

CMP: INR 4,743

Rating: Hold

Target Price: INR 4,997

Stock Info

BSE	532541
NSE	COFORGE
Bloomberg	COFORGE IN
Reuters	NIIT.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR mn)	606
Mkt Cap (INR mn)	2,87,419
52w H/L (INR)	4,850 / 1,694
Avg Yearly Vol (in 000')	604

Shareholding Pattern %

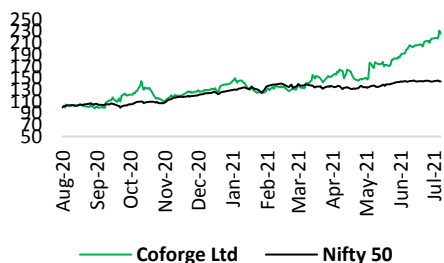
(As on June, 2021)

Promoters	55.73
FII	19.42
DII	14.93
Public & Others	9.92

Stock Performance (%)

	3m	6m	12m
Coforge	65.3	95.9	168
Nifty	5.6	13.6	39.0

Coforge Vs Nifty



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Coforge reported Q1FY22 revenue and EBITDA above & PAT In-line with our estimates. Revenue (CC Terms) (Mn USD) grew by 42.4% YoY/15.8% QoQ stood at \$199.7 mn in Q1FY22 against our estimates \$179 mn. Revenue growth boosted by 2-month contribution of SLK global acquisition. Consolidated revenue, from operations, grew by 38.3% YoY/15.9% stood at INR 14,616 mn in Q1FY22 against our estimate of INR 13,120 mn. EBITDA grew by 24.7%YoY/0.8% QoQ to INR 2,114 mn against our estimate of INR 2,080 mn. EBITDA margin contracted by 157bps YoY/217bpsQoQ to 14.5% Q1FY22 vs our estimate of 15.9%. EBITDA margin largely impacted due to wage hikes as well as other expenses including visa costs and impact of transition in some of the material deals signed over the last six months. The Company Net Profit grew by 30%YoY/-4.5% QoQ of INR 1,312 mn in Q1FY22 against our estimate of INR 1,330 mn. The company has announced an interim dividend of INR 13 per share.

Business Highlights (Vertical wise) – Q1 FY22

Insurance 10.1% on QoQ and contributed 32% of the revenue mix.
BFS 3.2% on QoQ and contributed 16% of the total revenue mix.
Travel & Transport 15.8% on QoQ and now contributed only 20% to total revenue mix. Management expects growth traction in the travel segment to continue in the medium term. There is still room for recovery in Europe travel vertical.

Retail, 2.1% on QoQ and contributed 32% of total revenue. Its investment in setting up other verticals (Hi-Tech & Manufacturing; Retail and Healthcare) over last 18 months has paid off and have helped to diversify the revenue base.

Employees: The company added 1,138 and 6,962 employees from SLK led to a total headcount reaching 20,491. Utilization dropped 400 bps QoQ to 77%, on account of more hiring in the quarter. While attrition stood at 12.6% increased by 210 bps on QoQ. Attrition is well in control for the company even when demand for talent with special niche skills has heated up.

Valuations

At CMP of INR 4,743, Coforge is trading at FY23 P/E of 33.2x to its FY23 EPS of INR 142.8. Coforge is poised to show strong momentum in FY22 due to strong guidance for FY22 and is planning for organic growth of at least 19% in constant currency terms during FY'22 and an expansion of EBITDA margin of 19% (pre-RSU) in FY'22 and could outpace peers because of a wide margin.

We value Coforge at P/E of 35x to its FY23E EPS INR 142.8, which yields a target price of INR 4,997 per share. **We assign a Hold rating on the stock.**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	36,762	6,485	4,033	65.3	17.6%	19.7%	37.6
FY20	41,839	7,233	4,440	71.0	17.3%	18.8%	66.7
FY21	46,628	7,795	4,556	75.2	16.7%	19.2%	63.1
FY22E	58,033	10,852	6,853	113.1	18.7%	22.9%	41.9
FY23E	69,224	13,222	8,653	142.8	19.1%	22.9%	33.2

