

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

CMP: INR 5,069

Rating: Accumulate

Target Price: INR 6,068

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)	29,894
52w H/L (INR)	6,030 / 2,078
Avg Yearly Vol (in 000')	569

Shareholding Pattern %

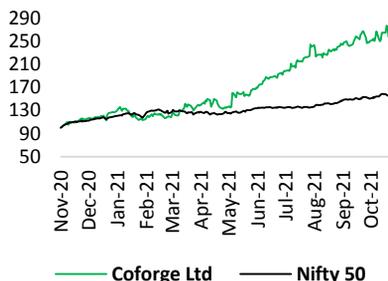
(As on Sep, 2021)

Promoters	50.18
FII	20.67
DII	18.64
Public & Others	10.51

Stock Performance (%)

	1m	3m	12m
Coforge	-12.5	5.4	107.6
Nifty	3.2	14.5	52.3

Coforge Vs Nifty



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Coforge has reported Mixed Q2FY22 numbers, slightly below on the revenue and PAT but the management has upbeat full-year growth guidance.

- Constant Currency Revenue growth +35.7% YoY/6.6% QoQ to (Mn USD) 212.8 against our estimate 210 (Mn USD).
- FY22 revenue growth outlook raised to at least 22% in CC terms against 19% earlier.
- Coforge has reported consolidated revenue of INR 15,694 Mn, +36% YoY/7.4% QoQ in Q2FY22 against our estimate of INR 16036 Mn.
- Consolidated EBITDA stood at INR 2747 Mn, up by 38.3% YoY/29.9% QoQ against our estimate of INR 2661 Mn.
- On the margins front, EBITDA margin expanded by 29 bps YoY/ 304bps QoQ to 17.5% against our estimate of 16.6% driven by higher offshore revenues and improved utilization.
- Consolidated PAT stood at INR 1467 Mn, up by 21.5% YoY/18.7% QoQ against our estimate of INR 1698 Mn.
- Order intake during the quarter was \$285 million, on the back of three large deals secured during the quarter out of which two were greater than \$ 50 Mn TCv each.
- New client addition remained strong 11 compared to similar addition in Q1FY22.
- Utilisation was up 150 bps QoQ to 78.5%, with attrition increasing by 270 bps QoQ to 15.3%.
- Interim dividend of 13 per share for FY22.

Valuations

At CMP of INR 5,069, Coforge is trading at FY24 P/E of 29.2x 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 22% in cc terms during FY22 (with recently acquired SLK Global also expected to show organic growth of 22% YoY for FY22) and an expansion of EBITDA margin of 19% 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 35x to its FY24E EPS INR 173.4, which yields a target price of INR 6,068 per share. **We maintain an Accumulate rating on the stock.**

YE March (INR Mn)	Revenue (CC Terms) (Mn USD)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	538	36,762	6,485	4,033	65.3	17.6%	19.7%	37.6
FY20	551	41,839	7,233	4,440	71.0	17.3%	18.8%	66.7
FY21	633	46,628	7,795	4,556	75.2	16.7%	19.2%	67.4
FY22E	856	62,930	10,950	6,820	112.5	17.4%	22.8%	45.0
FY23E	998	73,567	13,169	8,609	142.1	17.9%	22.7%	35.7
FY24E	1157	85,236	15,683	10,507	173.4	18.4%	22.0%	29.2

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

Q2 FY22 - Quarterly Performance (Consolidated)

