

Rating Rationale

August 04, 2023 | Mumbai

Coforge Limited

Ratings reaffirmed at 'CRISIL AA / Stable / CRISIL A1+' ; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.657 Crore (Enhanced from Rs.510 Crore)
Long Term Rating	CRISIL AA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.340 Crore Non Convertible Debentures	CRISIL AA/Stable (Reaffirmed)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank facilities and non-convertible debentures (NCDs) of Coforge Ltd (Coforge; erstwhile NIIT Technologies Ltd).

Revenue grew 25% year-on-year to Rs 8,015 crore during fiscal 2023, supported by new deal wins and client additions across all segments, but mainly led by banking & financial services (BFS), and travel, transportation and hospitality. Coforge continues to have a healthy presence in the BFS vertical, which contributed the largest share of revenue at ~31% in fiscal 2023; with ~90% coming from the US and European markets. Earnings before interest, tax, depreciation and amortisation (Ebitda) margin moderated slightly to 16.5% from 17.7% during fiscal 2022 due to growing employee base and high attrition, which is seen moderating from its peaks.

Steady growth in orders over the years is reflected in order book of \$1.3 billion in fiscal 2023 vis-à-vis \$1.1 billion in fiscal 2022. Financial risk profile remains strong because of sizeable networth, and robust gearing and debt protection metrics. Cash surplus was healthy at Rs 603 crore as on March 31, 2023.

The ratings continue to reflect the diversified revenue mix of Coforge across geographies and verticals, and healthy financial risk profile. These strengths are partially offset by modest scale of operations and exposure to intense competition in the information technology (IT) industry.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Coforge and its subsidiaries, in which it holds direct or indirect majority stake, because of common management and strong business and financial linkages. Additionally, CRISIL Ratings has amortised goodwill on acquisitions for 5 years. With adoption of Ind AS 116 with effect from April 01, 2019, lease liabilities are being treated as debt while related adjustments are also made in depreciation and amortisation and interest cost components.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Diversified revenue mix across verticals and practices:** Revenue comes from a mix of IT services to the BFS (31%), insurance (23%), travel, transport and hospitality (19%), and others (28%). Among the practices, it has a diversified portfolio spread across application development and maintenance (26%), cloud and infrastructure management (18%), business process management (10%), product engineering (10%), data and integration (23%), and intelligent automation (12%). In the last two fiscals, the company has acquired 81% stake in Whishworks IT Consulting Pvt Ltd (in fiscal 2020) and SLK (in April 2021), which has enhanced its digital capabilities and BFSI (banking, financial services and insurance) presence. Acquisitions strengthen the company's market position or support entry into new verticals, apart from expanding clientele. During fiscal 2023, 50% of revenue accrued from America; 39% from Europe, the Middle East and Asia; and the remaining from other geographies.
- **Healthy financial risk profile:** As on March 31, 2023, debt comprised mainly of Rs 338 crore of NCDs raised for the SLK acquisition along with lease liabilities of Rs 224 crore. Networth stood at Rs 3,170 crore as on March 31, 2023. While the company has been aggressively acquiring entities, their modest sizes and healthy cash positions have not necessitated substantial contracting of debt. Moderate debt, healthy networth and strong cash accrual have ensured debt protection metrics remain robust (albeit lower than earlier), with net cash accrual to total debt ratio of 1.92 times in fiscal 2023 against 1.16 times in fiscal 2022. Financial risk profile is also supported by liquidity of Rs 603 crore as on March 31, 2023. Moderate capital expenditure (capex) and healthy cash accrual should keep financial risk profile healthy over the medium term.

Weaknesses:

- **Average scale of operations:** The company is a tier-II player in the Indian software industry, as reflected in modest revenue of Rs 8,015 crore in fiscal 2023. This restricts ability to bid for large orders.
- **Exposure to intense competition:** The IT industry in India is challenging because of intense competition among local players and entry of multinational corporations that are continuously expanding their offshore operations in India. To offset this, players have to continuously acquire and retain customers, maintain an efficient cost structure and ensure effective labour retention and utilisation. Protectionist measures adopted by governments across the world remain yet another business challenge for Indian IT companies.

Liquidity: Strong

Liquid surplus stood at Rs 603 crore as on March 31, 2023. Expected cash accrual of about Rs 1,000 crore per annum over the medium term is likely to be sufficient to fund dividend payments, moderate capex (Rs 150-200 crore) and augment liquid surplus. Liquid surplus should be sufficient to fund payment of Rs 334 crore for the remaining 20% stake in SLK in fiscal 2024. Fund-based limit of Rs 510 crore (excluding limit of \$15 million in the US) was moderately utilised at 45% in the 12 months through January 2023.

ESG profile

The environment, social, and governance (ESG) profile of Coforge supports its already strong credit risk profile.

