

Strong order book; Strong quarterly performance, robust guidance for FY22

CMP: INR 3,396

Rating: Accumulate

Target Price: INR 3,803

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)	205780
52w H/L (INR)	3,449 / 1,152
Avg Yearly Vol (in 000')	608

Shareholding Pattern %

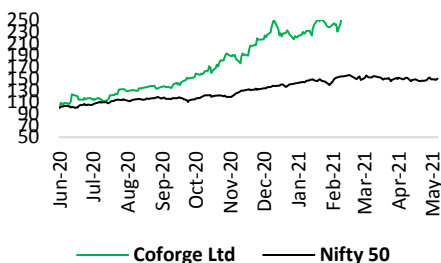
(As on March, 2021)

Promoters	63.99
FII	14.62
DII	11.85
Public & Others	9.54

Stock Performance (%)

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

COFORGE Vs Nifty



Coforge reported Q4FY21 revenue above & PAT In-line with our estimates. Consolidated revenue from operations grew by 13.7% YoY/6.0% stood at INR 12,615 mn in Q4FY21 against our estimates INR 12,230 mn. EBITDA grew by 5.7%YoY/4.1QoQ to INR 2,098 mn against our estimates INR 2,210 mn. EBITDA margin contracted by 125bps YoY/30bpsQoQ to 16.6% Q4FY21 vs our estimates 18% in Q4FY20. Company reported net Profit of INR 1,374 mn in Q4FY21 against our estimates of INR 1,380 mn.

Business Highlights (Vertical wise) – Q4FY21

Vertical Performance: One of the highest exposure Travel, Transportation and hospitality industry challenges were severally amplified. Travel contributed 90% of business in FY21 compared to 28% in FY20. Growth for the year excluding the travel vertical for the firm 18.4% in cc terms. **Insurance** 12.8% in cc terms FY21 and it contributed 32.5% of total revenue.

BFS 14.2% in cc terms in FY21 against FY20 and contributed 17.4% of total revenue. Financial is approaching 16% of revenue. Travel & Transport was down 26.9% in cc terms in FY21 and now contributed only 19.3% to total revenue.

Retail, Manufacturing Government outside India, Healthcare and Hi-tech collectively grew 28.2 YoY in cc terms, 13.8% of total revenue.

Geography: America contributed 48% of Company revenue grew by 6.1% (cc), EMEA revenue grew 3.3% (cc) YoY and represented 30% revenue mix. ROW grew by 12.3% (cc) YoY, contributing 15% of total revenue. Digital & Product engineering portfolio of the firm 52.1% of revenue this excludes revenue from cloud services business. Digital & Product engineering portfolio grew 9.3% in YoY

Valuations

At CMP of INR 3396, Coforge is trading at FY23 P/E of 26.8x. Coforge is poised to show strong momentum in FY22 due to strong guidance for FY22 and is planning for an organic growth of at least 17% in constant currency terms during FY'22 and an expansion of EBITDA margin (excluding ESOP and acquisition related costs) from 18% in FY'21 to 19% in FY'22 and could outpace peers because of wide margin.

We value Coforge at P/E of 30x to its FY23E EPS 126.8, which yields a target price of INR 3,803 per share. **We maintain our Accumulate rating on the stock.** Key risk: A slower than expected pace of growth in digital technologies will adversely impact Coforge's revenue growth.

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%	47.8
FY21	46,628	7,795	4,556	75.2	16.7%	19.2%	45.2
FY22E	55,221	9,940	6,179	102.0	18.0%	21.2%	33.3
FY23E	65,210	11,933	7,683	126.8	18.3%	21.3%	26.8

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

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Q4 FY21 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Net Revenue	12,615	11,906	11,093	6.0%	13.7%
Employee cost	7,585	7,205	6,697	5.3%	13.3%
Other Expenses	2,932	2,685	2,412	9.2%	21.6%
EBITDA	2,098	2,016	1,984	4.1%	5.7%
<i>EBITDA margin %</i>	<i>16.6%</i>	<i>16.9%</i>	<i>17.9%</i>	<i>-30bps</i>	<i>-125bps</i>
Other Income	165	46	221	258.7%	-25.3%
Depreciation	449	462	433	-2.8%	3.7%
Finance costs	32	34	54	-5.9%	-40.7%
PBT	1,782	1,566	1,718	13.8%	3.7%
Tax Expense	408	331	348	23.3%	17.2%
Effective tax rate %	22.9%	21.1%	20.3%	176bps	264bps
PAT	1,374	1,235	1,370	11.3%	0.3%
MI & Associates	-44	-15	-106		
Consolidated PAT	1,330	1,220	1,264	9.0%	5.2%
Exceptional item	-	-	-128		
Reported PAT	1,330	1,220	1,136	9.0%	17.1%
<i>PAT margin %</i>	<i>10.5%</i>	<i>10.2%</i>	<i>11.4%</i>	<i>30bps</i>	<i>-85bps</i>
EPS (Rs)	22.0	20.1	18.2	9.0%	20.7%

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

Key Concall Highlights

Outlook:

