

Coforge (COFORGE IN)

Rating: BUY | CMP: Rs4,749 | TP: Rs5,306

July 29, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	5,306		4,327	
Sales (Rs. m)	63,827	76,038	62,011	74,159
% Chng.	2.9	2.5		
EBITDA (Rs. m)	11,561	14,577	11,697	14,285
% Chng.	(1.2)	2.0		
EPS (Rs.)	117.8	148.9	118.3	144.2
% Chng.	(0.4)	3.3		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	47	64	76	88
EBITDA (Rs. bn)	8	12	15	17
Margin (%)	18.0	18.1	19.2	19.2
PAT (Rs. bn)	5	7	9	10
EPS (Rs.)	86.8	117.8	148.9	172.7
Gr. (%)	14.2	35.7	26.4	16.0
DPS (Rs.)	28.7	38.9	49.1	57.0
Yield (%)	0.6	0.8	1.0	1.2
RoE (%)	21.6	26.6	28.5	27.9
RoCE (%)	26.9	33.8	35.9	35.2
EV/Sales (x)	6.0	4.4	3.6	3.1
EV/EBITDA (x)	33.3	24.1	18.9	16.1
PE (x)	54.7	40.3	31.9	27.5
P/BV (x)	11.7	9.9	8.4	7.1

Key Data

NITT.BO | COFORGE IN

52-W High / Low	Rs.4,830 / Rs.1,725
Sensex / Nifty	52,444 / 15,709
Market Cap	Rs.288bn / \$ 3,868m
Shares Outstanding	61m
3M Avg. Daily Value	Rs.5823.43m

Shareholding Pattern (%)

Promoter's	55.73
Foreign	19.42
Domestic Institution	14.93
Public & Others	9.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	15.2	96.2	168.7
Relative	15.8	75.4	97.2

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Citius, Altius, Fortius!

Quick Pointers:

- Olympic motto "Citius, Altius, Fortius" ("Faster - revenue acceleration, Higher - record high deal wins, Stronger - strong client metrics) aptly describes Coforge.

Coforge reported strong growth of 16% QoQ USD in 1Q22, much above our (~400bps) & cons estimates (~600bps) on top of high base in 4Q21. Beat was led by strong growth in organic business at 7.6% QoQ USD (Ple: 4%). Inorganic business contributed \$14.6 mn (Ple: \$12 mn). Management raised organic growth guidance to 'atleast' 19% YoY CC for FY22 from earlier 17%. This guidance is conservative implying 1-2% growth for next three quarters. However, we believe that organic growth will be ~24% YoY USD in FY22 given 1) record organic order intake of \$318 mn, +58% QoQ and next 12-months executable order book of \$645 mn 38.7% YoY 2) sustained strong large deal momentum with \$105 mn milestone win this quarter, 3) Increased recognition in product engineering, 4) strengthening of sales team in other vertical (manufacturing, retail, healthcare etc.), 5) recovery of travel (especially in Europe and UK).

EBIT margin declined this quarter by 245bps QoQ to 10.8% due to wage hikes, large deal transition costs and shifting of Advantage Go license sales to next quarter. However, management is confident of substantially increasing margins in next three quarters with 200bps increase in 2Q21 led by 1) continued growth in travel and discount reversal, 2) gradual increase in offshoring 3) increase in utilization as deals ramp up and 4) revenue growth leverage. Attrition inched up to 12.6% this quarter but is lower than industry average.

We raise Coforge's multiple to 33X (earlier 30X) given 1) acceleration in organic growth momentum, 2) consistent strong large deal wins with increasing deal sizes, 3) ability to leverage acquisition and partnerships to materially accelerate revenue growth and 5) scope to further improve margins. We anticipate revenues to grow by 37.7% YoY USD in FY22E led by 24% YoY USD growth in organic revenues and \$88 mn (+20% YoY growth over FY21 revenues of ~\$73 mn) contribution from SLK Global. We value Coforge on Sep-23 EPS (roll over) of INR 160.8 to arrive at a TP of Rs.5306 (earlier Rs 4327). At CMP, stock trades at 40x/32x FY22/23E EPS of INR 117.8/148.9. Reiterate BUY.

