

Strong order book, & operational efficiency to drive the way ahead.

CMP: Rs 2240

Rating: Hold

Target Price: Rs 2421

Stock Info

BSE	532541
NSE	COFORGE
Bloomberg	COFORGE IN
Reuters	COFORGE.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	625
Mkt Cap (Rs mn)	135698
52w H/L (Rs)	2,813/ 739
Avg Yearly Vol (in 000')	671

Shareholding Pattern %

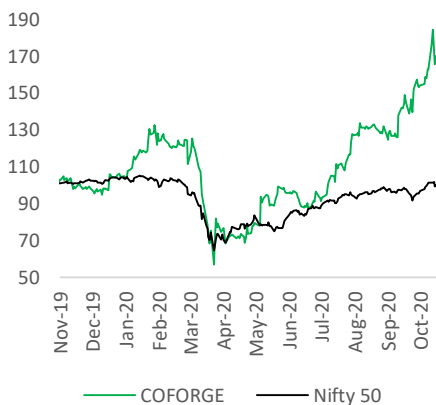
(As on September, 2020)

Promoters	70.28
FII	13.15
DII	7.59
Public & Others	8.98

Stock Performance (%)

	3m	6m	12m
Coforge	16.6	90.1	48.0
Nifty	5.9	26.3	-0.4

Coforge Vs Nifty



Coforge Limited (Coforge) (erstwhile NIIT Tech) Q2FY21 earnings were below our estimates on all fronts. Consolidated revenue stood at Rs 11,537 mn, below our estimate of Rs 11,890 mn, registering a growth of +9.1% QoQ /+11.1% YoY amid broad based growth across all verticals . Consolidated EBITDA stood at Rs 2048 mn, up by by 21.5% QoQ /7.9% YoY. On the margins front, EBITDA margin contracted by 52 bps YOY but expanded by 180 bps QoQ to 17.8% backed by higher utilization, cost rationalization and growth in topline. Consolidated PAT stood at Rs 1207 mn, below our estimate of Rs 1348mn, registering growth of 51.1% QoQ/1% YoY. QOQ growth in PAT was mainly due to lower depreciation & tax expense.

Business Highlights (Vertical wise) – Q2FY21

- Coforge registered healthy revenue growth up by 8.1% QoQ in constant currency terms, The revenue growth was broad based across verticals mainly led by insurance(up 13.5% QoQ) and BFS (up 10.2% QoQ). Digital revenues (including IP) also increased 18.7% QoQ.
- The order intake has been consistently showing a healthy position. Fresh order intake was at US\$201 million, up by 8.1% QoQ. The executable order book over the next 12 months is up by 20.7% YoY to US\$489 million. The company has added 12 new customers of which seven were from the US, three from EMEA and two from RoW.
- Demand in the airline segment (~5% of revenue) continues to be suppressed. Company's QoQ growth from airline in Q2 has come on the back of wallet share gains from pre-pandemic customers.
- Management will be carving out healthcare as a separate vertical from the 'others' segment going forward.
- Deal velocity is expected to continue in the coming quarters.

Valuations

At CMP of Rs 2240, Coforge currently trades at a P/E of 31.5x to its FY20 Eps of Rs 71. .Company is expected to benefit from increased investment in Cloud, AI and data. Further, the company is winning healthy deals in the BFSI & insurance sector. This, coupled with improving growth trajectory in healthcare will lead to healthy growth in revenues in coming years. The company saw a 180 bps increase in margins in Q2FY21 to 17.8% mainly led by higher utilisation and cost rationalisation. Further, improvement in license revenues from its subsidiary, ramp up of large deals, higher utilisation and cost rationalisation likely to bode well for margin in coming quarters.