The company reported robust revenue growth in Q4FY21 and FY21 despite having higher exposure to the travel vertical. Going forward, Coforge is pursuing three greater than US\$50 million deals (of which one is US\$100 million deal) and has also seen a healthy order book. This, coupled with bottoming out of travel vertical, improved growth in healthcare (10% of revenue, with external leader, sales team leader, business leader and delivery leader) and ramp up in Insurance & hi tech (8% of revenues) vertical bode well for the company's long term revenue trajectory. Coforge is also becoming a preferred partner for Fortune 500 insurance and Tier 1 banking companies, which will help in winning large deals, going forward. In addition, the company's prowess in cloud, data and application has given it the confidence of 17% YoY organic growth in FY22E. This, coupled with synergies with recent acquisition and aggressive hiring (headcount up 20% since January 2021)

Margin trajectory –EBITDA margins were flat on a QoQ basis despite higher revenue growth due to one-time bonus to employees. The company plans to give wage hikes in FY22E.

Deal wins – Fresh order intake was at US\$201 million, up 5% QoQ. The executable order book over the next 12 months is up 11.1% YoY to US\$520 million. The company added 11 new customers of which four were from the US, five from EMEA and two from RoW.

Client position: The company's top five and top 6-10 clients increased 11.7% QoQ and 17.9% QoQ, respectively.

Employees: The company added 967 employees to 12,391. Utilisation also increased 210 bps QoQ to 81.0% while attrition was flat at 10.5%

Key Financials

Income Statement (INR Mn)					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
Revenues	36,762	41,839	46,628	55,221	65,210
Change (%)	22.9%	13.8%	11.4%	18.4%	18.1%
Operating Costs	291	844	1,935	2,264	2,543
Gross Profit	36,471	40,995	44,693	52,957	62,667
Employee Costs	21,532	25,298	28,158	32,249	37,691
Other Expenses	8,454	8,464	8,740	10,768	13,042
Total Expenses	30,277	34,606	38,833	45,281	53,276
EBITDA	6,485	7,233	7,795	9,940	11,933
Other Income	535	677	326	331	391
Depreciation	1,248	1,730	1,836	2,078	2,212
PBT	5,680	6,025	6,142	8,050	9,978
Extra-ordinary	56	71	180	0	0
PBT after ext-ord.	5,624	5,954	5,962	8,050	9,978
Tax	1,403	1,278	1,302	1,771	2,195
Rate (%)	24.9%	21.5%	21.8%	22.0%	22.0%
PAT	4,221	4,676	4,660	6,279	7,783
MI & Associates	-188	-236	-104	-100	-100
Consolidated PAT	4,033	4,440	4,556	6,179	7,683
Change (%)	45.9%	10.3%	5.0%	30.5%	24.3%

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	28,532	35,527
Net Worth	20,723	23,965	24,661	29,138	36,133
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	29,984	36,979
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	10,590	12,506
Inventories	0	0	0	0	0
Cash & Bank Balance	5,576	9,034	8,122	15,240	25,261
Loans & Advances & other CA	4,032	3,774	4,154	4,154	4,154
Total Current Assets	15,530	21,373	21,171	29,984	41,921
Current Liabilities	5,832	7,819	8,525	10,742	12,863
Provisions	1,059	922	921	921	921
Net Current Assets	8,639	12,632	11,725	18,321	28,137
Total Assets	21,843	25,657	25,507	29,984	36,979

Cash Flow Statement (INR Mn)					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	5,680	6,025	6,142	8,050	9,978
Depreciation	1,248	1,730	1,836	2,078	2,212
Interest & others	-631	-758	-287	-288	-356
Cash flow before WC changes	6,297	6,997	7,691	9,840	11,833
(Inc)/dec in working capital	-1,066	-533	-107	521	206
Operating CF after WC changes	5,231	6,464	7,584	10,361	12,039
Less: Taxes	-1,403	-1,814	-1,302	-1,771	-2,195
Operating Cash Flow	3,828	4,650	6,282	8,590	9,844
(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	7,890	9,145
Loan raised/(repaid)	-79	-52	-43	0	0
Equity raised	3	7	-19	0	0
Dividend	-1,236	-688	-788	-788	-788
Cash Flow from Financing Activities	-4,358	-2,637	-5,068	-759	876
Net inc/(dec) in cash	1,384	3,467	-912	7,118	10,022
Opening balance of cash	4,183	5,567	9,034	8,122	15,240
Closing balance of cash	5,576	9,034	8,122	15,240	25,261

Key Ratios					
Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	65.3	71.0	75.2	102.0	126.8
CEPS	85.5	98.7	105.5	136.3	163.3
BVPS	335.4	383.4	406.9	480.8	596.3
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	47.8	45.2	33.3	26.8
P/CEPS	28.7	34.4	32.2	24.9	20.8
P/BV	7.3	8.9	8.3	7.1	5.7
EV/EBITDA	10.5	9.0	8.2	5.7	3.9
Dividend Yield (%)	0.8%	0.3%	0.4%	0.4%	0.4%
Return ratio (%)					
EBIDTA Margin	17.6%	17.3%	16.7%	18.0%	18.3%
PAT Margin	11.1%	10.8%	10.2%	11.2%	11.8%
ROE	19.7%	18.8%	19.2%	21.2%	21.3%
ROCE	24.0%	21.4%	23.4%	26.2%	26.3%
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	1.8	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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