

## Organic revenue guidance revised further upwards...

**About the stock:** Coforge offers system integration, apps & BPO services to BFSI, travel & healthcare verticals.

- Coforge's revenues and PAT have grown at a CAGR of ~12% each over the past five years
- Healthy OCF/EBITDA (~75%) and robust return ratios (RoCE > 20%)

**Q2FY22 Results:** Coforge reported robust Q2FY22 results on the revenue front.

- Dollar revenues increased 6.5% QoQ of which organic was 2.9% QoQ
- EBITDA margin improved 304 bps QoQ due to cost control
- Revised organic guidance upwards to 22.0% YoY (in CC terms) in FY22E

**What should investors do?** Coforge's share price has grown by ~13x over the past five years (from ~₹ 397 in October 2016 to ~₹ 5069 levels in October 2021).

- We upgrade the stock to BUY (from HOLD earlier)

**Target Price and Valuation:** We value Coforge at ₹ 5870 i.e. 40x P/E on FY23E EPS

### Key triggers for future price performance:

- Increase in deal size, signed a US\$105 mn BFS deal (for four years), insurance US\$20 million (three years) & healthy order book to drive growth
- Bottoming out of travel vertical (in US), preferred partnership with Fortune 500 insurance & Tier 1 banking companies, recent acquisition and aggressive hiring to drive 27.5% CAGR over FY21-23E
- A 220 bps improvement in margins over FY21-23E due to offshoring, higher margins in acquired company, reversal of travel discount and growth

**Alternate Stock Idea:** Apart from Coforge, in our IT coverage we also like LTI.

- Larsen & Toubro Infotech's (LTI) ability to deliver end-to-end solutions is expected to help in registering industry leading growth
- BUY with a target price of ₹ 7,650

**Coforge**

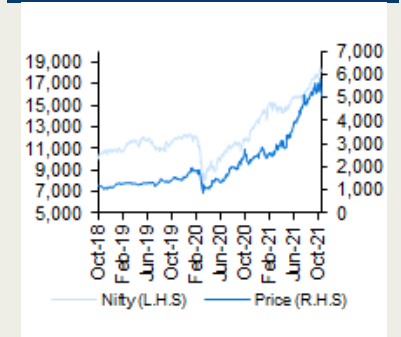
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	31,475
Total Debt (₹ Crore)	0.5
Cash & Investment (₹ Crore)	824.6
EV (₹ Crore)	30,650
52 week H/L	6029/ 2077
Equity capital	60.6
Face value	10.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	64	64	56	50
FII	14	15	19	21
DII	12	12	15	18
Public	9	10	10	11

### Price Chart



### Recent event & key risks

- Revised organic revenue guidance further upwards
- Key Risk:** (i) Deceleration in deal pipeline, (ii) Lower than expected margins.

