

Coforge

Refer to important disclosures at the end of this report

SLK Global acquisition to strengthen Financial Services and BPM capabilities

CMP	Target Price
Rs 3,118 as of (4/12/2021)	Rs 2,740 (■) 12 months
Rating	Upside
Hold (■)	-12 %

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- Coforge has agreed to acquire a 60% stake in SLK Global Solutions Private Limited (SLK Global) for a cash consideration of ~Rs9.2bn (~2.8x P/S on FY21E sales).
- **Deal structure:** Coforge shall initially acquire a 60% stake in SLK Global, with SLK Global's founders completely exiting the firm. Fifth Third Bank's stake in the company will be reduced to 40% and will remain at that level for the next two years. Coforge will acquire an additional 20% stake from Fifth Third Bank after two years.
- **Deal Rationale:** With this acquisition, Coforge will add Fifth Third Bank as one of its Top-5 clients, substantially scale up its current BPM operations business, strengthen its presence in the Financial Services vertical, and expand its footprint in the US geography. Additionally, Coforge sees significant synergies across its Automation practice (USD100mn run rate) and SLK Global's BPM business. This acquisition will also add an Indian Tier-3 city location capability and enable Coforge to compete for large deals with a material BPM component. The deal also provides for a minimum revenue commitment from Fifth Third Bank for five years.
- **Brief profile of SLK Global:** Founded in 2001, the company offers BPM and digital solutions for the financial services industry and derives its revenues from the North America. It has delivery centers and offices in India (Pune, Kolhapur, and Bangalore), the US, and the Philippines with over 7,000 employees. It is also a quasi-captive for Fifth Third Bank, which has its headquarters in the state of Ohio in the US. Fifth Third is the largest customer as well as a significant minority shareholder in SLK Global, and while the Indian promoters will completely exit the business at first closing, it will continue to be a JV partner in the acquired entity. SLK Global has reported revenue of Rs2.9bn/Rs3.5bn/Rs4.34bn in FY18/FY19/FY20. It is expected to report revenue growth of over 15% in FY21. It has a highly profitable business and is expected to be EBITDAM accretive to Coforge.
- **Conference Call takeaways:** 1) The company derives its revenues from Banking (40%), Insurance (11%) and Mortgage (49%) verticals; 2) Fifth Third Bank will continue to hold the 20% shareholding at least till the completion of MRC period; 3) Barring the promoters, entire leadership of SLK Global will stay on after the acquisition; 4) SLK Global has more than 35 customers across BFS and Insurance verticals; 5) SLK global has its own digital platforms and automation offerings, and Coforge sees synergy opportunities with its Technology Automation service line; 6) Coforge expects the combined entity to deliver higher EBITDA and PAT margin in FY22 compared to FY21; 7) Coforge plans to raise approx. USD40-50mn domestically (rupee-denominated debt) to fund the first tranche of the acquisition; 8) SLK global has seen a significant ramp-up in the number of employees (over 7,000 employees currently) in recent months on account of anticipated deals ramp-up; and 9) SLK Global reported revenue of USD62mn in FY20 and is expected to report revenue of USD73mn in FY21.
- **Our view:** We believe that the acquisition of SLK global will strengthen Coforge's capabilities in BFSI (~46% of revenues in FY20) and significantly enhance its offerings in the BPM (~3% of revenues in FY20). The acquisition will also add Fifth Third Bank as one of its Top-5 customers. As per Fifth Third Bank's annual report, SLK Global derived USD21mn/USD22mn/USD27mn revenue from the bank in CY18/CY19/CY20 (<40% of SLK Global's revenue currently). Management indicated that Fifth Third Bank spends over USD100mn on outsourcing annually, and thus offers tremendous cross-selling and up-selling opportunities to Coforge. We retain our estimates currently, pending clarity on purchase price allocation (amortization charges) and funding mix (interest costs). We have a Hold rating on Coforge with a TP of Rs 2,740 at 23x FY23E EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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