

Strong order book and improving employee pyramid; Healthier guidance for FY22

CMP: INR 4,401

Rating: Accumulate

Target Price: INR 5,202

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)	27,808
52w H/L (INR)	6,133 / 2,326
Avg Yearly Vol (in 000')	544

Shareholding Pattern %

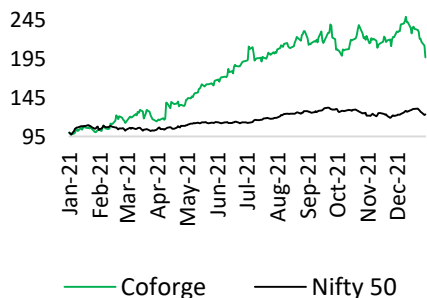
(As on Dec, 2021)

Promoters	49.97
FII	19.12
DII	14.48
Public & Others	16.43

Stock Performance (%)

	1m	3m	12m
Coforge	(18.1)	(8.8)	88
Nifty	(0.5)	(6.6)	21.7

Coforge Vs Nifty



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Coforge has reported EBIT margin in line with our estimates in Q3FY22, while both revenue and PAT are marginally below estimates.

- The management has upbeat full-year growth guidance. FY22 revenue growth guidance raised to 37% from 22% in constant currency terms.
- Constant Currency Revenue growth +35.9% YoY/5.7% QoQ to (Mn USD) 221.6 against our estimate 224 (Mn USD).
- Coforge has reported consolidated revenue of INR 16,581 Mn, +39.3% YoY/5.7% QoQ in Q3FY22 against our estimate of INR 16,859 Mn.
- Consolidated EBIT stood at INR 2,467 Mn, up by 58.8% YoY/14.8% QoQ against our estimate of INR 2,533 Mn.
- On the margins front, EBIT margin expanded by 183bps YoY/ 119bps QoQ to 14.9% against our estimate of 15.0%.
- Consolidated PAT stood at INR 1837 Mn, up by 50.6% YoY/25.2% QoQ against our estimate of INR 1938 Mn.
- Order intake during the quarter was \$247 million, while 13 new clients were added during the quarter. Total order book executable over the next 12 months stood at \$701 Mn at the end of the quarter
- Utilization was down 140 bps QoQ to 77.1 against 78.5% in Q2FY22, with attrition increasing by 100bps QoQ to 16.3 against 15.3% in Q2FY22, which continues to be amongst the lowest in the industry.
- The company headcount up by 1,344 to 22,130 in Q3FY22
- Interim dividend of INR 13 per share

Valuations

At CMP of INR 4,401, Coforge is trading at FY24 P/E of 25.4x to its FY24E EPS of INR 173.4. Coforge is poised to show strong momentum in FY22 due to strong guidance for FY22 and is planning for organic growth of at least 37% in cc terms during FY22 (with recently acquired SLK global is expected to grow in line with the overall company growth rate) and an expansion of adjusted EBITDA margin of 19.5% in FY22 led by robust deal win and improving employee pyramid and could outpace peers because of a wide margin.

We value Coforge at P/E of 30x to its FY24E EPS INR 173.4, which yields a target price of INR 5,202 per share. **We maintain an Accumulate rating on the stock.**

YE March	Revenue (CC Terms) (Mn USD)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY21	633	46,628	7,795	4,556	75.2	16.7%	19.2%	60.9
FY22E	856	62,930	10,950	6,820	112.5	17.4%	22.8%	39.1
FY23E	998	73,567	13,169	8,609	142.1	17.9%	22.7%	31.0
FY24E	1157	85,236	15,683	10,508	173.4	18.4%	22.0%	25.4

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

Q3 FY22 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	221.6	212.8	163	4.1%	35.9%
Net Revenue	16,581	15,694	11,906	5.7%	39.3%
Raw Material	362	377	585	-4.0%	
Employee cost	9,689	9,514	7,205	1.8%	34.5%
Other Expenses	3,497	3,056	2,100	14.4%	66.5%
EBITDA	3,033	2,747	2,016	10.4%	50.4%
EBITDA margin %	18.3%	17.5%	16.9%	79bps	136bps
Depreciation	566	598	462	-5.4%	22.5%
EBIT	2,467	2,149	1,554	14.8%	58.8%
EBIT margin %	14.9%	13.7%	13.1%	119bps	183bps
Other Income	48	77	46	-37.7%	4.3%
Finance costs	183	165	34	10.9%	438.2%
PBT	2,332	2,061	1,566	13.1%	48.9%
Tax Expense	360	446	331	-19.3%	8.8%
Effective tax rate %	15.4%	21.6%	21.1%	-620bps	-570bps
PAT	1,972	1,615	1,235	22.1%	59.7%
MI & Associates	-135	-148	-15	-8.8%	800.0%
Consolidated PAT	1,837	1,467	1,220	25.2%	50.6%
Exceptional item	-	-	-		
Reported PAT	1,837	1,467	1,220	25.2%	50.6%
PAT margin %	11.1%	9.3%	10.2%	173bps	83bps
EPS (INR)	30.3	24.2	20.1	25.0%	50.3%