- Strong beat in revenue for second consecutive quarter:** Coforge reported revenue of \$199.7 mn, strong growth of 16.0% QoQ USD, much above (+400bps) our estimates (Ple: 11%, Cons:9%). Growth was strong across organic business with revenue of \$185.1 mn, +7.6% QoQ USD (Ple: 4%) as well as inorganic (2-months contribution from SLK Global) with revenue of \$14.6 mn (Ple: \$12 mn).
- Significant value creation from SLK Global acquisition:** SLK Global's revenue run-rate (\$14.6 mn in 2 months) implies \$22 mn revenue for the

Coforge won three large deals during the quarter including a \$105 million contract to provide services - data architecture and engineering, hybrid cloud management, digital integration, and process-led automation.

Sharp rise in share of repeat business to 96% from 86% last quarter indicates recovery in existing clients and strong client mining efforts

Out of the three large deals pursuits valued at \$250mn+ stated by management last quarter they have won one large deal and another one is in pipeline

quarter, strong growth of ~20% QoQ (\$73 mn revenue in FY21, average per quarter revenue of \$18.25 mn). Strong growth of SLK in 1Q22 is in-line with management's commentary of potential to accelerate SLK's revenue much higher than Coforge's organic revenue. SLK's higher revenue growth will aid margins over medium term.

■ **Broad-based growth across verticals:**

- Growth in **BFS (21% of revenues, +44% QoQ USD)** was led by SLK Global's contribution of ~\$12 mn (our estimate) and 3.2% QoQ USD organic growth. Coforge's significant large deal win of \$105 mn in Banking and initiation of MSA contract with one of the largest BFS firms this quarter underscores their deep domain expertise and service line capabilities.
- **Insurance (31% of revenues, 15.3% QoQ USD)** continued its healthy growth momentum. Organic business grew 10.1% QoQ USD while SLK contributed ~2.6 mn as per our estimate.
- **Travel & Transport (19% of revenues, 15.3% QoQ)** continued to recover strongly. Management mentioned that recovery in APAC is close to pre-covid levels, followed by US inching towards pre-covid levels. It may take another two quarter for Europe & UK to recover.
- **Others (29% of revenues, 2.7% QoQ)** comprising of 1) Retail and Pharma (12.7% of revs), 2) Hi-Tech and Manufacturing (8.9% of revs) and 3) Government outside India (7.4% of revs) reported healthy growth this quarter. Coforge has invested in vertical based sales team in these sub-verticals and we expect these verticals to show strong growth in medium term.
- **Highest ever deal TCV:** Organic order intake was highest ever at 318\$ mn +58% QoQ, +71% YoY. Next 12 months' executable organic order book is also at all-time high of \$560 mn 20.4% YoY and including SLK Global is at \$645 mn 38.7% YoY. Surge in order intake is supported by 3 large deals – 1) \$20 mn+ 3-year deal in Insurance, largest ever license contract for Advantage Go platform 2) \$105 mn 4-year deal (preceded 8 months long transition) in Banking involving all four digital service line capabilities 3) large deal led by horizontal cloud and infra-services business. In addition to these 3 deals, Coforge has signed a global MSA with one of the largest BFS firms to provide technology services across US, Europe and India. Order intake was skewed towards EMEA region (\$227 mn) while US and RoW had Order intake of \$46mn each. However, management
- **Upgrade in revenue guidance:** Management raised the organic growth guidance to 19% YoY CC in FY22 from earlier 17%. This guidance is conservative implying 1-2% growth for next three quarters. However, we believe that organic growth can be much higher (24-25% YoY USD) given 1) robust next 12-months executable order book 20.4% YoY, 2) sustained strong large deal momentum with \$105 mn milestone win this quarter, 3) Increased recognition in product engineering, 4) strengthening of sales team in other vertical (manufacturing, retail, healthcare etc), 5) recovery of travel (especially in Europe and UK).