The IT sector has a low impact on the environment because of the inherent nature of digital services, core operations as well as products. The sector has a social impact because of its large workforce. Coforge has continuously focused on mitigating its environmental and social impact.

Key ESG highlights:

- The company has been annually publishing its Business Responsibility Report and has set a clear target to achieve carbon neutrality by 2030
- It is committed to growing its operations while reducing dependence on fossil fuels and increasing green energy initiatives
- The company effectively takes care of the professional, social, emotional, financial, and physical well-being of its employees
- It also continues its corporate social responsibility (CSR) drive around education, employability, infrastructure, local initiatives, and engagement
- It has a strong governance structure with 38% of its board comprising independent directors and extensive disclosures

There is growing importance of ESG among investors and lenders. The company's commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its high share of market borrowings in its overall debt and access to both domestic and foreign capital markets.

Outlook: Stable

Coforge will continue to benefit from its longstanding relationships with clients in diverse verticals and growth in the digital services segment. While being open to acquisitions, the company is also expected to maintain healthy financial risk profile over the medium term.

Rating Sensitivity factors

Upward factors

- Steady double-digit growth in revenue and increase in operating profitability to over 20%
- Sustenance of strong financial risk profile and better liquidity

Downward factors

- Slowdown in key verticals leading to decline in revenue and fall in operating profitability to below 12-14%
- Sustained moderation in debt protection metrics because of continued debt-funded acquisitions or large capex
- Depletion in liquid surplus

About the Company

Coforge is an IT company providing end-to-end software solutions and services. It was formerly known as NIIT Technologies Ltd and was incorporated in April 2003 when NIIT Ltd (NIIT) spun off its software solutions business (excluding knowledge solutions) into a separate legal entity. In May 2019, NIIT and the founder's family members sold total stake of 30.2% in Coforge to Hulst BV (Hulst; affiliate of Baring Private Equity Asia). In August 2019, Hulst acquired 39.85% stake through an open offer, increasing its total stake in Coforge to 70.05%.

Coforge is a capability maturity model level 5 player in the software services industry. It is among the top 20 Indian software exporters. Prominent global customers include British Airways, the ING group, SEI Investments Company, Sabre Corporation and SITA. Over the years, Coforge has set up subsidiaries in the US, Singapore, Australia, the UK, Germany, and Thailand to market and mobilise projects for the software division. The company has business partnerships with large IT companies across the world.

Key Financial Indicators (CRISIL Ratings-adjusted)

Particulars	Unit	2023	2022
Revenue	Rs crore	8,034	6,456
Profit after tax (PAT)#	Rs crore	745	592
PAT margin	%	9.3	9.2
Adjusted debt (including leases)/adjusted network	Times	0.11	0.18
Interest coverage	Times	16.65	17.75

#Adjusted for goodwill amortisation

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash credit**	NA	NA	NA	55.5	NA	CRISIL AA/Stable

NA	Cash credit	NA	NA	NA	124	NA	CRISIL AA/Stable
NA	Letter of credit*	NA	NA	NA	186	NA	CRISIL A1+
NA	Letter of credit	NA	NA	NA	12	NA	CRISIL A1+
NA	Combined working capital facility	NA	NA	NA	279.5	NA	CRISIL AA/Stable
INE591G08012	Non-Convertible Debentures	26-Apr-21	First 3 months - 3 year MIFOR+3.30%; Post 3 months till 3 years - 3 YEAR MIFOR+4.25%; Post that - 1 YEAR MIFOR+4.25%	24-Apr-26	340	Simple	CRISIL AA/Stable

