operating Metrics	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>\$ Revenue</b>	212.8	221.6	232.4	238.7	246.9	251.7	264.4	271.8	278.1
CC growth (%) (YoY)	34.7	37.2	37.0	22.1	22.8	21.1	20.7	18.4	14.1
CC growth (%) (QoQ)	7.5	5.2	5.0	2.8	6.2	3.7	4.7	2.7	2.3
<b>Geographical Amount</b>									
America	110.9	118.0	116.2	122.7	126.8	122.3	127.7	135.1	137.4
EMEA	68.9	74.6	92.7	88.1	95.2	100.1	104.7	104.9	107.9
Rest of World	32.5	28.8	24.0	28.3	25.2	26.1	32.0	31.8	32.8
<b>Geographical YoY Growth</b>									
America	53.0	49.8	45.2	19.1	14.3	3.6	10.1	10.1	8.4
EMEA	23.2	28.9	35.7	25.1	38.0	34.2	13.2	19.0	13.4
Rest of World	24.6	19.4	(1.3)	8.4	(22.5)	(9.4)	33.7	12.2	30.2
<b>Vertical Amount</b>									
Transportation	39.5	40.6	46.8	46.4	47.7	48.0	49.7	50.3	51.4
BFS	51.2	63.0	64.5	70.6	78.3	77.3	82.0	84.5	87.9
Insurance	62.0	61.6	59.8	55.3	57.3	55.0	58.7	61.4	62.9
Others	59.7	56.3	61.7	67.0	63.8	68.2	74.0	75.6	75.9
<b>Vertical YoY Growth</b>									
Transportation	34.6	26.2	43.6	23.0	20.7	18.2	6.4	8.4	7.9
BFS	94.9	117.5	122.7	67.6	53.1	22.8	27.3	19.8	12.2
Insurance	18.0	19.8	11.3	(10.1)	(7.5)	(10.8)	(1.7)	11.2	9.6
Others	28.7	16.7	8.1	14.9	6.8	21.1	20.2	12.8	19.1
<b>Order Data (\$ mn)</b>									
America	123	91	158	123	141	208	130	155	118
EMEA	114	110	104	151	134	113	113	346	138
Rest of World	48	47	40	41	29	24	58	30	57
Order In-Take Total	285	247	301	315	304	345	301	531	313
Order Book (12M)	688	701	720	745	802	841	869	897	935
Growth YoY (%)	40.7	39.9	38.5	15.5	16.6	20.0	20.7	20.4	16.6
Revenue Coverage (%)	92.3	87.0	83.1	82.3	85.4	86.7	86.8	86.7	87.7
<b>Revenue Area Mix</b>									
Off-Shore	44.0	46.0	47.0	50.0	50.0	50.0	50.0	51.0	52.0
On-Shore	56.0	54.0	53.0	50.0	50.0	50.0	50.0	49.0	48.0
<b>Project Type Mix</b>									
Fixed Project	53.5	53.9	53.1	51.9	49.8	50.4	50.2	48.9	49.3
T&M	46.5	46.1	46.9	48.1	50.2	49.6	49.8	51.1	50.7
<b>Top Client Amount</b>									
Top 5	47.8	55.8	53.8	54.8	57.1	59.4	60.8	68.2	65.4
Top 6 - 10 Client	22.3	24.1	27.7	30.1	31.4	30.8	33.1	34.2	32.5
Top 11-19 client	27.6	28.6	32.6	14.6	13.1	8.7	15.9	(1.4)	17.0
Non Top 20 Client	114.7	112.9	118.7	139.7	145.6	149.6	154.7	170.7	163.2
<b>Top Client YoY Growth</b>									
Top 5	23.7	44.6	22.8	11.6	19.5	6.4	13.3	24.5	14.5
Top 6 - 10 Client	31.2	50.1	44.8	33.6	40.7	27.6	19.5	13.6	3.7
Top 11-20 client	11.7	26.9	30.4	(48.2)	(52.6)	(69.6)	(51.2)	(109.3)	29.5
Non Top 20 Client	54.6	35.1	40.6	40.0	26.9	32.4	30.5	22.2	12.1