Coforge added 11 new clients in 1Q22. They added 4 new clients each in \$10mn+ and \$5mn+ category. Top 5 and Top 10 clients grew at strong rate of 14.2% QoQ and 15.7% QoQ respectively

More than 50% revenue comes from digital services and around 20% comes from cloud and infra

- **Coforge is experiencing better pricing power for certain niche skills.** However, pricing is expected to come back to normal once supply crunch normalizes.
- **Miss in EBIT margin:** EBIT Margin came at 10.8%, -245bps QoQ (Ple: 12%, Cons: 12.75%). The miss on margins came on account of 1) higher than expected wage hike (200bps impact), 2) 400bps drop in utilization (77% in 1Q22 vs 81% in 4Q21), 3) multiple (4 of 5 material deals won in last 6 months) large deal transition costs, 4) movement of Advantage Go license sales in next quarter (100bps impact) 5) visa costs.
- **For next quarter, management is confident of 200bps QoQ increase in margin** led by 1) increase in utilization as 2 large deals ramp up in Q2, 2) shift in Advantage Go license sales recognition from 1Q22 to 2Q22, 3) favourable offshore mix and revenue growth leverage.
- **Rising share of offshore revenue:** Offshore revenue mix further improved by 100bps to 40% (vs 39% in 4Q21 and 38% in 1Q21). Revenue mix will be favored towards offshore with higher deal velocity and increasing deal sizes.
- **For FY22, management mentioned that they can sustain EBITDA pre-RSU at 19% supported by tailwinds from 1) continued growth in travel and discount reversal, 2) gradual increase in offshoring 3) increase in utilization and 4) revenue growth leverage. Headwinds include wage increase and higher retention and hiring costs and large deal transition costs**
- **Continued strong headcount addition, attrition inched up:** Coforge continued strong hiring with net addition of 1,138 +9% QoQ on top of 8.5% QoQ rise last quarter. Apart from this, 6,692 SLK Global employees were also added. Attrition inched up to 12.6%, +210 bps QoQ in-line with peers.
- **Robust growth across client categories:** Organic growth excluding SLK of Top 5 & Top 10 clients was healthy at 3.9% QoQ and 5.6% YoY. Including SLK, Top 5 and Top 10 clients grew at strong rate of 14.2% QoQ and 15.7% QoQ respectively. Top client concentration has reduced over last few quarters and is in-line with management's objective to reduce client concentration risk. Top 5 and Top 10 clients account to 24.6% and 35.9% of revenues.
- Product engineering services line continues to power true product creation and upgrades. One of the world's largest publicly traded Property and Casualty insurance company chose **Advantage Go** for implementation of their underwriting product. Another US based fortune 500 company has implemented Coforge's risk management and insurance software.
- **D&A charge** this quarter includes amortization (\$0.7 mn or INR 51.26 mn) recognized as part of purchase price allocation of SLK Global acquisition with tangible assets valued at INR 192 Cr, intangible assets at INR 315 Cr (10 years), Goodwill at INR 615 Cr. Future payout at INR 215 Cr and non-controlling interest of INR 102 Cr attributable to balance 20% stake.
- DSO increased by 1 day QoQ to 71 days. Board announced dividend of INR 13 per share on top of INR 13 per share dividend declared in previous quarter.

Exhibit 1: Q1FY22: Quick view on results

Rs mn	1QFY22	4QFY21	QoQ Gr.	1QFY21	YoY gr.	PLe	Variance(PL VS ACTUAL)
Revenue (USDmn)	199.7	172.1	16.0%	140.2	42.4%	191.1	4.5%
Revenue	14616	12615	15.9%	10570	38.3%	14100	3.7%
EBITDA	2104	2122	-0.8%	1686	24.8%	2256	-6.7%
EBITDA Margin	14.4%	16.8%	-243 bps	16.0%	-156 bps	16.0%	-160 bps
EBIT Margin	10.8%	13.3%	-245 bps	11.6%	-74 bps	12.0%	-119 bps
Adj. PAT	1236	1330	-7.1%	799	54.7%	1332	-7.2%
EPS	20.4	21.9	-7.1%	12.8	59.4%	22.0	-7.2%

