

Decent order book and improving employee pyramid

CMP: INR 3,721

Rating: Neutral

Target Price: INR 3,637

Stock Info

BSE	532541
NSE	COFORGE
Bloomberg	COFORGE IN
Reuters	NIIT.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR mn)	609
Mkt Cap (INR mn)	219,590
52w H/L (INR)	6,135 / 3,177
Avg Yearly Vol (in 000')	544

Shareholding Pattern %

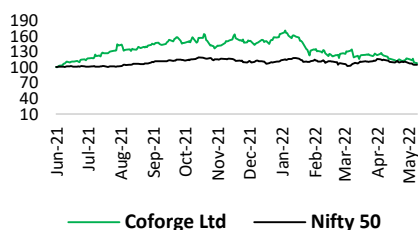
(As on March, 2022)

Promoters	49.97
FII	19.12
DII	14.48
Public & Others	16.43

Stock Performance (%)

	1m	3m	12m
Coforge	-13.0	-20.5	6.3
Nifty	-9.7	-8.9	7.6

Coforge Vs Nifty



Coforge has reported Revenue above our estimates in Q4FY22, while PAT and EBITDA are marginally below estimates. The management has upbeat full-year growth guidance. FY23 revenue growth guidance 20% in constant currency terms. Adjusted margin guidance to 18.5%-19% and \$2mn revenue target. Constant Currency Revenue growth +34.8% YoY/4.9% QoQ to \$232.4mn against our estimate \$229 mn. Coforge has reported consolidated revenue of INR 17,429 Mn, +38.2% YoY/5.1% QoQ in Q4FY22 against our estimate of INR 17,156 Mn. Consolidated EBITDA stood at INR 3,125 Mn, up by 49% YoY/3% QoQ against our estimate of INR 3,313 Mn. On the margins front, EBITDA margin expanded by 130bps YoY/ -36bps QoQ to 17.9% against our estimate of 19.3%. Consolidated PAT stood at INR 2,248 Mn, up by 63.6% YoY/14% QoQ against our estimate of INR 2,315 Mn.

Revenue guidance for FY23: The management has upbeat full-year growth guidance. FY23 revenue guidance of 20% YoY Constant currency is based on the demand scenario. The company guidance factors strong order book executable and jump in repeat business from 89% to 93% and tailwinds from TTH bouncing back, sales team increased to 280. Target to revenue milestone of \$2Bn over the medium-term and confident of achieving it.

Vertical: BFS (27.7% revenue mix) segment grew by 128% YoY and other segment (26.5% revenue mix) (retail & government) grew by 10.5%. TTH (20.1% revenue mix) continues to improve by 46.8% YoY, and vertical revenue in FY22 is 5% higher than pre-covid levels. Airlines are seeing robust demand momentum and improved profitability outlook and there is no noticeable impact in Europe due to the war in Ukraine. Tech spending is strong in the cloud, cybersecurity, touchless travel, and digitization. Insurance (25.7% revenue mix) grew by 39%, and demand momentum is expected to be strong in FY23. High inflation and CAT losses may impact the insurance vertical. But management sees significant demand for Coforge services. In insurance, license revenue grew 13% QoQ in Q4 which was down in Q2&Q3FY22.

Valuations

At CMP of INR 3,721, Coforge is trading at an FY24 PE of 22.5x to its FY24E EPS of INR 165.3. The company has traditionally maintained a conservative bias on the revenue guidance front. FY23 revenue guidance of 20% YoY Constant currency is based on the demand scenario and margin guidance of 18.5%-19% for FY23 led by a robust deal win and improving employee pyramid. We are negative on the stock as Baring PE Asia has partially exited more than 10% stake and we believe this will remain an overhang for the stock. We value Coforge at a PE of 22x to its FY24E EPS of INR 165.3, which yields a revised target price of INR 3,637 per share(earlier target price; INR 5,202 per share). **We downgrade our rating to Neutral from Accumulate earlier.**

YE	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%	49.5
FY22	866.5	64,320	11,019	6,617	109.2	17.1%	23.4%	34.1
FY23E	1030	76,634	13,718	8,099	133.6	17.9%	23.0%	27.8
FY24E	1189	88,256	16,239	10,019	165.3	18.4%	22.3%	22.5

