

CMP: Rs 2453

Rating: Accumulate

Target Price: Rs 2778

Stock Info

BSE	532541
NSE	COFORGE
Bloomberg	COFORGE IN
Reuters	NIIT.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	624
Mkt Cap (Rs mn)	1,46,558
52w H/L (Rs)	2,060 / 735
Avg Yearly Vol (in 000')	651

Shareholding Pattern %

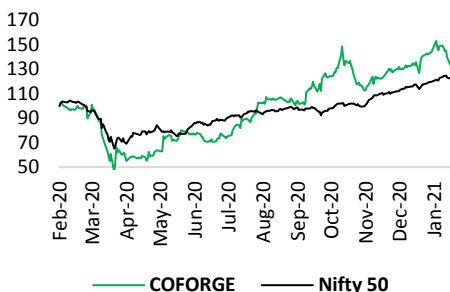
(As on Dec, 2020)

Promoters	63.99
FII	14.44
DII	12.21
Public & Others	9.36

Stock Performance (%)

	3m	6m	12m
Coforge	14.2	25.5	28.8
Nifty	24.9	31.6	24.9

COFORGE Vs Nifty



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Coforge Ltd Q3FY21, Consolidated revenue stood at Rs 11,906 mn, registering +10.9% YoY/+3.2% QoQ. Led by Travel & hospitality vertical. Consolidated EBITDA stood at Rs 2,016 mn, up by 3.5%YoY/ +1.5% QoQ. On the margins front, EBITDA margin contracted by -122bps YoY/-28 bps QoQ to 16.9%. Margin was marginally under pressure due to selective wage hikes for employees in niche skills during the quarter. Consolidated PAT stood at Rs 1,220 mn, decline by -1.1% YoY/+1.1% QoQ.

Business Highlights (Vertical wise) – Q3FY21

Travel vertical: Coforge highlighted that it was expecting the Airlines businesses to revive completely only by Nov-Dec'21. a) revival of spends in the larger accounts 2) Revival in a large Airline customer, which was previously placed under administration 3) Discounts that were given during the pandemic coming off and 4) new areas of growth in the vertical like Travel tech.

BFS and Insurance: Management highlighted that they have increased penetration and got empanelled in Tier one banks and insurance providers. Insurtech platform continues to do well, and management expects mining of the Top insurance accounts to provide a good leeway for growth for this vertical.

Healthcare and Hi-tech: The company had earlier indicated carving out new Healthcare and Hi-tech verticals. While management highlighted that they have invested in the Healthcare vertical with some senior hires, it indicated that it has not made much investment yet to develop the new Hi-tech vertical and would do so in due course. Management also highlighted that they are looking to hire a separate leader for the healthcare vertical.

Valuations

At CMP of Rs 2453, Coforge is trading at FY23 P/E of 21x. Coforge has reported a steady, broad based rebound in revenue growth in Q3FY21 results, we have increased our FY22-23 revenue estimates. Coforge has been consistently winning large deals, which has been a key growth driver for the company. Consequently, we expect Coforge to benefit from improved traction in digital technology, going forward. This, coupled with healthy traction in emerging verticals like healthcare, hi tech, revival in travel verticals ramp up of large deal wins, vendor consolidation opportunities and healthy order book prompt us to be positive on revenues from long term perspective.

We value Coforge at P/E of 24x to its FY23E EPS 116, which yields target price of Rs 2,778 per share. **We upgrade our rating to Accumulate from Hold earlier.** Key risk: A slower than expected pace of growth in digital technologies will adversely impact Coforge's revenue growth.