Source: Company, PL

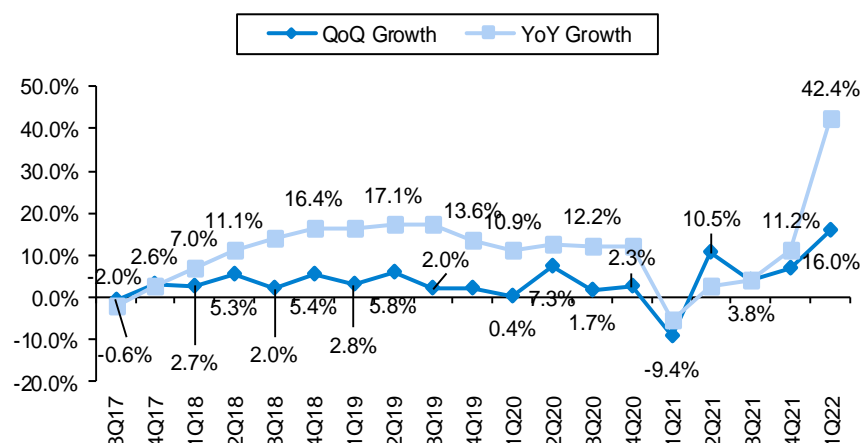
Valuations

We raise Coforge's multiple to 33X (earlier 30X) given 1) acceleration in organic growth momentum, 2) consistent strong large deal wins with increasing deal sizes, 3) ability to leverage acquisition and partnerships to materially accelerate revenue growth and 5) scope to further improve margins. We anticipate revenues to grow by 37.7% YoY USD in FY22E led by 24% YoY USD growth in organic revenues and \$88 mn (+20% YoY growth over FY21 revenues of ~\$73 mn) contribution from SLK Global. We value Coforge on Sep-23 EPS (roll over) of INR 160.8 to arrive at a TP of Rs.5306 (earlier Rs 4327). At CMP, stock trades at 40x/32x FY22/23E EPS of INR 117.8/148.9. Reiterate BUY.

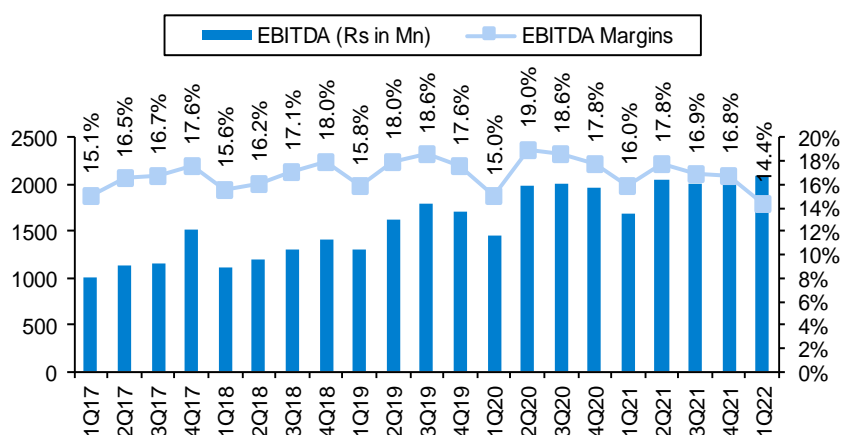
Exhibit 2: Change in Estimates

Y/e March	FY22E	FY23E	FY24E
USD revenues (US\$ m)			
- New	865	1,001	1,145
- Old	839	976	1,145
Change (%)	3.1%	2.5%	0.0%
EBIT Margin			
- New	14.2%	15.0%	15.0%
- Old	14.9%	15.1%	15.0%
Change (%)	-66 bps	-9 bps	0 bps
Recurring EPS - Fully diluted (Rs)			
- New	117.8	148.9	172.7
- Old	118.3	144.2	172.7
Change (%)	-0.4%	3.3%	0.0%

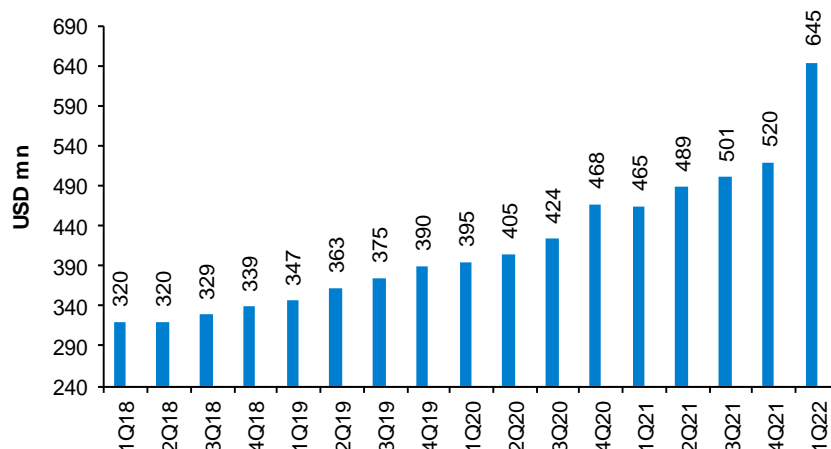
Source: PL

Exhibit 3: Exceptionally strong growth (Organic growth of 7.6% QoQ)