### Research Analyst

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### Key Financial Summary

Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	3,676	4,184	4,663	11.7%	6,478	7,581	27.5%
EBITDA	645	720	786	11.1%	1,237	1,531	39.5%
EBITDA Margins (%)	17.6	17.2	16.9		19.1	20.2	
Net Profit	403	444	456	11.5%	716	912	41.5%
EPS (₹)	65.7	71.4	73.3		115.2	146.7	
P/E	77.1	70.9	69.1		43.9	34.5	
RoNW (%)	19.5	18.5	18.5		25.0	27.1	
RoCE (%)	25.2	23.0	23.3		28.6	30.9	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- The company further revised revenue guidance upwards. The company is now guiding for 22% organic CC growth in FY22E (vs. 19% organic growth guided in Q1FY22). The company also guided that it is hopeful of becoming a US\$1 bn revenue company in FY23E. It indicated that revenue growth for SLK Global in FY22E would be 22% CC and on overall company level, it guided for minimum 35% growth in CC for FY22E
- The company's organic revenues increased 3% QoQ to US\$190.6 million led by 21.8% QoQ growth in BFS (24% of revenues), travel up 6.6% QoQ (19% of revenues) and others up 6.6% QoQ for the quarter. Top five on organic basis declined 1.9% QoQ and top 10 by 3.1% QoQ
- The company won three large deals for the quarter, two of which were in the US\$ 50 mn+ category. The company expects BFS to lead growth in coming quarters followed by insurance & travel. In BFS, the company is seeing traction in innovation & compliance
- The company expects revenue from the travel vertical in FY22E to be in a similar range that of FY20 numbers. The company also expects a gradual recovery in travel clients in Europe in FY23E, which will provide further tailwinds to the revenue. Coforge also expects a margin improvement in the travel vertical to be aided by operating leverage
- This company added 275 employees for the quarter and it is planning to shore up hiring of freshers in FY22 to cater the large demand. Coforge guided for addition of 1,500 freshers in FY22
- The company guided for ~100 bps sequential margin improvement in Q3FY22 and guided for EBITDA margin of 19% for FY22. Coforge also indicated that margin will continue to improve from here on due to i) consolidation of higher margin of SLK Global, ii) continued focus on offshore hiring and iii) improvement in utilisation
- The company indicated that four years back they had a handful of Fortune 1000 clients but today they have close to 61 such clients, which is a reflection of strong client profile
- The company has added 295 employees in the quarter. Utilisation improved 150 bps QoQ to 78.5% while attrition increased by 270 bps QoQ to 15.3%

### Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	1,569.4	1,579.1	1,153.7	36.0	1,461.6	7.4	The company's revenue increased by 7.4% QoQ, organic growth was 2.9% QoQ
Employee expenses	1,065.6	1,100.0	777.6	37.0	1,025.0	4.0	
Gross Margin	503.8	479.1	376.1	34.0	436.6	15.4	
Gross margin (%)	32.1	30.3	32.6	-50 bps	29.9	223 bps	
SG&A expenses	230.1	230.0	171.3	34.3	226.2	1.7	
EBITDA	273.7	249.1	204.8	33.6	210.4	30.1	
EBITDA Margin (%)	17.4	15.8	17.8	-31 bps	14.4	304 bps	EBITDA margin improved by 304 bps QoQ to 17.4% (above our estimate of 15.8%) mainly led by operating efficiency
Depreciation & amortisation	59.8	52.4	46.0	30.0	52.4	14.1	
EBIT	213.9	196.7	158.8	34.7	158.0	35.4	
EBIT Margin (%)	13.6	12.5	13.8	-13 bps	10.8	282 bps	
Other income (less interest)	-7.7	5.2	-6.3	22.2	5.2	-248.1	
PBT	206.2	201.9	152.5	35.2	163.2	26.3	
Tax paid	44.6	32.0	30.3	47.2	32.0	39.4	
PAT	146.8	162.3	120.7	21.6	123.6	18.8	PAT was lower than our expectation due to higher tax rate

Source: Company, ICICI Direct Research

### Exhibit 2: Change in estimates

	FY22E			FY23E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	6,478	6,478	0.0	7,581	7,581	0.0	
EBITDA	1,166	1,237	6.1	1,470.8	1,531	4.1	EBITDA margins tweaked upwards due to continued operating efficiency
EBITDA Margin (%)	18.0	19.1	110 bps	19.4	20.2	80 bps	Margins to stabilise at 20.2% in FY23E
PAT	661	716	8.4	864.6	912	5.5	
EPS (₹)	106.3	115.2	8.4	139.1	146.7	5.5	

Source: Company, ICICI Direct Research

## Key Metrics

Exhibit 3: Geography-wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b><u>Revenue by geography (%)</u></b>					
America	48.0	49.0	46.0	52.0	52.0
EMEA	36.0	36.0	40.0	35.0	33.0
RoW	16.0	15.0	14.0	13.0	15.0
<b><u>Growth QoQ (%)</u></b>					
America	12.8	6.0	0.7	30.9	6.6
EMEA	10.5	3.8	19.1	1.4	0.5
RoW	4.0	-2.7	0.1	7.6	23.0