**Fully interchangeable with letter of credit

*Interchangeable with bank guarantee

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Coforge Ltd	Full	Parent company
Coforge SmartServe Limited	Full	Strong business and financial linkages
Coforge Services Limited	Full	Strong business and financial linkages
Coforge DPA Private Limited	Full	Strong business and financial linkages
Coforge SF Private Limited (erstwhile Whishworks Limited) IT Consulting Private	Full	Strong business and financial linkages
Coforge Business Process Solutions Private Limited (erstwhile SLK Global Solutions Private Limited)	Full	Strong business and financial linkages
Coforge Solutions Private Limited	Full	Strong business and financial linkages
Coforge Inc. (erstwhile NIIT Technologies Inc.) USA	Full	Strong business and financial linkages
Coforge Pte Ltd. (erstwhile NIIT Technologies Pte. Ltd) Singapore	Full	Strong business and financial linkages
Coforge U.K. Ltd. (erstwhile NIIT Technologies Ltd.) UK	Full	Strong business and financial linkages
NIIT Technologies Philippines Inc (under liquidation)	Full	Strong business and financial linkages
Coforge GmbH (erstwhile NIIT Technologies GmbH), Germany	Full	Strong business and financial linkages
Coforge FZ LLC (erstwhile NIIT Technologies FZ-LLC, Dubai)	Full	Strong business and financial linkages
Coforge Airline Technologies GmbH (erstwhile NIIT Airline Technologies GmbH, Germany)	Full	Strong business and financial linkages
Coforge DPA UK Ltd. (erstwhile Incessant Technologies. Ltd. (UK))	Full	Strong business and financial linkages
Coforge DPA Australia Pty Ltd. (erstwhile Incessant Technologies Australia)	Full	Strong business and financial linkages
Coforge DPA NA Inc. (erstwhile Incessant Technologies NA Inc (USA))	Full	Strong business and financial linkages
Coforge DPA Ireland Limited (erstwhile Incessant Technologies Ltd. (Ireland))	Full	Strong business and financial linkages
Coforge BPM Inc. (erstwhile RuleTek, Inc)	Full	Strong business and financial linkages
Coforge Healthcare Digital Automation LLC	Full	Strong business and financial linkages
Coforge Technologies (Australia) Pty Ltd. (erstwhile NIIT Technologies Pty Australia)	Full	Strong business and financial linkages
Coforge Limited (erstwhile NIIT Technologies Limited), Thailand	Full	Strong business and financial linkages
Coforge BV (erstwhile NIIT Technologies BY Netherlands)	Full	Strong business and financial linkages
Coforge Advantage Go (erstwhile NIIT Insurance Technologies Limited.) U.K.	Full	Strong business and financial linkages
Coforge S.A. (erstwhile NIIT Technologies S.A., Spain)	Full	Strong business and financial linkages
Coforge SPOLKA Z OGRANICZONA ODPOWIEDZIALNOSCIA, Poland	Full	Strong business and financial linkages
Coforge SON. BHD (erstwhile NIIT Technologies SON. BHD. Malaysia)	Full	Strong business and financial linkages
Coforge S.R.L. (erstwhile NIIT Technologies S.R.L. Romania)	Full	Strong business and financial linkages
Coforge A.B. (erstwhile NIIT Technologies A.B., Sweden)	Full	Strong business and financial linkages
Coforge SpA, Chile	Full	Strong business and financial linkages
Coforge SF Limited, UK (erstwhile Whishworks Limited, UK)	Full	Strong business and financial linkages

Coforge BPS Philippines Inc. (erstwhile SLK Global Philippines Inc, Philippines)	Full	Strong business and financial linkages
Coforge BPS America Inc. (erstwhile SLK Global Solutions America Inc., USA)	Full	Strong business and financial linkages
Coforge BPS North Carolina LLC (erstwhile SLK Global No1ih Carolina LLC,	Full	Strong business and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	459.0	CRISIL AA/Stable	03-04-23	CRISIL AA/Stable	08-04-22	CRISIL AA/Stable	16-04-21	CRISIL AA/Stable	25-08-20	CRISIL AA/Stable	CRISIL AA/Stable
					--	29-03-22	CRISIL AA/Stable	19-02-21	CRISIL AA/Stable	30-07-20	CRISIL AA/Stable	--
					--		--		--	03-01-20	CRISIL AA/Stable	--
Non-Fund Based Facilities	ST	198.0	CRISIL A1+	03-04-23	CRISIL A1+	08-04-22	CRISIL A1+	16-04-21	CRISIL A1+	25-08-20	CRISIL A1+	CRISIL A1+
					--	29-03-22	CRISIL A1+	19-02-21	CRISIL A1+	30-07-20	CRISIL A1+	--
					--		--		--	03-01-20	CRISIL A1+	--
Non Convertible Debentures	LT	340.0	CRISIL AA/Stable	03-04-23	CRISIL AA/Stable	08-04-22	CRISIL AA/Stable	16-04-21	CRISIL AA/Stable		--	--
					--	29-03-22	CRISIL AA/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	16	Indian Overseas Bank	CRISIL AA/Stable
Cash Credit	108	ICICI Bank Limited	CRISIL AA/Stable
Cash Credit ^{&}	55.5	Citibank N. A.	CRISIL AA/Stable
Composite Working Capital Limit	65	Bank of America N.A.	CRISIL AA/Stable
Composite Working Capital Limit	67.5	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA/Stable
Composite Working Capital Limit	25	Bank of America N.A.	CRISIL AA/Stable
Composite Working Capital Limit	122	HDFC Bank Limited	CRISIL AA/Stable
Letter of Credit [%]	119	Indian Overseas Bank	CRISIL A1+
Letter of Credit [%]	67	ICICI Bank Limited	CRISIL A1+
Letter of Credit	12	Citibank N. A.	CRISIL A1+

& - Fully interchangeable with letter of credit

% - Interchangeable with bank guarantee

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Software Industry
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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