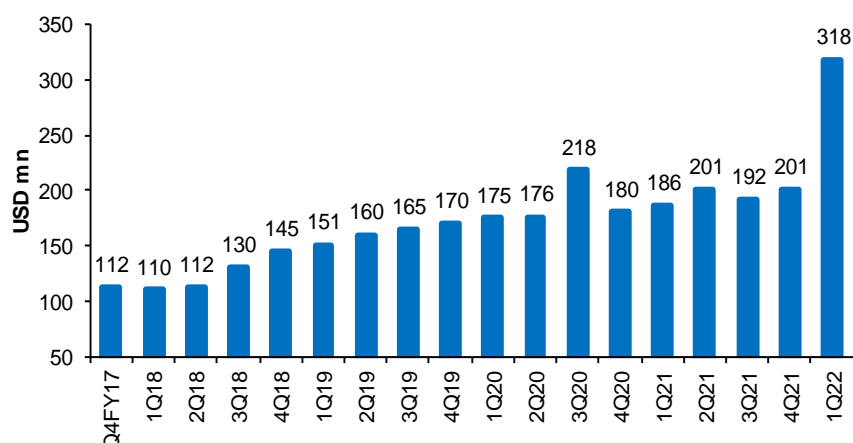
Source: Company, PL

Exhibit 4: Margins decline due to wage hikes, visa and deal transition costs


Source: Company, PL

Exhibit 5: Highest ever next 12 months executable order book (includes \$ 85 mn includes from SLK)


Source: Company, PL

Exhibit 6: Highest ever order intake (+58% QoQ)

Source: Company, PL

Exhibit 7: Geography-wise revenues

Geography revenues (USD Mn)	1QFY22	4QFY21	QoQ Gr.	1QFY21	YoY (Gr.)
Americas	103.0	79.2	30.2%	65.9	56%
EMEA	70.5	68.8	2.4%	50.5	40%
RoW	26.2	24.1	8.6%	23.8	10%
Total	199.7	172.1	16.0%	140.2	42%
-as a % of total sales					
Americas	52%	46%	560bp	47%	460bp
EMEA	35%	40%	-470bp	36%	-70bp
RoW	13%	14%	-90bp	17%	-390bp

Source: Company, PL;

Exhibit 8: Vertical-wise revenues

Vertical revenues (USD mn)	1QFY22	4QFY21	QoQ Gr.	1QFY21	YoY (Gr.)
BFS	42.1	29.3	44.0%	23.8	77%
Insurance	61.5	53.4	15.3%	46.3	33%
Travel and Transport	37.7	32.7	15.4%	26.6	42%
Others	58.3	56.8	2.7%	42.1	39%
Total	199.7	172.1	16.0%	138.8	44%
-as a % of total sales					
BFS	21%	17%	410bp	17%	410bp
Insurance	31%	31%	-20bp	33%	-220bp
Travel and Transport	19%	19%	-10bp	19%	-10bp
Others	29%	33%	-380bp	30%	-80bp

Source: Company, PL;

Exhibit 9: Service Line Revenues

Service Revenues (USD mn)	1QFY22	4QFY21	QoQ Gr.	1QFY21	YoY (Gr.)
Product Engineering	28.0	27.5	1.5%	22.4	25%
Data & Integration	40.3	39.6	1.9%	26.6	51%
Intelligent Automation	29.0	25.8	12.2%	20.5	41%
CIMS	34.1	32.7	4.4%	26.9	27%
ADM	51.7	44.7	15.6%	40.5	28%
BPM	16.8	1.7	874.7%	3.2	420%
Total	199.9	172.1	16.2%	140.2	43%
-as a % of total sales					
Product Engineering	14%	16%	-200bp	16%	-200bp
Data & Integration	20%	23%	-280bp	19%	120bp
Intelligent Automation	15%	15%	-50bp	15%	-10bp
CIMS	17%	19%	-190bp	19%	-210bp
ADM	26%	26%	-10bp	29%	-300bp
BPM	8%	1%	740bp	2%	610bp