We value Coforge Limited at P/E of 27x to its FY22E EPS, which yields target price of Rs 2,421 per share. **We assign Hold rating on the stock.**

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

Q2 FY21 - Quarterly Performance (Consolidated)

Particulars (in Rs million)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Net Revenue	11,537	10,570	10,385	9.1%	11.1%
Employee cost	7,776	7,241	6,796	7.4%	14.4%
Selling/General and Administration	1,713	1,643	1,691	4.3%	1.3%
EBITDA	2,048	1,686	1,898	21.5%	7.9%
<i>EBITDA margin %</i>	<i>17.8%</i>	<i>16.0%</i>	<i>18.3%</i>	<i>180bps</i>	<i>-52bps</i>
Other Income (Net of Interest)	-63	48	76	-231.3%	-182.9%
Depreciation	460	465	447	-1.1%	2.9%
Profit Before Exceptional Item	1,525	1,269	1,527	20.2%	-0.1%
Exceptional item	-	180	-		
PBT After Exceptional item	1,525	1,089	1,527	40.0%	-0.1%
Tax Expense	303	260	276	16.5%	9.8%
Effective tax rate %	19.9%	20.5%	18.1%	-62bps	179bps
PAT	1,222	829	1,251	47.4%	-2.3%
MI & Associates	-15	-30	-56		
Consolidated PAT	1,207	799	1,195	51.1%	1.0%
Reported PAT	1,207	799	1,195	51.1%	1.0%
<i>PAT margin %</i>	<i>10.5%</i>	<i>7.6%</i>	<i>11.5%</i>	<i>290bps</i>	<i>-104bps</i>
EPS (Rs)	19.9	12.8	19.3	55.2%	3.1%

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

Key Concall Highlights

- Coforge has guided for revenue growth of 6% YoY organic growth in FY21E. Further, company has also guided EBITDA margin of 17.8% (in cc terms) for FY21E excluding Esop expenses led by better revenue visibility and cost rationalisation.
- The digital business (including IP) is now contributing 43% to revenues was up from 40% in Q1FY21. Digital revenues increased 18.7% QoQ. Coforge has hired Mr Arun Varadarajan who has rich experience in digital technologies and will head the company's digital business
- The company's top 5 and Top 6-10 clients increased 6.2% QoQ and 1.25% QoQ, respectively.
- DSO days increased by four days to 75 days mainly due to extended credit to customers.
- The company added 564 employees to 11,162 and all were billable. The company's utilisation also dipped 134 bps QoQ to 10.5%.
- Cash balance stood at Rs 4147 million, down by Rs 1310 mn on QoQ basis. The company also paid buyback tax of Rs 781 million during the quarter. Capex spending during the quarter was Rs 214 million.
- The top five clients of the company contribute 24.9% of the total revenue and the top 10 and the top 20 contribute 36.4% and 52.0% of the total revenue respectively. The number of \$1 million plus clients stood at 109 the end of the quarter, up from 95 accounts a year ago and from the number of 107 clients at the end of the preceding quarter.
- Onsite revenues represented 64% of the total revenue this quarter compared to 62% in the previous quarter. Whereas the offsite revenue represented 36% of the total revenue.

Key Financials

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	36,762	41,839	46,240	52,273
<i>Change (%)</i>	22.9%	13.8%	10.5%	13.0%
Operating Costs	291	844	462	523
Gross Profit	36,471	40,995	45,777	51,750
Employee Costs	21,532	25,298	27,096	30,632
Other Expenses	8,454	8,464	10,450	11,814
Total Expenses	30,277	34,606	38,009	42,968
EBITDA	6,485	7,233	8,231	9,305
Other Income	535	677	462	523
Depreciation	1,248	1,730	1,834	1,955
Interest	92	155	14	14
PBT	5,680	6,025	6,845	7,858
Extra-ordinary	56	71	0	0
PBT after ext-ord.	5,624	5,954	6,845	7,858
Tax	1,403	1,278	1,711	1,965
<i>Rate (%)</i>	24.9%	25.0%	25.0%	25.0%
PAT	4,221	4,676	5,134	5,894
MI & Associates	-188	-238	-290	-289
Consolidated PAT	4,089	4,509	4,844	5,605
<i>Change (%)</i>	45.9%	10.3%	7.4%	15.7%