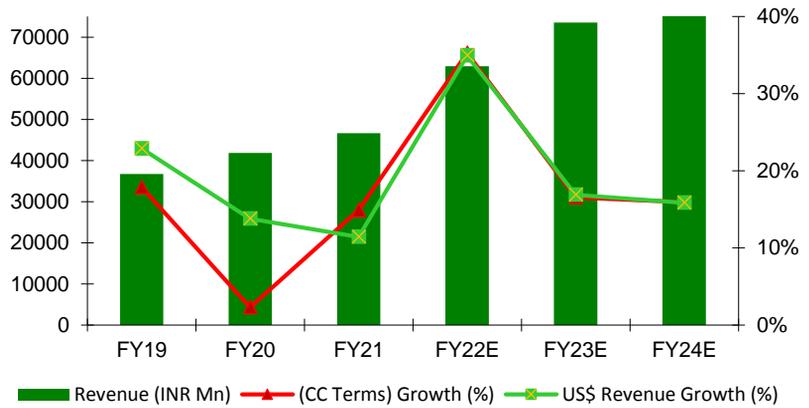
Particulars (in INR million)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	212.8	199.7	157	6.6%	35.7%
Net Revenue	15,694	14,616	11,537	7.4%	36.0%
Raw Material	377	392		-3.8%	
Employee cost	9,514	9,024	6,763	5.4%	40.7%
Other Expenses	3,056	3,086	2,788	-1.0%	9.6%
EBITDA	2,747	2,114	1,986	29.9%	38.3%
<i>EBITDA margin %</i>	<i>17.5%</i>	<i>14.5%</i>	<i>17.2%</i>	<i>304bps</i>	<i>29bps</i>
Depreciation	598	524	460	14.1%	30.0%
EBIT	2,149	1,590	1,526	35.2%	40.8%
<i>EBIT margin %</i>	<i>13.7%</i>	<i>10.9%</i>	<i>13.2%</i>	<i>281bps</i>	<i>47bps</i>
Other Income	77	161	39	-52.2%	97.4%
Finance costs	165	119	40	38.7%	312.5%
PBT	2,061	1,632	1,525	26.3%	35.1%
Tax Expense	446	320	303	39.4%	47.2%
<i>Effective tax rate %</i>	<i>21.6%</i>	<i>19.6%</i>	<i>19.9%</i>	<i>203bps</i>	<i>177bps</i>
PAT	1,615	1,312	1,222	23.1%	32.2%
MI & Associates	-148	-76	-15	94.7%	886.7%
Consolidated PAT	1,467	1,236	1,207	18.7%	21.5%
Exceptional item	-	-	-		
Reported PAT	1,467	1,236	1,207	18.7%	21.5%
<i>PAT margin %</i>	<i>9.3%</i>	<i>8.5%</i>	<i>10.5%</i>	<i>89bps</i>	<i>-111bps</i>
EPS (INR)	24.2	20.4	19.9	18.7%	21.5%