Source: Company, PL

Exhibit 10: Revenue by Geography

USD mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Americas	67.6	67.9	72.9	72.6	71.2	65.9	74.4	78.8	79.2	103.0
QoQ	2.3%	0.4%	7.3%	-0.4%	-1.9%	-7.4%	12.8%	6.0%	0.5%	30.2%
YoY	16.0%	8.7%	12.5%	9.9%	5.3%	-2.9%	2.0%	8.5%	11.2%	56.3%
EMEA	45.5	48.5	55.0	56.0	61.9	50.5	55.8	57.9	68.8	70.5
QoQ	2.3%	6.5%	13.5%	1.7%	10.6%	-18.5%	10.5%	3.8%	18.9%	2.4%
YoY	17.2%	21.3%	22.4%	25.8%	36.0%	4.1%	1.4%	3.4%	11.2%	39.6%
RoW	24.8	22.2	20.8	22.7	21.7	23.8	24.8	24.1	24.1	26.2
QoQ	2.3%	-10.8%	-6.1%	9.0%	-4.5%	10.0%	4.0%	-2.7%	-0.1%	8.6%
YoY	2.3%	-1.4%	-7.3%	-6.5%	-12.7%	7.6%	19.1%	6.3%	11.2%	9.7%

Source: Company, PL

Exhibit 11: Revenue by Verticals

USD mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
BFS	22.1	22.2	25.3	24.2	23.2	23.8	26.3	28.9	29.3	42.1
QoQ	9.1%	0.4%	14.1%	-4.3%	-4.0%	2.7%	10.5%	9.9%	1.1%	44.0%
YoY	13.6%	4.4%	19.6%	19.6%	5.2%	7.6%	4.2%	19.6%	26.0%	76.7%
Insurance	38.6	40.2	46.1	45.4	48.0	46.3	52.7	51.5	53.4	61.5
QoQ	-4.5%	4.0%	14.8%	-1.6%	5.8%	-3.6%	13.8%	-2.3%	3.7%	15.3%
YoY	13.6%	10.9%	20.3%	12.2%	24.2%	15.2%	14.3%	13.4%	11.2%	32.9%
Travel and Transport	37.2	38.8	41.6	43.9	41.8	26.6	29.4	32.2	32.7	37.7
QoQ	6.2%	4.1%	7.3%	5.3%	-4.7%	-36.2%	10.5%	9.3%	1.7%	15.4%
YoY	18.0%	15.0%	16.7%	25.1%	12.2%	-31.3%	-29.3%	-26.7%	-21.8%	41.6%
Manufacturing and Media	40.0	37.4	35.7	37.8	41.8	42.1	46.5	48.2	56.8	58.3
QoQ	2.3%	-6.5%	-4.6%	6.0%	10.5%	0.7%	10.5%	3.8%	17.7%	2.7%
YoY	13.6%	10.9%	-3.6%	-3.3%	4.5%	12.5%	30.2%	27.6%	35.9%	38.6%

Source: Company, PL

Exhibit 12: Client Metrics

Client Concentration (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Top 5	27	28	28	29	27	29	27	27	26	25	24	25	25
Top 10	36	40	40	41	39	39	36	37	38	36	34	36	36
Between 1 mn - 5mn	63	63	62	66	66	70	74	80	81	83	87	88	95
5mn-10 mn	14	18	20	16	17	16	17	15	15	16	17	16	20
>10mn	7	7	8	8	8	9	9	11	11	10	11	11	15
Total	84	88	90	90	91	95	100	106	107	109	115	115	130

Source: Company, PL

Exhibit 13: Revenue Mix

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Onsite	64%	64%	65%	66%	66%	66%	64%	64%	62%	64%	62%	61%	60%
Offshore	36%	36%	35%	34%	34%	34%	36%	36%	38%	36%	38%	39%	40%