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

Q3 FY22 Key Conference call Highlights

- On track to achieve a \$1bn revenue run rate in FY23.
- Strong growth across top clients, yet another large deal closure, and improvement in the onsite, offshore side revenue mix.
- Pickup in the Travel segment will further boost revenue growth in FY23.
- ADvantageGo had a sequential decline in revenue but is expected to bounce back in Q4FY22
- Proceeding with the plan for US ADR listing.
- On boarded senior talent at scale, successful acquired businesses. Attrition increasing by 100bps QoQ to 16.3 against 15.3% in Q2FY22, continues to be amongst the lowest in the industry.
- **Revenue:** Organic excluded SLK global and consolidate is aggregated balance sheet- Robust organic growth in Q3FY22. The firm consolidated revenue 5.2% in CC terms QoQ/4.2% in US \$ term/ 5.7% in INR.
- **Segment wise:** In Q3FY22 BFS (28.4% of revenue) grew by 111% YoY, Insurance (27.8% of revenue) grew by 23.1% YoY, and Travel, Transportation and Hospitality (TTH) (18.3% of revenue) grew by 27.45 YoY. The other segment which includes healthcare, government outside India, Hi-tech, and manufacturing grew by 18.8% YoY.
- **Client:** Top 5 clients grew 18.4% QoQ and they contributed 25.2% to overall revenue. The top 10 clients grew by 15.5% QoQ and they contributed 36.1% to the company's overall revenue. Sustain growth across the e-client relationship, the company has seen the number greater than the \$10mn client relationship double from 9 to 18 over the last year.

Q3 FY22 Key Conference call Highlights

- Offshore:** The company's offshore revenue represents 46% of overall revenue in Q3FY22. The major changes in operating profile, continue to an expansion of the offshore revenue as % of the overall revenue. Offshore global revenue increased by 10% over the last 5 quarters from 36% in Q2FY22 to 46% in Q3FY22. Offshore revenue CQGR of 11% over the last 5 quarters is outpacing the firm overall growth.
- Margin:** In Q3FY22, EBITDA margin 19.5% (before ESOPs and acquisition-related costs) multiple headwinds in terms of retention, hiring cost, and QoQ decline in revenue cost and the impact of holidays furlough. The company is committed to growing its EBITDA margin in FY22 over FY21.
- Order intake:** At the starting of the year, the company intake \$105 Mn TCV in 4 years 8-month contract also two in a \$50mn+ deal, and this momentum continue in Q3FY22 and signed the USD 45mn+ TCV contract in Europe. Order intake in Q3FY22 was \$247 million, in that \$90 mn from America and \$110mn from Kenya and \$47mn from ROW. while 13 new clients were added during the quarter. Total order book executable over the next 12 months stood at \$701 Mn at the end of the quarter
- Logo:** 13 new logos, it includes world largest retailer and largest travel tech firm.
- Service category:** The revenue from product engineering, product integration, intelligent automation, data services, and cloud infra services stand at 72%. The bulk of the remaining organic revenue at 27% is from ADM service line revenue which is also aligned with the product-first approach. The company also recreating from Application Development and Maintenance (ADM) service line to training and development of the employee. The long-term growth can build only on these technologies and industry experts continue to drive the company investment.
- Digital integration front, the company secure a mandate US-based client the architect and support the system, considerable salesforce platform, day by enabling future acquisition for the industry.
- Coforge was named as a 'Major Contender' in the Salesforce Services in Insurance PEAK Matrix® Assessment 2022 of the Everest Group.
- In the insurance space during the quarter the company delivered strategic insurance major life The government-based partner with Coforge for IT and IT security.
- SLK global is expected to grow in line with the overall company growth rate.

Key Financials

Income Statement (INR Mn)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Revenue (CC Terms) (Mn USD)	551	633	856	998	1157
<i>Change (%)</i>	2.3%	14.9%	35.3%	16.6%	15.9%
Revenues	41,839	46,628	62,930	73,567	85,236
<i>Change (%)</i>	13.8%	11.4%	35.0%	16.9%	15.9%
Operating Costs	844	1,935	2,580	2,869	3,324
Gross Profit	40,995	44,693	60,350	70,698	81,912
Employee Costs	25,298	28,158	37,003	43,405	49,863
Other Expenses	8,464	8,740	12,397	14,125	16,365
Total Expenses	34,606	38,833	51,980	60,399	69,552
EBITDA	7,233	7,795	10,950	13,169	15,683
Depreciation	1,730	1,836	2,078	2,212	2,345
Interest	155	143	155	160	165
PBT	6,025	6,142	9,094	11,165	13,600
Extra-ordinary	71	180	0	0	0
PBT after ext-ord.	5,954	5,962	9,094	11,165	13,600
Tax	1,278	1,302	2,001	2,456	2,992
<i>Rate (%)</i>	21.5%	21.8%	22.0%	22.0%	22.0%
PAT	4,676	4,660	7,094	8,709	10,608
MI & Associates	-236	-104	-274	-100	-100
Consolidated PAT	4,440	4,556	6,820	8,609	10,508
<i>Change (%)</i>	10.3%	5.0%	44.0%	26.2%	22.1%

