

Q3-FY23 Result Update

- ❑ Coforge limited reported revenue growth from operations of 24.0% year-on-year to ₹20,558 million (Mn) on a consolidated basis. In constant currency (CC) terms the revenue grew by 20.7% YoY and 3.7% QOQ. On a YTD basis, at the end of the first nine months of the current fiscal, the firm has grown 22.9% in cc terms, 24.6% in INR terms and 16.3% in USD terms. On a YoY basis, the firm has grown 20.7% in cc terms, 24.0% in INR terms and 13.6% in USD terms.
- ❑ During the quarter, the Banking and financial services (BFS) vertically grew by 39.3% YoY in CC terms and contributed 31.1% to the total revenue. Travel vertical grew 25.6% YoY in CC terms and contributed 19.3% to the revenue mix. Insurance vertical revenue declined by 6.8% YoY in CC terms and contributed 22.1% to the Q3 revenue. Others vertically grew by 24.1% YoY in CC terms and contributed 27.4% to the revenue mix. Within the Others vertical, Retail & Healthcare now stands at about 8% of global company revenue and Public Sector (outside India) stands at around 7%.
- ❑ Within the geographies, Americas contributed 49.2%, EMEA contributed 40.3% and Rest of the World contributed 10.5% to the revenue. . In Q3, Top 5 customers grew 5.4% sequentially and Top 10 customers grew 3.5% sequentially in USD terms. Top 5 clients contribute 23.9% to their aggregate revenues while top 10 contribute 36.3%.
- ❑ The company reported EBITDA of ₹3,595 million in Q3FY as against ₹3,033 million in Q2 FY22, up by 18.5% YoY. EBITDA margins for Q3 FY23 stood at 17.5%. The profit after tax stood at ₹2,359 million in Q3 FY23 as against ₹1,972 million in Q3 FY22, up by 19.6% YoY.
- ❑ Total order book executable over the next 2 months stood at US\$ 841 million as at 31st December 2022 as compared to US\$ 801 million during the previous quarter. Order intake during the quarter stood at US\$ 345m5 million, Americas (US\$ 208 million), EMEA (US\$ 113 million) and rest of world (US\$ 24 million). The management has also declared an interim dividend of ₹ 19 per share.
- ❑ We expect the growth momentum to continue supported by strong deal pipeline along with consistent large deal wins and healthy revenue and margin guidance. We suggest to **HOLD** the stock for target price of **₹5,000 per share**, implying P/E of 28x FY24E.



Key takeaways from Concall

- ❑ The management has increased its revenue guidance from 20% in Q2 FY23 to 22% in Q3 FY23 backed by large deal wins which is the highest in history of any quarter despite the furlough driven quarter. Quarterly order intake has been highest recorded ever. Attrition level came down to 15.8%, one of the lowest in the industry.
- ❑ Q3 gross margin sequentially increased by 133 bps to 33.4%. The significant increase in gross margin in Q3 came about because of (1) offshore revenue contribution increase, (2) a 300 bps improvement in utilization and (3) continued increase in billing of graduate engineer trainees hired directly from college. Management believe, that the structural shift in the gross margin profile of the firm augurs well for a increased margin gradient in the years to come.
- ❑ It won large deal of %50 million under insurance and a \$24 million deal under BPO segment both these were on vendor consolidation side.
- ❑ Insurance is expected to see a strong recovery in Q4 as company closed two large deal wins in insurance segment and management believes insurance should be exactly where it's been for them over the last 4-5 years.
- ❑ The offshore revenue saw a further pick up and crossed the 50% mark representing 50.5% of the total revenue in Q3. 9 quarters ago in Q2FY21, offshore revenue was only 36% of the firm's revenue. This has been a structural shift in the firm's operating profile and an important & sustainable margin improvement lever.
- ❑ The company has also indicated that it has delayed it's ADR listing due to unfavorable market conditions and is keeping a close watch on the market.