Source: Company, ICICI Direct Research

RoW led the growth in the quarter

Exhibit 4: Vertical wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b><u>Revenue by verticals (%)</u></b>					
Banking & financial services	17.0	18.0	17.0	21.0	24.0
Insurance	34.0	32.0	31.0	31.0	29.0
Transport	19.0	20.0	19.0	19.0	19.0
Others	30.0	30.0	33.0	29.0	28.0
<b><u>Growth QoQ (%)</u></b>					
Banking & financial services	10.5	9.9	1.3	43.1	21.8
Insurance	13.8	-2.3	3.9	15.8	-0.3
Transport	10.5	9.3	1.9	15.8	6.6
Others	10.5	3.8	17.9	1.8	6.6

Source: Company, ICICI Direct Research

The growth was led by BFS, Transport and others

Exhibit 5: Client & human resource matrix

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b><u>Client metrics</u></b>					
Between 1 to 5 million	83	87	88	95	92
Between 5 to 10 million	16	17	16	20	22
Above 10 million	10	11	11	15	16
<b><u>Headcount, Utilization, Attrition</u></b>					
Total Employees	11,162	11,424	12,391	20,491	20,786
Utilization	81	78.9	81.0	77.0	78.5
Attrition	10.5	10.4	10.5	12.6	15.3

Source: Company, ICICI Direct Research

Utilisation increased in the quarter. Attrition has risen as seen other peer companies

## Financial summary

Exhibit 6: Profit and loss statement ₹ crore				
	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>4,184</b>	<b>4,663</b>	<b>6,478</b>	<b>7,581</b>
Growth (%)	13.8	11.4	38.9	17.0
COGS (employee expenses)	2,753	3,169	4,288	4,958
S,G&A expenses	711	707	952	1,092
Total Operating Expenditure	3,464	3,876	5,241	6,050
<b>EBITDA</b>	<b>720</b>	<b>786</b>	<b>1,237</b>	<b>1,531</b>
Growth (%)	11.6	9.3	57.3	23.8
Depreciation	173	184	253	296
Other Income (net)	56	11	(7)	(7)
PBT	603	614	978	1,229
Total Tax	128	130	215	267
Adjusted PAT	444	456	716	912
Growth (%)	10	3	57	27
Adjusted EPS (₹)	71.4	73.3	115.2	146.7
Growth (%)	8.7	2.6	57.2	27.3