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

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Q4 FY22 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	232.4	221.6	172	4.9%	34.8%
Net Revenue	17,429	16,581	12,615	5.1%	38.2%
Raw Material	593	362	272	63.8%	118.0%
Employee cost	10,119	9,689	7,585	4.4%	33.4%
Other Expenses	3,592	3,497	2,660	2.7%	35.0%
EBITDA	3,125	3,033	2,098	3.0%	49.0%
EBITDA margin %	17.9%	18.3%	16.6%	-36bps	130bps
Depreciation	584	566	449	3.2%	30.1%
EBIT	2,541	2,467	1,649	3.0%	54.1%
EBIT margin %	14.6%	14.9%	13.07%	-30bps	151bps
Other Income	232	48	165	383.3%	40.6%
Finance costs	183	183	32	0.0%	471.9%
PBT	2,590	2,332	1,782	11.1%	45.3%
Tax Expense	342	360	408	-5.0%	-16.2%
Effective tax rate %	13.2%	15.4%	22.9%	-223bps	-969bps
PAT	2,248	1,972	1,374	14.0%	63.6%
MI & Associates	-171	-135	-44	26.7%	288.6%
Consolidated PAT	2,077	1,837	1,330	13.1%	56.2%
Exceptional item	-	-	-		
Reported PAT	2,077	1,837	1,330	13.1%	56.2%
PAT margin %	11.9%	11.1%	10.5%	84bps	137bps
EPS (INR)	34.1	30.3	22.0	12.7%	55.4%

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

Q4 FY22 Key Conference call Highlights

- The management has upbeat full-year growth guidance. FY23 revenue growth guidance is 20% in constant currency terms. Adjusted margin guidance to 18.5%-19% and \$2mn revenue target.
- Deal: The medium and large deals increased appreciable and the company signed 11 large deals during the year with one \$100 Mn+ TCv deal and another 3 deals with \$50 Mn+ TCv
- Client: Continued to de-risk with top 5 client. Top 5 client (22.9% revenue mix) grew by 25.8% YoY in FY22 and top 10 client (34% revenue mix) grew by 32.4% YoY.
- Structural changes: Offshore revenue grew by 44% vs 38 in FY21. Improvement in the offshore mix is structural in nature and expected to sustain.
- Margin: Adjusted EBITDA margins grew 20.4% QoQ in Q4 backed by: i) higher large deals and expanding book of managed services contracts driving the increase in the offshore mix (44% in FY22 against 38% in FY21), ii) improved pricing, iii) 6.7x higher fresher intake in FY22 against FY21, iv) revenue growth leverage, v) gradual return of gross margin in the travel vertical to pre-pandemic levels.
- Wage hikes: In FY23 are done from 1st April 2022. It is higher than FY21 and ESOP costs are expected to be 60-65bps for FY23.
- SLK BPS business has grown sequentially in Q4FY22 and strong growth is expected in FY23. SLK business is fully merged with Coforge BPS business.
- Total headcount in IT services is up 34.6% YoY in FY22. In Coforge, attrition continues to be amongst the lowest in the industry at 17.7%.

Key Financials

Income Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Revenue (CC Terms) (Mn USD)	633	866.5	1030	1189
Change (%)	14.9%	37.0%	18.9%	15.4%
Revenues	46,628	64,320	76,634	88,256
Change (%)	11.4%	37.9%	19.1%	15.2%
Operating Costs	1,935	1,724	2,989	3,442
Gross Profit	44,693	62,596	73,646	84,814
Employee Costs	28,158	38,346	45,214	51,630
Other Expenses	8,740	13,231	14,714	16,945
Total Expenses	38,833	53,301	62,917	72,017
EBITDA	7,795	11,019	13,718	16,239
Depreciation	1,836	2,272	2,349	2,426
Interest	143	650	689	730
PBT	6,142	8,615	11,063	13,525
Extra-ordinary	180	0	0	0
PBT after ext-ord.	5,962	8,615	11,063	13,525
Tax	1,302	1,468	2,434	2,975
Rate (%)	21.8%	22.0%	22.0%	22.0%
PAT	4,660	7,147	8,629	10,549
MI & Associates	-104	-530	-530	-530
Consolidated PAT	4,556	6,617	8,099	10,019
Change (%)	5.0%	39.7%	22.4%	23.7%