Financials:

(In ₹ mn)	Q3 FY23	Q2 FY23	Q3 FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Net Sales	20,558	19,594	16,581	24.0%	58,446	46,891	24.6%
Operating Expense	16,963	16,223	13,548	25.2%	48,594	38,997	24.6%
EBITDA	3,595	3,371	3,033	18.5%	9,852	7,894	24.8%
Other Income	318	135	48	-	593	286	0.0%
Depreciation	624	614	566	-	1,868	1,688	-
EBIT	3,289	2,892	2,515	30.8%	8,577	6,492	32.1%
Interest	215	212	183	-	611	467	-
PBT	3,074	2,680	2,332	31.8%	7,966	6,025	32.2%
Tax	715	474	360	-	1,682	1,126	-
PAT	2,359	2,206	1,972	19.6%	6,284	4,899	28.3%
Minority /Other Adj.	(77)	(195)	(135)	-	(494)	(359)	-
Consolidated PAT	2,282	2,011	1,837	24.2%	5,790	4,540	27.5%

Margins	Q3 FY23	Q2 FY23	Q3 FY22	Chng BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	17.5%	17.2%	18.3%	-80	16.9%	16.8%	2
Net Margin %	11.1%	11.3%	11.1%	2	10.8%	10.4%	30

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	46,628	64,320	77,216	91,115
Operating Expense	38,833	53,301	63,207	74,129
EBITDA	7,795	11,019	14,009	16,986
Other Income	326	518	622	733
Depreciation	1,836	2,272	2,673	2,929
EBIT	6,285	9,265	11,958	14,791
Interest	143	650	508	384
Misc. Item	(180)	-	-	-
PBT	5,962	8,615	11,450	14,407
Tax	1,302	1,468	2,862	3,602
Minority Interest	(104)	(530)	-	-
PAT	4,556	6,617	8,587	10,805

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	-	37.9%	20.0%	18.0%
Operating Margin %	16.7%	17.1%	18.1%	18.6%
Net Margin %	9.8%	10.3%	11.1%	11.9%
EBIT Margin %	13.48%	14.40%	15.49%	16.23%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Liabilities				
Equity Share Capital	1,129	1,184	1,184	1,184
Reserves & Surplus	23,532	26,147	34,734	45,540
Total Shareholder's Funds	24,661	27,331	35,918	46,724
Minority Interest	-	983	983	983
Long-Term Liabilities	3	3,365	2,615	1,865
Other Long-term Liabilities	10,386	17,397	16,647	15,897
Deferred Tax Liability	(1,253)	(1,970)	(1,970)	(1,970)
Short-term Liabilities	8,425	11,792	14,156	16,704
Total	42,222	58,898	68,351	80,204
Assets				
Net Fixed Assets	10,208	20,835	19,520	19,433
Long-Term L&A	10,711	15,436	15,436	15,436
Non Current Investments	-	-	-	-
Other Non-Current Assets	366	418	418	418
Current Asset	20,937	22,209	32,977	44,917
Total	42,222	58,898	68,351	80,204

Key Ratios	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	74.7	108.4	140.6	177.0
P/E (x)	59.2	40.8	31.4	25.0
P/B (x)	10.9	9.9	7.5	5.8
ROE	18.5%	24.2%	23.9%	23.1%

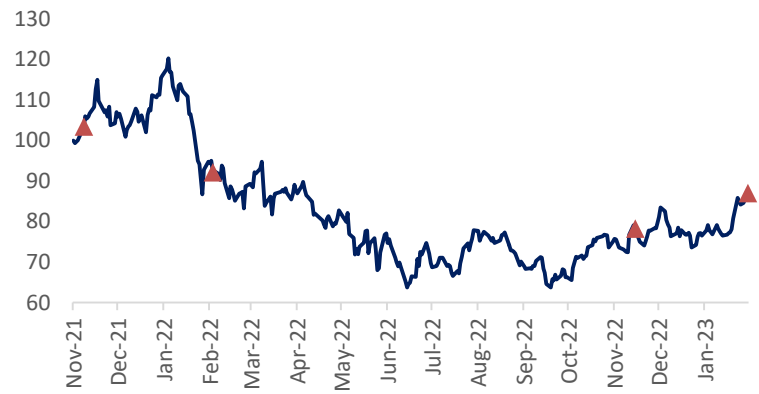
Source: Company, Anand Rathi Research

Key Risks:

- ☐ US H1-B Visa regulations.
- ☐ Foreign currency fluctuations.
- ☐ Employee attrition.

Rating and Target Price history:

COFORGE rating history & price chart



COFORGE rating details

Date	Rating	Target Price (₹)	Share Price (₹)
23-Oct-21	Buy	6,465	5,420
08-Nov-21	Buy	6,645	5,280
03-Feb-22	Buy	6,645	4,675
15-Nov-22	Buy	4,630	3,972
30-Jan-23	HOLD	5,000	4,418

Source: Bloomberg, Anand Rathi Research
NOTE: Prices are as on 30 January 2023 close.

Source: Bloomberg, Anand Rathi Research



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