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	36,762	6,485	4,089	65	17.6%	19.7%	38
FY20	41,839	7,233	4,509	71	17.3%	18.8%	35
FY21E	46,240	7,907	4,577	73	17.1%	16.9%	33
FY22E	54,248	9,710	6,164	99	17.9%	19.6%	25
FY23E	62,140	11,123	7,236	116	17.9%	19.7%	21

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

Q3 FY21 - Quarterly Performance (Consolidated)

Particulars (in Rs million)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Net Revenue	11,906	11,537	10,734	3.2%	10.9%
Employee cost	7,205	6,763	6,524	6.5%	10.4%
Other Expenses	2,685	2,788	2,262	-3.7%	18.7%
EBITDA	2,016	1,986	1,948	1.5%	3.5%
<i>EBITDA margin %</i>	<i>16.9%</i>	<i>17.2%</i>	<i>18.1%</i>	<i>-28bps</i>	<i>-122bps</i>
Other Income	46	39	148	17.9%	-68.9%
Depreciation	462	460	449	0.4%	2.9%
Finance costs	34	40	26	-15.0%	30.8%
PBT	1,566	1,525	1,621	2.7%	-3.4%
Tax Expense	331	303	336	9.2%	-1.5%
<i>Effective tax rate %</i>	<i>21.1%</i>	<i>19.9%</i>	<i>20.7%</i>	<i>127bps</i>	<i>41bps</i>
PAT	1,235	1,222	1,285	1.1%	-3.9%
MI & Associates	-15	-15	-52		
Consolidated PAT	1,220	1,207	1,233	1.1%	-1.1%
Exceptional item	-	-	-		
Reported PAT	1,220	1,207	1,233	1.1%	-1.1%
<i>PAT margin %</i>	<i>10.2%</i>	<i>10.5%</i>	<i>11.5%</i>	<i>-22bps</i>	<i>-124bps</i>
EPS (Rs)	20.1	19.9	19.8	1.1%	2.0%

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

Key Concall Highlights

Outlook:

- Management highlighted that they remained confident of delivering the previously guided at least 6% c/c' organic growth, and highlighted that the growth had been 5.3% c/c for YTD FY21.
- Coforge sees Cloud and Infrastructure service lines playing a huge role in growth, going forward management further indicated that in 75% of the large deals in the pipeline, the company's Cloud capabilities are playing a huge role.
- Management expressed confidence that the overall growth trajectory remained positive, and indicated that they continue to wrest wallet share away from the competition. As per management, the win ratios for the deals in the pipeline have also been improving for the past several quarters

Deals:

- Executable order book at USD 501mn was up18% YoY, with two large (TCV> USD 20mn) signed this quarter, one in Insurance vertical and the other in the Healthcare vertical.

Hiring and employee :

- Hiring and employee related metrics: Coforge indicated that hiring continues to be very strong given the strong demand outlook, with total hiring to-date in Jan'21 exceeding the total hiring for 3QFY21.
- Management has increased the FY21 EBITDA margin guidance to 18% pre-RSU cost (vs. 17.8% earlier), it highlighted that there would not be any quantum jump in the EBITDA with improved growth, since there was an increased demand for talent. In fact, Coforge indicated that it had executed selective wage hikes for niche skills in 3QFY21, in order to keep the attrition under check. The company also plans to give broad-based bonus to exceptional employees in 4QFY21 and plans to undertake a firm wide wage hike from 1st April 2021.

Key Financials

Income Statement (Rs Mn)					
Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	36,762	41,839	46,240	54,248	62,140
<i>Change (%)</i>	22.9%	13.8%	10.5%	17.3%	14.5%
Operating Costs	291	844	925	542	621
Gross Profit	36,471	40,995	45,315	53,705	61,519
Employee Costs	21,532	25,298	26,958	31,735	36,352
Other Expenses	8,454	8,464	10,450	12,260	14,044
Total Expenses	30,277	34,606	38,333	44,538	51,017
EBITDA	6,485	7,233	7,907	9,710	11,123
Other Income	535	677	370	488	621
Depreciation	1,248	1,730	1,887	1,899	2,016
PBT	5,680	6,025	6,376	8,286	9,714
Extra-ordinary	56	71	0	0	0
PBT after ext-ord.	5,624	5,954	6,376	8,286	9,714
Tax	1,403	1,278	1,594	2,071	2,429
<i>Rate (%)</i>	24.9%	25.0%	25.0%	25.0%	25.0%
PAT	4,221	4,676	4,782	6,214	7,286
MI & Associates	-188	-238	-205	-50	-50
Consolidated PAT	4,089	4,509	4,577	6,164	7,236
<i>Change (%)</i>	45.9%	10.3%	1.5%	34.7%	17.4%