Source: Company, PL

Exhibit 14: Employee Metrics

Billable Personnel	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Onsite	2217	2369	2408	2345	2429	2468	2451	2451	2260	2524	2506	2536	3361
Offshore	6684	6815	6881	7018	7063	7453	7515	7823	7476	7757	8032	8933	15378
Total Billable	8901	9184	9289	9363	9492	9921	9966	10274	9736	10281	10538	11469	18739
Sales & Marketing (Excl GIS)	131	123	114	122	141	185	185	170	184	191	189	188	258
Sales & Marketing (GIS)	90	94	94	89	0	0	0	0	0	0	0	0	0
Others	642	624	647	689	664	694	698	712	678	690	697	734	1494
Grand Total	9,764	10,025	10144	10263	10297	10800	10849	11156	10598	11162	11424	12391	20491
Net addition	341	261	119	119	34	503	49	307	(558)	564	262	967	8,100
Capacity Utilization	80.1%	80.4%	79.0%	79.3%	80.5%	80.7%	79.3%	78.1%	77.0%	81.0%	78.9%	81.0%	77.0%
Attrition (%)	10.1	10.8	11.7	12.2	12.9	12.3	11.9	11.8	11.8	10.5	10.4	10.5	12.6

Source: Company, PL

Exhibit 15: Strong Order Book

Figures in USD Mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Fresh Order Intake	151	160	165	170	175	176	218	180	186	201	192	201	318
Executable Order Book over Next 12 months	347	363	375	390	395	405	424	468	465	489	501	520	645

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	46,628	63,827	76,038	88,140
YoY gr. (%)	10.9	36.9	19.1	15.9
Employee Cost	31,693	42,962	50,365	58,172
Gross Profit	14,935	20,866	25,673	29,967
Margin (%)	32.0	32.7	33.8	34.0
SG&A Expenses	6,544	9,304	11,095	13,059
Other Expenses	-	-	-	-
EBITDA	8,391	11,561	14,577	16,908
YoY gr. (%)	12.8	37.8	26.1	16.0
Margin (%)	18.0	18.1	19.2	19.2
Depreciation and Amortization	1,836	2,492	3,194	3,702
EBIT	6,555	9,069	11,384	13,206
Margin (%)	14.1	14.2	15.0	15.0
Net Interest	-	-	-	-
Other Income	113	112	140	140
Profit Before Tax	6,668	9,181	11,524	13,346
Margin (%)	14.3	14.4	15.2	15.1
Total Tax	1,302	1,905	2,420	2,803
Effective tax rate (%)	19.5	20.8	21.0	21.0
Profit after tax	5,366	7,275	9,104	10,544
Minority interest	104	136	80	80
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,262	7,139	9,024	10,464
YoY gr. (%)	10.7	35.7	26.4	16.0
Margin (%)	11.3	11.2	11.9	11.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,262	7,139	9,024	10,464
YoY gr. (%)	10.7	35.7	26.4	16.0
Margin (%)	11.3	11.2	11.9	11.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,262	7,139	9,024	10,464
Equity Shares O/s (m)	61	61	61	61
EPS (Rs)	86.8	117.8	148.9	172.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	5,980	7,480	8,980	10,480
Tangibles	4,516	5,416	6,316	7,216
Intangibles	1,464	2,064	2,664	3,264
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	5,980	7,480	8,980	10,480
Tangibles	4,516	5,416	6,316	7,216
Intangibles	1,464	2,064	2,664	3,264
Capital Work In Progress	2	2	2	2
Goodwill	4,226	4,226	4,226	4,226
Non-Current Investments	1,829	1,839	1,849	1,859
Net Deferred tax assets	1,253	1,293	1,333	1,373
Other Non-Current Assets	254	254	254	254
Current Assets				
Investments	124	224	324	424
Inventories	-	-	-	-
Trade receivables	8,895	11,367	13,541	15,696
Cash & Bank Balance	8,122	9,257	11,442	14,510
Other Current Assets	1,437	1,437	1,437	1,437
Total Assets	35,134	40,400	46,420	53,303
Equity				
Equity Share Capital	606	606	606	606
Other Equity	24,055	28,346	33,770	40,059
Total Network	24,661	28,952	34,376	40,665
Non-Current Liabilities				
Long Term borrowings	5	15	25	35
Provisions	696	696	696	696
Other non current liabilities	506	206	231	256
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,398	3,448	3,498	3,548
Other current liabilities	5,027	6,232	6,734	7,232
Total Equity & Liabilities	35,134	40,400	46,420	53,303