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore				
	FY20	FY21	FY22E	FY23E
Profit before Tax	603	614	978	1,229
Add: Depreciation	173	184	253	296
(Inc)/dec in Current Assets	(362)	(160)	(501)	(302)
Inc/(dec) in CL and Provisions	-	-	444	225
Taxes paid	(181)	(168)	(215)	(267)
<b>CF from operating activities</b>	<b>297</b>	<b>762</b>	<b>959</b>	<b>1,181</b>
(Inc)/dec in Investments	(679)	-	-	-
(Inc)/dec in Fixed Assets	(73)	(78)	(1,101)	(144)
Others	7	7	(7)	(7)
<b>CF from investing activities</b>	<b>112</b>	<b>(235)</b>	<b>(1,108)</b>	<b>(151)</b>
Issue/(Buy back) of Equity	28	-	-	-
Inc/(dec) in loan funds	(5)	(62)	-	-
Dividend paid & dividend tax	(147)	(69)	(322)	(410)
<b>CF from financing activities</b>	<b>(133)</b>	<b>(553)</b>	<b>(132)</b>	<b>(560)</b>
Net Cash flow	300	(26)	(282)	469
Exchange difference	11	-	-	-
Opening Cash	558	826	812	530
<b>Closing Cash</b>	<b>903</b>	<b>812</b>	<b>530</b>	<b>999</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	63	61	61	61
Reserve and Surplus	2,334	2,406	2,800	3,301
Total Shareholders funds	2,397	2,466	2,860	3,362
Total Debt	5	1	341	341
Provisions	59	70	70	70
Minority Interest / Other non CL	164	102	148	198
<b>Total Liabilities</b>	<b>2,625</b>	<b>2,638</b>	<b>3,419</b>	<b>3,970</b>
<b>Assets</b>				
Net Block	670	598	1,597	1,595
Capital WIP	0	0	0	0
Total Fixed Assets	671	598	1,597	1,595
Goodwill	409	423	423	423
Deferred tax assets	130	155	155	155
Debtors	857	890	1,236	1,446
Other Current Assets	377	415	577	675
Cash	903	812	530	999
Current Investments	14	12	12	12
Total Current Assets	2,151	2,130	2,355	3,133
Trade payables	284	372	517	605
Other current liabilities	498	480	771	902
Short term provisions	33	23	31	37
Total Current Liabilities	815	875	1,319	1,544
Net Current Assets	1,336	1,255	1,036	1,589
<b>Application of Funds</b>	<b>2,625</b>	<b>2,638</b>	<b>3,419</b>	<b>3,970</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	71.4	73.3	115.2	146.7
DPS	31	24	53	68
Cash per Share	145.2	130.7	85.3	160.8
BV per share (Diluted)	385.3	396.7	460.1	540.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	17.2	16.9	19.1	20.2
PBT Margin	14.4	13.2	15.1	16.2
PAT Margin	10.6	9.8	11.1	12.0
Debtor days	75	70	70	70
Creditor days	25	29	29	29
<b>Return Ratios (%)</b>				
RoE	18.5	18.5	25.0	27.1
RoCE	23.0	23.3	28.6	30.9
RoIC	32.0	33.2	34.2	41.8
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	70.9	69.1	43.9	34.5
EV / EBITDA	42.5	39.0	25.3	20.1
EV / Net Sales	7.3	6.6	4.8	4.1
Market Cap / Sales	7.5	6.8	4.9	4.2
Price to Book Value	13.1	12.8	11.0	9.4
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.3	0.2
Debt / Equity	0.0	0.0	0.1	0.1
Current Ratio	1.5	1.5	1.4	1.4
Quick Ratio	1.5	1.5	1.4	1.4

Source: Company, ICICI Direct Research

**Exhibit 10: ICICI Direct coverage universe (IT)**

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,166	1,475	BUY	316,400	45.8	50.6	60.9	25.4	23.0	19.1	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,708	2,060	BUY	725,960	45.5	54.8	64.3	37.5	31.1	26.6	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,493	4,530	BUY	1,292,225	87.6	110.9	133.0	39.8	31.5	26.3	45.9	51.9	55.8	37.5	43.8	46.8
Tech M (TECMAH)	1,524	1,611	BUY	147,303	50.2	64.7	74.6	30.4	23.6	20.4	19.8	22.8	23.7	17.8	20.4	20.8
Wipro (WIPRO)	668	815	BUY	365,863	19.1	21.8	27.7	35.0	30.6	24.1	21.3	22.5	28.2	19.5	21.6	27.5
LTI (LTINFNC)	6,414	7,650	BUY	112,595	111.0	137.3	169.9	57.8	46.7	37.7	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,433	4,915	HOLD	73,006	67.4	89.8	109.2	65.8	49.3	40.6	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,063	5,870	BUY	31,475	73.3	115.2	146.7	69.1	43.9	34.5	23.3	28.6	30.9	18.5	25.0	27.1
TeamLease (TEASER)	4,620	4,550	BUY	7,928	46.5	67.5	100.3	99.4	68.5	46.1	14.2	16.4	19.8	11.6	15.8	18.6
Infoedge (INFEDG)	5,947	6,270	BUY	77,050	20.9	37.1	51.0	284.4	160.4	116.7	7.7	13.1	16.7	6.0	9.9	12.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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