Balance Sheet (Rs Mn)					
Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Share Capital	618	625	625	625	625
Reserves & Surplus	20,105	23,340	26,508	30,789	36,142
Net Worth	20,723	23,965	27,133	31,414	36,767
Loan Funds	100	48	48	48	48
MI, Deferred Tax & other Liabilities	1,020	1,644	1,644	1,644	1,644
Capital Employed	21,843	25,657	28,825	33,107	38,459
Application of Funds					
Gross Block	8,187	10,001	10,601	11,301	12,000
Net Block	6,939	8,271	8,714	9,402	9,984
CWIP	14	3	3	3	3
Other Non-current Assets	320	790	790	790	790
Deferred Tax Assets	1,032	1,302	1,302	1,302	1,302
Net Fixed Assets	8,305	10,366	10,809	11,497	12,079
Investments	3,651	137	137	137	137
Debtors	5,922	8,565	8,868	10,404	12,088
Inventories	0	0	5	4	7
Cash & Bank Balance	5,576	9,034	12,048	17,502	24,643
Loans & Advances & other CA	4,032	3,774	5,067	5,945	6,980
Total Current Assets	15,530	21,373	25,989	33,856	43,718
Current Liabilities	5,832	7,819	8,868	10,552	12,258
Provisions	1,059	922	922	922	922
Net Current Assets	8,639	12,632	16,199	22,381	30,538
Total Assets	21,843	25,657	28,826	33,107	38,459

Cash Flow Statement (Rs Mn)					
Year End-March	FY19	FY20	FY21E	FY22E	FY23E
PBT	5,680	6,025	6,376	8,286	9,714
Depreciation	1,248	1,730	1,887	1,899	2,016
Interest & others	-631	-760	-561	-524	-657
Cash flow before WC changes	6,297	6,995	7,702	9,660	11,073
(Inc)/dec in working capital	-1,066	-533	-552	-728	-1,016
Operating CF after WC changes	5,231	6,462	7,150	8,932	10,057
Less: Taxes	-1,403	-1,814	-1,594	-2,071	-2,429
Operating Cash Flow	3,828	4,648	5,556	6,861	7,629
(Inc)/dec in F.A + CWIP (Pur)/sale of investment	-585	3,514	0	0	0
Cash Flow from Investing	1,914	1,453	-600	-700	-699
Free Cash Flow (FCF)	6,314	3,327	4,956	6,161	6,930
Loan raised/(repaid)	-79	-52	0	0	0
Equity raised	3	7	0	0	0
Dividend	-1,227	-1,353	-1,613	-1,933	-1,933
Cash Flow from Financing Activities	-4,349	-2,644	-1,941	-706	211
Net inc /(dec) in cash	1,393	3,457	3,014	5,454	7,141
Opening balance of cash	4,183	5,576	9,034	12,048	17,502
Closing balance of cash	5,576	9,034	12,048	17,502	24,643

Key Ratios					
Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	65.3	71.0	73.2	98.6	115.8
CEPS	85.5	98.7	103.4	129.0	148.0
BVPS	335.4	383.4	434.1	502.6	588.3
DPS	19.9	21.6	25.8	30.9	30.9
Div. Payout (%)	0.3	0.3	0.4	0.3	0.3
P/E	37.6	34.5	33.5	24.9	21.2
P/CEPS	28.7	24.9	23.7	19.0	16.6
P/BV	7.3	6.4	5.7	4.9	4.2
EV/EBITDA	10.5	9.0	7.9	5.9	4.5
Dividend Yield (%)	0.8%	0.9%	1.1%	1.3%	1.3%
Return ratio (%)					
EBIDTA Margin	17.6%	17.3%	17.1%	17.9%	17.9%
PAT Margin	11.1%	10.8%	9.9%	11.4%	11.6%
ROE	19.7%	18.8%	16.9%	19.6%	19.7%
ROCE	24.0%	21.4%	20.9%	23.6%	23.7%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.4	-0.4	-0.6	-0.7
Turnover Ratios					
Asset Turnover (x)	1.7	1.6	1.6	1.6	1.6
Inventory Days	0	2	2	3	4
Receivable Days	59	75	70	70	71
Payable days	68	76	70	71	72

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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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