Source: Company, DART

**Exhibit 17: Operating Metrics 2**

Particulars	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total Employees	20,747	22,130	22,144	22,742	22,991	22,505	23,224	24,224	24,638
<b>Breakup</b>									
India - Billable	3,458	3,360	3,360	N.A	N.A	N.A	N.A	N.A	N.A
Outside India - Billable	16,121	17,578	17,578	N.A	N.A	N.A	N.A	N.A	N.A
Sales and Marketing	258	281	278	285	291	317	350	363	360
Others	910	911	928	963	1,008	1,035	1,059	1,099	1,147
Utilization (%)	78.5	77.1	76.1	76.2	77.3	80.3	81.5	81.0	80.0
Attrition (%)	15.3	16.3	17.7	18.0	16.4	15.8	14.1	13.3	13.0
DSO	66	70	63	72	70	73	61	61	64
<b>Client Bucket Data</b>									
\$1mn Bucket	NA	NA	NA	NA	NA	NA	NA	NA	NA
\$1-5mn Bucket	92	94	100	98	97	98	101	102	104
\$5-10mn Bucket	22	21	19	24	26	23	23	24	23
above \$10mn Bucket	16	18	18	19	19	21	21	21	23
<b>New / Old Revenue</b>									
Repeat Biz	198	204	215	230	232	231	242	260	264
New Biz	15	18	17	9	15	21	22	12	14
<b>New / Old Revenue Growth</b>									
Repeat Biz YoY	43.6	45.6	45.3	19.8	17.6	13.4	12.0	13.0	13.8
New Biz YoY	(10.2)	(14.6)	(28.8)	12.0	(4.5)	15.4	38.1	35.1	(5.5)
<b>Practice Mix</b>									
Product Engineering	27.0	23.9	24.8	25.1	26.0	24.6	25.0	25.4	24.5
Data & Integration	43.8	45.4	51.0	55.7	57.1	59.4	62.2	64.9	67.4
Intelligent Automation	30.4	31.0	29.4	30.1	31.1	29.3	29.2	31.1	33.3
CIMS	36.1	41.2	41.9	43.5	43.3	46.2	50.1	54.1	50.9
ADM	50.8	54.7	58.6	57.9	63.8	66.3	73.0	69.2	73.2
BPM	24.6	25.2	25.9	26.6	25.7	22.6	23.7	25.7	26.2

Source: Company, DART



## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>80,146</b>	<b>93,002</b>	<b>1,04,096</b>	<b>1,17,323</b>
<b>Total Expense</b>	<b>66,896</b>	<b>78,095</b>	<b>86,378</b>	<b>97,186</b>
COGS	55,449	64,307	70,922	79,592
Employees Cost	0	0	0	0
Other expenses	11,447	13,788	15,456	17,594
<b>EBIDTA</b>	<b>13,250</b>	<b>14,907</b>	<b>17,717</b>	<b>20,137</b>
Depreciation	2,585	3,090	3,435	3,872
<b>EBIT</b>	<b>10,665</b>	<b>11,817</b>	<b>14,282</b>	<b>16,265</b>
Interest	0	0	0	0
Other Income	(630)	(797)	(480)	(440)
Exc. / E.O. items	(523)	0	0	0
<b>EBT</b>	<b>9,512</b>	<b>11,020</b>	<b>13,802</b>	<b>15,825</b>
Tax	2,061	2,415	3,175	3,640
RPAT	6,938	8,327	10,628	12,186
Minority Interest	513	278	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>7,461</b>	<b>8,327</b>	<b>10,628</b>	<b>12,186</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	611	611	611	611
Minority Interest	874	1,152	1,152	1,152
Reserves & Surplus	30,214	33,927	39,050	44,998
<b>Net Worth</b>	<b>30,825</b>	<b>34,538</b>	<b>39,661</b>	<b>45,609</b>
Total Debt	3,382	3,382	3,382	3,382
Net Deferred Tax Liability	(3,174)	(3,224)	(3,334)	(3,519)
<b>Total Capital Employed</b>	<b>31,907</b>	<b>35,848</b>	<b>40,861</b>	<b>46,624</b>

### Applications of Funds

Net Block	20,754	20,564	20,329	19,957
CWIP	46	46	46	46
Investments	0	15	47	62
<b>Current Assets, Loans &amp; Advances</b>	<b>32,277</b>	<b>36,300</b>	<b>41,556</b>	<b>49,292</b>
Inventories	0	0	0	0
Receivables	17,903	20,627	22,591	24,272
Cash and Bank Balances	5,787	5,770	8,294	13,138
Loans and Advances	0	0	0	0
Other Current Assets	8,587	9,903	10,671	11,881
<b>Less: Current Liabilities &amp; Provisions</b>	<b>21,170</b>	<b>21,077</b>	<b>21,116</b>	<b>22,733</b>
Payables	6,813	7,329	7,757	8,835
Other Current Liabilities	14,357	13,749	13,360	13,898
<i>sub total</i>				
Net Current Assets	11,107	15,223	20,440	26,559
<b>Total Assets</b>	<b>31,907</b>	<b>35,848</b>	<b>40,861</b>	<b>46,624</b>