Balance Sheet (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	606	609	609	609
Reserves & Surplus	24,055	26,722	34,563	44,325
Net Worth	24,661	28,314	35,172	44,934
Loan Funds				
MI, Deferred Tax & other Liabilities	3	3,365	3,541	3,726
Capital Employed	25,735	33,543	40,577	50,524
Application of Funds				
Gross Block	10,206	20,667	21,366	22,064
Net Block	8,370	18,395	19,017	19,638
CWIP	2	168	86	86
Other Non-current Assets	254	1,045	1,045	1,045
Deferred Tax Assets	1,447	2,736	2,736	2,736
Net Fixed Assets	10,073	22,344	22,884	23,505
Investments				
Debtors	124	0	0	0
Inventories	12,267	15,585	18,476	21,278
Cash & Bank Balance	0	0	0	0
Loans & Advances & other CA	8,122	4,536	11,625	20,760
Total Current Assets	23,000	24,929	34,910	46,846
Current Liabilities	2,611	4,808	4,808	4,808
Provisions	8,435	14,507	17,216	19,827
Net Current Assets	3	0	0	0
Total Assets	14,562	10,422	17,693	27,018
	25,735	33,543	40,577	50,524

Cash Flow Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
PBT	5,962	8,615	11,063	13,525
Depreciation	1,836	2,272	2,349	2,426
Interest & others	(287)	(398)	(224)	(241)
Cash flow before WC changes	7,511	10,489	13,188	15,709
(Inc)/dec in working capital	(3,045)	1,126	(182)	(191)
Operating CF after WC changes	4,466	11,615	13,006	15,518
Less: Taxes	(1,302)	(1,468)	(2,434)	(2,975)
Operating Cash Flow	3,164	10,147	10,572	12,543
(Inc)/dec in F.A + CWIP	(209)	(2,780)	(699)	(698)
(Pur)/sale of investment	13	124	0	0
Cash Flow from Investing	(196)	(2,656)	(699)	(698)
Free Cash Flow (FCF)	2,564	9,447	9,873	11,845
Equity raised	(19)	3	0	0
Interest & others	(2,873)	(3,932)	(2,172)	(2,108)
Dividend	(788)	(788)	(788)	(788)
Cash Flow from Financing Activities	(3,725)	(1,355)	(2,784)	(2,710)
Net inc /(dec) in cash	(757)	6,136	7,089	9,134
Opening balance of cash	9,034	8,277	14,413	21,502
Closing balance of cash	8,277	14,413	21,502	30,637

Key Ratios				
Year End-March	FY21	FY22	FY23E	FY24E
Per share (INR)				
EPS	75.2	109.2	133.6	165.3
CEPS	105.5	146.7	172.4	205.4
BVPS	406.9	467.2	580.4	741.5
DPS	13.0	13.0	13.0	13.0
Div. Payout (%)	0.2	0.1	0.1	0.1
P/E	49.5	34.1	27.8	22.5
P/CEPS	35.3	25.4	21.6	18.1
P/BV	9.1	8.0	6.4	5.0
EV/EBITDA	8.2	6.4	4.7	3.4
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	16.7%	17.1%	17.9%	18.4%
EBIT Margin	12.8%	13.6%	14.8%	15.7%
PAT Margin	10.2%	10.3%	10.6%	11.4%
ROE	19.2%	23.4%	23.0%	22.3%
ROCE	23.2%	26.1%	28.0%	27.3%
Leverage Ratio (%)				
Total D/E	0.0	0.1	0.1	0.1
Net D/E	-0.3	0.0	-0.2	-0.4
Turnover Ratios				
Asset Turnover (x)	1.8	1.9	1.9	1.7
Receivable Days	96	88	88	88
Payable days	66	82	82	82

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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