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1 FY22 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	199.7	172	140	15.8%	42.4%
Net Revenue	14,616	12,615	10,570	15.9%	38.3%
Raw Material	392	272	NA	44.1%	NA
Employee cost	9,024	7,585	7,137	19.0%	26.4%
Other Expenses	3,086	2,660	1,738	16.0%	77.6%
EBITDA	2,114	2,098	1,695	0.8%	24.7%
<i>EBITDA margin %</i>	<i>14.5%</i>	<i>16.6%</i>	<i>16.0%</i>	<i>-217bps</i>	<i>-157bps</i>
Other Income	161	165	76	-2.4%	111.8%
Depreciation	524	449	465	16.7%	12.7%
Finance costs	119	32	37	271.9%	221.6%
PBT	1,632	1,782	1,269	-8.4%	28.6%
Tax Expense	320	408	260	-21.6%	23.1%
Effective tax rate %	19.6%	22.9%	20.5%	-329bps	-88bps
PAT	1,312	1,374	1,009	-4.5%	30.0%
MI & Associates	-76	-44	-30	72.7%	153.3%
Consolidated PAT	1,236	1,330	979	-7.1%	26.3%
Exceptional item	-	-	-180	-	-
Reported PAT	1,236	1,330	799	-7.1%	54.7%
<i>PAT margin %</i>	<i>8.5%</i>	<i>10.5%</i>	<i>9.3%</i>	<i>-209bps</i>	<i>-81bps</i>
EPS (INR)	20.4	22.0	12.8	-7.1%	59.1%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1 FY22 Key Concall Highlights

Outlook: The company demand environment remains good and there has been acceleration in organic revenue growth and it has increased its organic revenue growth guidance from 17% cc to 19% cc for FY22. Has also guided for 19% pre RSU EBITDA margin for FY 22.

Margin trajectory 1QFY22: Wage hike had around 200 bps impact on EBITDA margin and decrease in utilisation by 400 bps also had significant impact. The company expects 200 bps sequential improvement in EBITDA margin for Q2FY22. Positive operating leverage and higher offshoring and improvement in utilisation to be key margin driver going ahead.

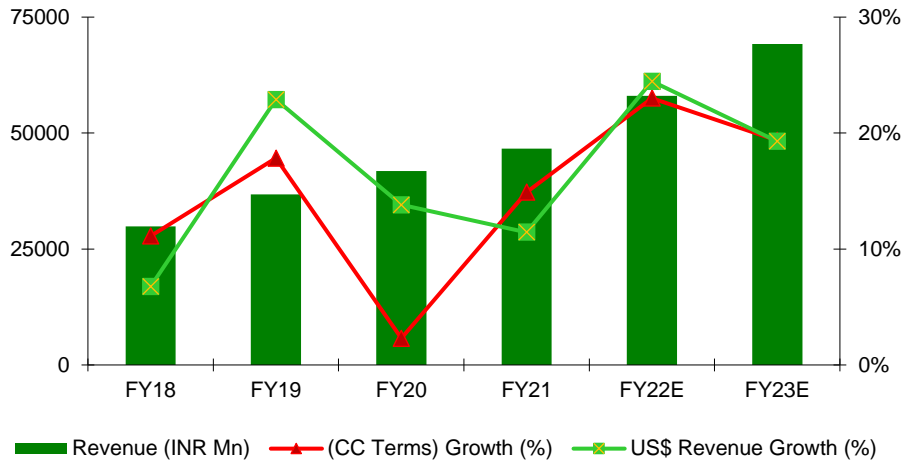
Order intake: Signed 3 large deals, one of them is the largest ever for companies' insurance-tech business. In Q1 FY22 stood order is \$318 mn and earlier \$201mn, Including a USD 105 million contract that will bring into play the firm's core transformation capabilities across data architecture and engineering, hybrid cloud management, digital integration, and process-led automation. Total orderbook executable over the next 12 months has expanded 38.7% YoY to USD 645 mn for the Q1 FY22

Client position: Added 11 new clients in the Q1 FY22 and the company added 4 new clients in >10 mn and >5 mn bracket respectively. Client concentration risk is moving in right direction as top 10 clients now contribute 36% of revenue compared to 38% in Q1 FY21.