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	618	625	625	625
Reserves & Surplus	20,105	23,340	26,860	30,821
Net Worth	20,723	23,965	27,485	31,446
Loan Funds	100	48	48	48
MI, Deferred Tax & other Liabilities	1,020	1,644	1,644	1,644
Capital Employed	21,843	25,657	29,177	33,138
Application of Funds				
Gross Block	8,187	10,001	10,601	11,301
Less: Depreciation	1,248	1,730	1,834	1,955
Net Block	6,939	8,271	8,767	9,346
CWIP	14	3	3	3
Other Non-current Assets	320	790	790	790
Deferred Tax Assets	1,032	1,302	1,231	1,232
Net Fixed Assets	8,305	10,366	10,791	11,371
Investments	3,651	137	137	137
Debtors	5,922	8,565	8,868	10,025
Inventories	0	0	3	4
Cash & Bank Balance	5,576	9,034	12,510	17,159
Loans & Advances & other CA	4,032	3,774	5,067	5,729
Total Current Assets	15,530	21,373	26,448	32,917
Current Liabilities	5,832	7,819	8,868	10,168
Provisions	1,059	922	922	922
Net Current Assets	8,639	12,632	16,658	21,827
Total Assets	21,843	25,657	29,177	33,138

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	5,680	6,025	6,845	7,858
Depreciation	1,248	1,730	1,834	1,955
Interest & others	-631	-760	-738	-797
Cash flow before WC changes	6,297	6,995	7,941	9,016
(Inc)/dec in working capital	-1,066	-533	-550	-520
Operating CF after WC changes	5,231	6,462	7,391	8,496
Less: Taxes	-1,403	-1,814	-1,711	-1,965
Operating Cash Flow	3,828	4,648	5,680	6,531
(Inc)/dec in F.A + CWIP	2,499	-2,061	-529	-701
(Pur)/sale of investment	-585	3,514	0	0
Cash Flow from Investing	1,914	1,453	-529	-701
Free Cash Flow (FCF)	6,314	3,327	5,080	5,831
Loan raised/(repaid)	-79	-52	0	0
Equity raised	3	7	0	0
Interest & others	-3,046	-1,246	-61	752
Dividend	-1,227	-1,353	-1,613	-1,933
Cash Flow from Financing Activities	-4,349	-2,644	-1,674	-1,181
Net inc/(dec) in cash	1,393	3,457	3,476	4,649
Opening balance of cash	4,183	5,576	9,034	12,510
Closing balance of cash	5,576	9,034	12,510	17,159

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	65.3	71.0	77.5	89.7
CEPS	85.5	98.7	106.8	121.0
BVPS	335.4	383.4	439.8	503.1
DPS	19.9	21.6	25.8	30.9
Div. Payout (%)	0.3	0.3	0.3	0.3
Valuation (x)				
P/E	34.3	31.5	28.9	25.0
P/CEPS	26.2	22.7	21.0	18.5
P/BV	6.7	5.8	5.1	4.5
EV/EBITDA	20.5	18.1	15.5	13.2
Dividend Yield (%)	0.9%	1.0%	1.2%	1.4%
Return ratio (%)				
EBITDA Margin	17.6%	17.3%	17.8%	17.8%
PAT Margin	11.1%	10.8%	10.5%	10.7%
ROE	19.7%	18.8%	17.6%	17.8%
ROCE	24.0%	21.4%	21.9%	22.2%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.4	-0.5	-0.5
Turnover Ratios				
Asset Turnover (x)	1.7	1.6	1.6	1.6
Inventory Days	0	2	2	3
Receivable Days	59	75	70	70
Payable days	68	76	70	71

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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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