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

Q2 FY22 Key Concall Highlights

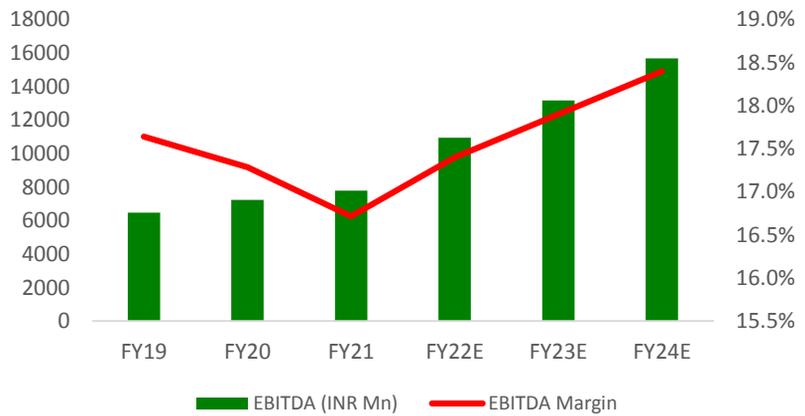
- **Outlook:** Increased organic growth guidance for FY22 from 19% to 22% (with SLK global also expected to show organic growth of 22% YoY for FY22). Expect further improvement in EBITDA margin over next 2 quarters, backed by higher offshoring and improved employee pyramid and guided for 19% adjusted EBITDA margin for FY22. Insurance vertical was flat QoQ and expected to bounce back strong from Q3. Also the company expects to become \$1bn revenue company over next Financial year.
- SLK has been exceeding expectation and has been renamed as Coforge Business Solutions services.
- H1FY 22 revenue grew 27.5% YoY in organic cc terms.
- Travel segment is seeing improved traction and the growth momentum should continue over 2022.
- **Margin trajectory:** EBIT margin expanded by 281 bps QoQ to 13.7%, led by rising offshoring and improving employee pyramid. Q1FY22 margin also had impact from wage hike.
- **Order intake:** Robust revenue growth, strong EBITDA margin in expansion continue and aggressive hiring, yet another quarter of multiple indeed \$50 mn+ TCV large deal wins.
- **Client:** Top 5 client grew by 2.1% in Q2FY22 has contributed to 22.5% of the total revenue. Top 10 client grew by 2.4% QoQ and they have contributed to 33% of the total revenue.
- **Hiring:** The company is ramping up fresher hiring and expect to hire 1,500 during FY22.
- **Capex:** Capex was \$5.6mn during the quarter.
- Onshore revenue: Excluding SLK represented 65% of total revenue in Q2FY22 against 60% in Q2FY21.
- **Segment:** Excluding SLK Banking and Financial Services grew by 10.8%, travel 5.9% and the insurance vertical remain flat during the quarter and other segment grew 3% on QoQ basis. Contribution of the vertical total revenue mix... BFS 24.4%, insurance 29.2%, Travel, Tourism and Hospitality (TTH) 18.6% and others 28.1%.
- **Revenue:** Revenues for the quarter were \$ 212.8 mn and INR 15,694 mn. Excluding SLK business grew by 3.9% QoQ in cc terms strong growth back of the preceding 2 quarter 7.06% & 7.1%. H1FY22 revenue grew by 39.9% over H1 FY21 in CC terms excluding SLK 27.4% H1 FY22 over H1 FY21.

Revenue Growth Trend

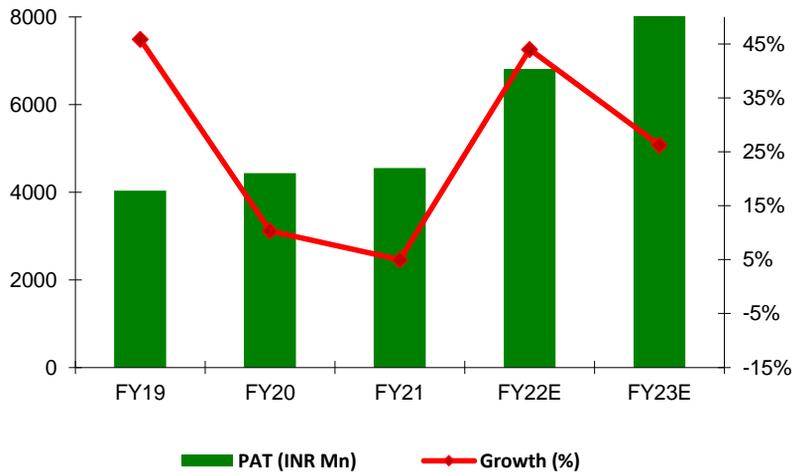


The company demand environment remains good and there has been acceleration in organic revenue growth and it has increased its organic revenue growth guidance from 19% cc to 20% cc for FY22.

EBITDA & Margin Trend



Expect further improvement in EBITDA margin over next 2 quarters, backed by higher offshoring and improved employee pyramid and guided for 19% adjusted EBITDA margin for FY22.



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

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	1
PBT after ext-ord.	5,954	5,962	9,094	11,165	13,599
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	10,607
MI & Associates	-236	-104	-274	-100	-100
Consolidated PAT	4,440	4,556	6,820	8,609	10,507
<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	56,866
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

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	12,656
(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	11,958
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	(2,639)
Net inc/(dec) in cash	3,467	(912)	7,953	10,972	9,318
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 (Rs)					
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	67.4	45.0	35.7	29.2
P/CEPS	48.0	48.1	34.5	28.4	23.9
P/BV	12.4	12.5	10.3	8.1	6.4
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%
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: Aриhant 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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