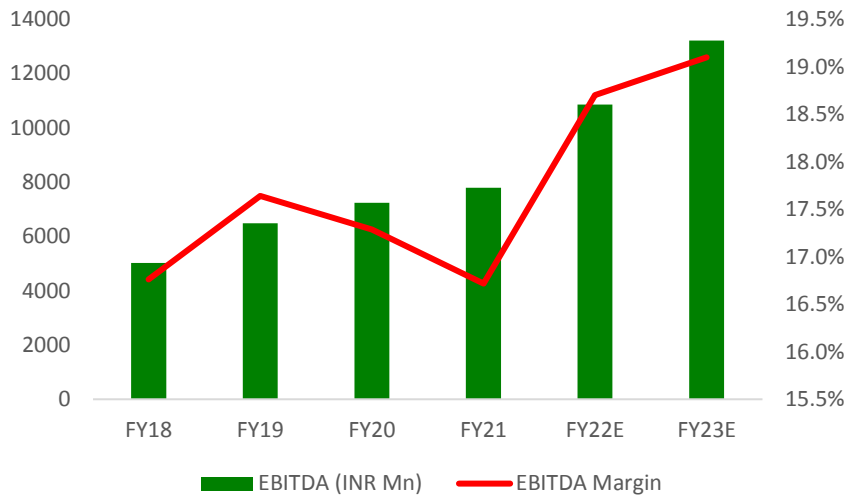
Onsite total revenue is 60% lower then 64% recorded year back. Offshore revenue mix grew 1% QoQ to 40% as per the industry trend. Revenue contribution from Fixed price projects increased by 100 bps QoQ to 55%.

The company is expecting SLK to grow faster than even Coforge going ahead.

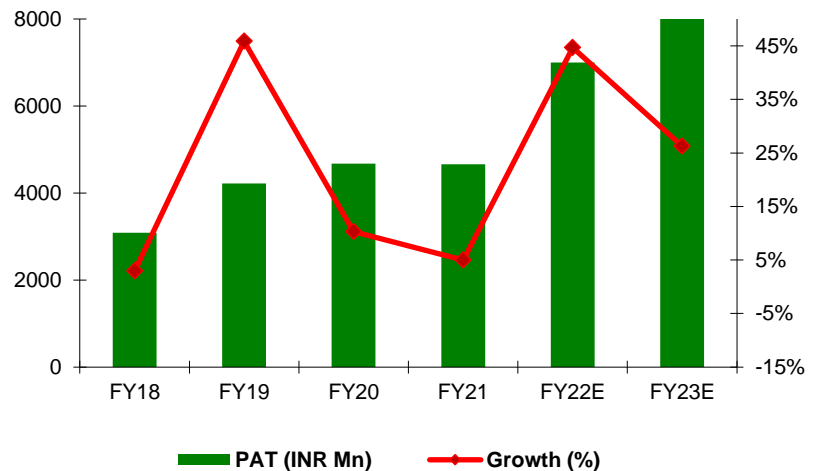
Revenue Growth Trend



EBITDA & Margin Trend



PAT Trend



The company demand environment remains good and there has been acceleration in organic revenue growth and it has increased its organic revenue growth guidance from 17% cc to 19% cc for FY22. Has also guided for 19% pre RSU EBITDA margin for FY 22.

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement (INR Mn)					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
Revenue (CC Terms) (Mn USD)	538	551	633	778	929
<i>Change (%)</i>	17.8%	2.3%	14.9%	23.0%	19.4%
Revenues	36,762	41,839	46,628	58,033	69,224
<i>Change (%)</i>	22.9%	13.8%	11.4%	24.5%	19.3%
Operating Costs	291	844	1,935	2,379	2,700
Gross Profit	36,471	40,995	44,693	55,654	66,524
Employee Costs	21,532	25,298	28,158	33,659	40,011
Other Expenses	8,454	8,464	8,740	11,142	13,291
Total Expenses	30,277	34,606	38,833	47,181	56,002
EBITDA	6,485	7,233	7,795	10,852	13,222
Depreciation	1,248	1,730	1,836	2,078	2,212
Interest	92	155	143	143	135
PBT	5,680	6,025	6,142	8,979	11,221
Extra-ordinary	56	71	180	0	0
PBT after ext-ord.	5,624	5,954	5,962	8,979	11,221
Tax	1,403	1,278	1,302	1,975	2,469
<i>Rate (%)</i>	24.9%	21.5%	21.8%	22.0%	22.0%
PAT	4,221	4,676	4,660	7,004	8,753
MI & Associates	-188	-236	-104	-151	-100
Consolidated PAT	4,033	4,440	4,556	6,853	8,653
<i>Change (%)</i>	45.9%	10.3%	5.0%	44.7%	26.3%