Balance Sheet (INR Mn)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	625	606	606	606	606
Reserves & Surplus	22,885	23,041	29,347	37,268	47,087
Net Worth	23,965	24,661	29,953	37,874	47,693
Loan Funds	48	5	5	5	5
MI, Deferred Tax & other Liabilities	1,644	841	841	841	841
Capital Employed	25,657	25,507	30,799	38,720	48,539
Application of Funds					
Gross Block	10,001	10,180	10,880	11,579	12,277
Net Block	8,271	8,344	8,802	9,367	9,932
CWIP	3	2	2	2	2
Other Non-current Assets	790	2,083	2,083	2,083	2,083
Deferred Tax Assets	1,302	1,548	1,548	1,548	1,548
Net Fixed Assets	10,366	11,977	12,435	13,000	13,565
Investments	137	124	137	137	137
Debtors	8,565	8,895	12,069	14,109	16,347
Inventories	0	0	0	0	0
Cash & Bank Balance	9,034	8,122	16,075	27,047	36,366
Loans & Advances & other CA	3,774	4,154	4,154	4,154	4,154
Total Current Assets	21,373	21,171	32,298	45,310	56,867
Current Liabilities	7,819	8,525	12,241	14,512	16,814
Provisions	922	921	921	921	921
Net Current Assets	12,632	11,725	19,136	29,877	39,132
Total Assets	25,657	25,507	30,799	38,720	48,539

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

Key Financials

Cash Flow Statement (INR Mn)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
PBT	6,025	6,142	9,094	11,165	13,600
Depreciation	1,730	1,836	2,078	2,212	2,345
Interest & others	-758	-287	-497	-308	-361
Cash flow before WC changes	6,997	7,691	10,676	13,069	15,583
(Inc)/dec in working capital	-533	-107	542	231	64
Operating CF after WC changes	6,464	7,584	11,218	13,299	15,647
Less: Taxes	-1,814	-1,302	-2,001	-2,456	-2,992
Operating Cash Flow	4,650	6,282	9,218	10,843	12,655
(Inc)/dec in F.A + CWIP	-2,061	-2,139	-700	-699	-698
(Pur)/sale of investment	3,514	13	-13	0	0
Cash Flow from Investing	1,453	-2,126	-713	-699	-698
Free Cash Flow (FCF)	3,329	5,682	8,518	10,144	11,957
Equity raised	7	-19	0	0	0
Interest & others	-1,904	-4,218	237	1,616	-1,851
Dividend	-688	-788	-788	-788	-788
Cash Flow from Financing Activities	-2,637	-5,068	-551	828	-2,638
Net inc / (dec) in cash	3,467	-912	7,953	10,972	9,319
Opening balance of cash	5,567	9,034	8,122	16,075	27,047
Closing balance of cash	9,034	8,122	16,075	27,047	36,366

Key Ratios					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	71.0	75.2	112.5	142.1	173.4
CEPS	98.7	105.5	146.8	178.5	212.1
BVPS	383.4	406.9	494.3	625.0	787.0
DPS	11.0	13.0	13.0	13.0	13.0
Div. Payout (%)	0.2	0.2	0.1	0.1	0.1
P/E	66.7	60.9	39.1	31.0	25.4
P/CEPS	48.0	43.4	30.0	24.6	20.7
P/BV	12.4	11.3	8.9	7.0	5.6
EV/EBITDA	9.0	8.2	5.1	3.4	2.3
Dividend Yield (%)	0.2%	0.3%	0.3%	0.3%	0.3%
Return ratio (%)					
EBIDTA Margin	17.3%	16.7%	17.4%	17.9%	18.4%
EBIT Margin	13.2%	12.8%	14.1%	14.9%	15.6%
PAT Margin	10.8%	10.2%	10.8%	11.7%	12.3%
ROE	18.8%	19.2%	22.8%	22.7%	22.0%
ROCE	21.4%	23.4%	28.8%	28.3%	27.5%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	-0.4	-0.3	-0.5	-0.7	-0.8
Turnover Ratios					
Asset Turnover (x)	1.6	1.8	2.0	1.9	1.8
Inventory Days	2	2	3	4	4
Receivable Days	75	70	70	70	70
Payable days	76	70	71	72	72

Source: Arihant 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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