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	6,668	9,181	11,524	13,346
Add. Depreciation	1,836	2,492	3,194	3,702
Add. Interest	-	-	-	-
Less Financial Other Income	113	112	140	140
Add. Other	-	-	-	-
Op. profit before WC changes	8,504	11,673	14,717	17,048
Net Changes-WC	(1,449)	(1,615)	(1,697)	(1,680)
Direct tax	(1,302)	(1,905)	(2,420)	(2,803)
Net cash from Op. activities	5,753	8,152	10,601	12,566
Capital expenditures	(2,473)	(1,500)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	13	(100)	(100)	(100)
Net Cash from Invt. activities	(2,460)	(1,600)	(1,600)	(1,600)
Issue of share cap. / premium	-	-	-	-
Debt changes	516	10	10	10
Dividend paid	(2,099)	(2,848)	(3,600)	(4,175)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(1,583)	(2,838)	(3,590)	(4,165)
Net change in cash	1,710	3,714	5,410	6,801
Free Cash Flow	3,280	6,652	9,101	11,066

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	86.8	117.8	148.9	172.7
CEPS	117.1	158.9	201.6	233.8
BVPS	406.9	477.8	567.3	671.0
FCF	54.1	109.8	150.2	182.6
DPS	28.7	38.9	49.1	57.0
Return Ratio(%)				
RoCE	26.9	33.8	35.9	35.2
ROIC	32.1	36.9	39.7	40.5
RoE	21.6	26.6	28.5	27.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)
Debtor (Days)	70	65	65	65
Valuation(x)				
PER	54.7	40.3	31.9	27.5
P/B	11.7	9.9	8.4	7.1
P/CEPS	40.5	29.9	23.6	20.3
EV/EBITDA	33.3	24.1	18.9	16.1
EV/Sales	6.0	4.4	3.6	3.1
Dividend Yield (%)	0.6	0.8	1.0	1.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	11,537	11,906	12,615	14,616
YoY gr. (%)	10.1	10.3	13.7	38.3
Raw Material Expenses	7,776	8,096	8,580	10,250
Gross Profit	3,761	3,810	4,035	4,366
Margin (%)	32.6	32.0	32.0	29.9
EBITDA	2,172	2,145	2,268	2,359
YoY gr. (%)	8.9	7.0	14.1	30.6
Margin (%)	18.8	18.0	18.0	16.1
Depreciation / Depletion	460	462	449	524
EBIT	1,712	1,683	1,819	1,835
Margin (%)	14.8	14.1	14.4	12.6
Net Interest	-	-	-	-
Other Income	(63)	19	109	52
Profit before Tax	1,649	1,702	1,928	1,887
Margin (%)	14.3	14.3	15.3	12.9
Total Tax	303	331	408	320
Effective tax rate (%)	18.4	19.4	21.2	17.0
Profit after Tax	1,346	1,371	1,520	1,567
Minority interest	15	15	44	76
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,331	1,356	1,476	1,491
YoY gr. (%)	3.0	4.5	28.0	62.2
Margin (%)	11.5	11.4	11.7	10.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,331	1,356	1,476	1,491
YoY gr. (%)	3.0	4.5	28.0	62.2
Margin (%)	11.5	11.4	11.7	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,331	1,356	1,476	1,491
Avg. Shares O/s (m)	61	61	61	61
EPS (Rs)	21.9	22.4	24.3	24.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Jul-21	BUY	4,327	4,194
2	18-Jun-21	BUY	4,325	3,979
3	06-May-21	BUY	3,762	3,396
4	05-Apr-21	BUY	3,020	2,924
5	29-Jan-21	BUY	3,051	2,420
6	04-Jan-21	BUY	2,966	2,722
7	23-Oct-20	BUY	2,784	2,457
8	05-Oct-20	BUY	2,634	2,336
9	01-Oct-20	BUY	2,634	2,322
10	29-Jul-20	BUY	2,190	1,769

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	4,327	4,194
2	Cyient	BUY	1,088	946
3	HCL Technologies	BUY	1,094	1,000
4	Infosys	BUY	1,832	1,577
5	L&T Technology Services	BUY	3,149	2,911
6	Larsen & Toubro Infotech	Accumulate	4,623	4,289
7	Mindtree	BUY	3,229	2,505
8	Mphasis	BUY	2,770	2,530
9	Persistent Systems	Hold	2,851	3,039
10	Redington (India)	BUY	301	279
11	Sonata Software	BUY	834	757
12	Tata Consultancy Services	BUY	3,776	3,259
13	TeamLease Services	BUY	4,136	3,604
14	Tech Mahindra	BUY	1,237	1,149
15	Wipro	BUY	678	576
16	Zensar Technologies	BUY	424	401

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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