Cash Flow Statement (INR Mn)					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	5,680	6,025	6,142	8,979	11,221
Depreciation	1,248	1,730	1,836	2,078	2,212
Interest & others	-631	-758	-287	-356	-311
Cash flow before WC changes	6,297	6,997	7,691	10,701	13,122
(Inc)/dec in working capital	-1,066	-533	-107	529	220
Operating CF after WC changes	5,231	6,464	7,584	11,230	13,342
Less: Taxes	-1,403	-1,814	-1,302	-1,975	-2,469
Operating Cash Flow	3,828	4,650	6,282	9,255	10,873
(Inc)/dec in F.A + CWIP	2,499	-2,061	-2,139	-700	-699
(Pur)/sale of investment	-585	3,514	13	-13	0
Cash Flow from Investing	1,914	1,453	-2,126	-713	-699
Free Cash Flow (FCF)	6,314	3,329	5,682	8,555	10,174
Equity raised	3	7	-19	0	0
Interest & others	-3,046	-1,904	-4,218	96	1,619
Dividend	-1,236	-688	-788	-788	-788
Cash Flow from Financing Activities	-4,358	-2,637	-5,068	-692	831
Net inc/(dec) in cash	1,384	3,467	-912	7,850	11,006
Opening balance of cash	4,183	5,567	9,034	8,122	15,972
Closing balance of cash	5,576	9,034	8,122	15,972	26,978

Balance Sheet (INR Mn)					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	618	625	606	606	606
Reserves & Surplus	20,105	22,885	23,041	29,257	37,222
Net Worth	20,723	23,965	24,661	29,863	37,828
Loan Funds					
	100	48	5	5	5
MI, Deferred Tax & other Liabilities	1,020	1,644	841	841	841
Capital Employed	21,843	25,657	25,507	30,709	38,674
Application of Funds					
Gross Block	8,187	10,001	10,180	10,880	11,579
Net Block	6,939	8,271	8,344	8,802	9,367
CWIP	14	3	2	2	2
Other Non-current Assets	320	790	2,083	2,083	2,083
Deferred Tax Assets	1,032	1,302	1,548	1,548	1,548
Net Fixed Assets	8,305	10,366	11,977	12,435	13,000
Investments	3,651	137	124	137	137
Debtors	5,922	8,565	8,895	11,130	13,276
Inventories	0	0	0	0	0
Cash & Bank Balance	5,576	9,034	8,122	15,972	26,978
Loans & Advances & other CA	4,032	3,774	4,154	4,154	4,154
Total Current Assets	15,530	21,373	21,171	31,256	44,407
Current Liabilities	5,832	7,819	8,525	11,289	13,655
Provisions	1,059	922	921	921	921
Net Current Assets	8,639	12,632	11,725	19,046	29,831
Total Assets	21,843	25,657	25,507	30,709	38,674

Key Ratios					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	65.3	71.0	75.2	113.1	142.8
CEPS	85.5	98.7	105.5	147.4	179.3
BVPS	335.4	383.4	406.9	492.8	624.2
DPS	20.0	11.0	13.0	13.0	13.0
Div. Payout (%)	0.3	0.2	0.2	0.1	0.1
P/E	37.6	66.7	63.1	41.9	33.2
P/CEPS	28.7	48.0	45.0	32.2	26.5
P/BV	7.3	12.4	11.7	9.6	7.6
EV/EBITDA	10.5	9.0	8.2	5.2	3.4
Dividend Yield (%)	0.8%	0.2%	0.3%	0.3%	0.3%
Return ratio (%)					
EBIDTA Margin	17.6%	17.3%	16.7%	18.7%	19.1%
PAT Margin	11.1%	10.8%	10.2%	11.8%	12.5%
ROE	19.7%	18.8%	19.2%	22.9%	22.9%
ROCE	24.0%	21.4%	23.4%	28.6%	28.5%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.4	-0.3	-0.5	-0.7
Turnover Ratios					
Asset Turnover (x)	1.7	1.6	1.8	1.9	1.8
Inventory Days	0	2	2	3	4
Receivable Days	59	75	70	70	70
Payable days	68	76	70	71	72

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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