E – Estimates

### Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	30.8	30.9	31.9	32.2
EBIDTA Margin	16.5	16.0	17.0	17.2
EBIT Margin	13.3	12.7	13.7	13.9
Tax rate	21.7	21.9	23.0	23.0
Net Profit Margin	8.7	9.0	10.2	10.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	69.2	69.1	68.1	67.8
Employee	0.0	0.0	0.0	0.0
Other	14.3	14.8	14.8	15.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	82	81	79	76
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	31	29	27	27
Working Capital days	51	60	72	83
FA T/O	3.9	4.5	5.1	5.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	119.9	133.4	170.2	195.1
CEPS (Rs)	161.5	182.8	225.2	257.1
DPS (Rs)	62.8	78.4	88.1	99.9
Dividend Payout (%)	52.4	58.8	51.8	51.2
BVPS (Rs)	495.4	553.1	635.2	730.4
RoANW (%)	23.9	25.5	28.6	28.6
RoACE (%)	25.8	25.4	27.7	27.9
RoAIC (%)	41.4	42.1	45.6	49.2
<b>(E) Valuation Ratios</b>				
CMP (Rs)	5092	5092	5092	5092
P/E	42.5	38.2	29.9	26.1
Mcap (Rs Mn)	3,13,420	3,13,420	3,13,420	3,13,420
MCap/ Sales	3.9	3.4	3.0	2.7
EV	3,11,015	3,11,032	3,08,508	3,03,664
EV/Sales	3.9	3.3	3.0	2.6
EV/EBITDA	23.5	20.9	17.4	15.1
P/BV	10.3	9.2	8.0	7.0
Dividend Yield (%)	1.2	1.5	1.7	2.0
<b>(F) Growth Rate (%)</b>				
Revenue	24.6	16.0	11.9	12.7
EBITDA	18.8	12.5	18.9	13.7
EBIT	20.1	10.8	20.9	13.9
PBT	10.4	15.9	25.2	14.7
APAT	12.8	11.6	27.6	14.7
EPS	12.5	11.2	27.6	14.7

E – Estimates

## Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
<b>Profit before tax</b>	<b>9,512</b>	<b>11,020</b>	<b>13,802</b>	<b>15,825</b>
Depreciation & w.o.	2,585	3,090	3,435	3,872
Net Interest Exp	0	797	480	440
Direct taxes paid	(2,800)	(2,415)	(3,175)	(3,640)
Change in Working Capital	(1,027)	(4,350)	(4,544)	(1,714)
Non Cash	1,235	0	0	0
<b>(A) CF from Operating Activities</b>	<b>9,505</b>	<b>8,142</b>	<b>9,999</b>	<b>14,783</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,759)	(2,900)	(3,200)	(3,500)
<b>Free Cash Flow</b>	<b>6,746</b>	<b>5,242</b>	<b>6,799</b>	<b>11,283</b>
(Inc.)/ Dec. in Investments	0	(15)	(32)	(15)
Other	43	(797)	(480)	(440)
<b>(B) CF from Investing Activities</b>	<b>(2,716)</b>	<b>(3,712)</b>	<b>(3,712)</b>	<b>(3,955)</b>
Issue of Equity/ Preference	18	0	0	0
Inc./(Dec.) in Debt	(180)	0	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(4,285)	(4,892)	(5,504)	(6,238)
Other	(1,135)	278	0	0
<b>(C) CF from Financing</b>	<b>(5,582)</b>	<b>(4,614)</b>	<b>(5,504)</b>	<b>(6,238)</b>
Net Change in Cash	2,438	(368)	1,566	9,181
<b>Opening Cash balances</b>	<b>4,468</b>	<b>5,699</b>	<b>5,515</b>	<b>6,298</b>
<b>Closing Cash balances</b>	<b>5,699</b>	<b>5,515</b>	<b>6,298</b>	<b>10,888</b>

E – Estimates

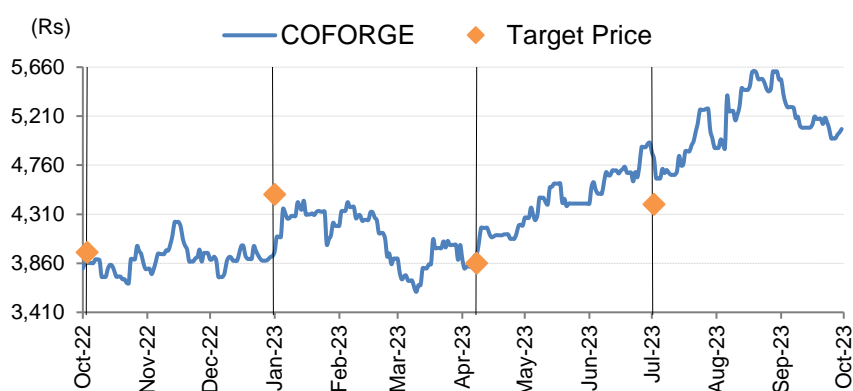
## Notes

## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-22	Accumulate	3,960	3,862
Jan-23	Accumulate	4,490	3,967
Apr-23	Reduce	3,860	3,944
Jul-23	SELL	4,400	4,819

\*Price as on recommendation date

## DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

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Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)

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