

May 13, 2022

RESULT REPORT Q4 FY22 | Sector: Information Technology

Coforge

Growth outlook remains strong over medium term

Our view

Overall, strong performance along with sequential improvement in margin in this tough supply constrained environment. While, the performance remains broadbased, the pickup in travel and transportation vertical has been supporting growth. The demand environment remains strong and the robust deal booking offers strong revenue visibility for FY23 and it would remain among the growth leaders in tier 2 IT space. The guidance of 20% revenue growth in cc terms for FY23 remains strong. The company is expected to achieve adjusted EBITDA margin of around 19% for FY23 led by higher offshoring and improving employee pyramid.

We maintain BUY Rating on the stock with revised target price of Rs 4,654/share at 30x on FY24E EPS. The stock trades at PER of 23.3x on FY24E EPS.

Result Highlights

- Reported revenue of Rs 17.4bn(up 5.1% QoQ in INR terms; up 4.9% QoQ in USD terms). The growth was led by strong recovery in Travel , Transportation and hospitality segment.
- EBIT margin grew 70 bps QoQ to 15.8%, led by control on employee cost, which grew 3.7% QoQ, but down 90 bps sequentially as percentage of revenue.
- Deal booking remained strong as it reported fresh order intake of \$301mn in the quarter compared to \$247 mn in Q3FY22 and \$201mn in Q4FY21.
- Offshore revenue mix grew by 100 bps QoQ to 47%. Added 12 clients in quarter compared to 13 in Q3FY22.
- Number of employees increased by 370 QoQ(1.7% QoQ) to 22,500.
- Utilization (including trainees)was down 100bps sequentially to 76.1%; While LTM attrition increased by 140 bps QoQ to 17.7%(among the lowest in tier 2 category).
- DSO improved by 7 days QoQ to 63 days.
- Also declared interim dividend of Rs 13/ share.

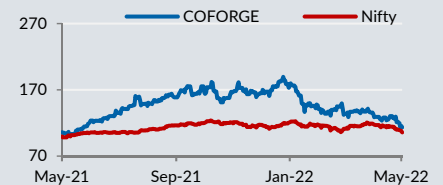
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	17,429	17,444	17,405	-0.1%	0.1%
EBITDA	3,339	3,470	3,441	-3.8%	-3.0%
EBITDA Margin (%)	19.16%	19.89%	19.77%	(73) bps	(61) bps
Adjusted PAT	2,077	1,985	2,081	4.6%	-0.2%

Reco	: BUY
CMP	: Rs 3,654
Target Price	: Rs 4,654
Potential Return	: +27.3%

Stock data (as on May 13, 2022)

Nifty	15,808
52 Week h/l (Rs)	6135 / 3252
Market cap (Rs/USD mn)	222571 / 2875
Outstanding Shares (mn)	61
6m Avg t/o (Rs mn):	1,947
Div yield (%):	1.4
Bloomberg code:	COFORGE IN
NSE code:	COFORGE

Stock performance



	1M	3M	1Y
Absolute return	-11.9%	-19.5%	9.0%

Shareholding pattern (As of Mar'22 end)

Promoter	40.1%
FII+DII	48.1%
Others	11.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,654	5,905

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	113.0	124.5	155.1
EPS (Old)	109.3	128.7	157.5
% change	3.4%	-3.3%	-1.5%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	64,320	77,256	91,522
YoY Growth	37.9%	20.1%	18.5%
EBIDTA	11,395	13,839	16,778
YoY Growth	44.0%	21.4%	21.2%
PAT	6,859	7,558	9,417
YoY Growth	47.5%	10.2%	24.6%
ROE	26.4%	25.3%	26.3%
EPS	113	125	155
P/E	32.0	29.0	23.3
BV	450	535	645
P/BV	8.0	6.8	5.6

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Exhibit 1: Quarterly snapshot (Consolidated)

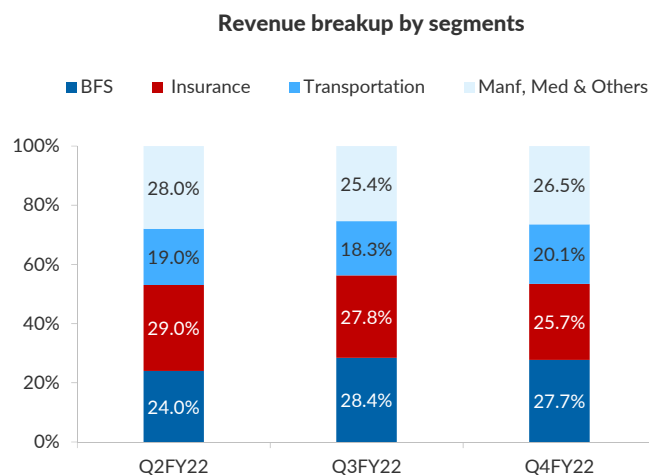
Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	yoy%	qoq %	FY22	FY21	yoy%
Sales (\$ mn)	172.4	199.7	212.8	221.6	232.4	34.8	4.9	866.5	628.4	37.9
Sales	12,615	14,616	15,694	16,581	17,429	38.2	5.1	64,320	46,628	37.9
EBITDA	2,168	2,200	2,788	3,068	3,339	54.0	8.8	11,395	7,911	44.0
EBITDA %	17.2	15.1	17.8	18.5	19.2	197 bps	65 bps	17.7	17.0	75 bps
Depreciation	449	524	598	566	584	30.1	3.2	2,272	1,836	23.7
EBIT	1,719	1,676	2,190	2,502	2,755	60.3	10.1	9,123	6,075	50.2
EBIT Margin %	13.6	11.5	14.0	15.1	15.8	218 bps	72 bps	14.2	13.0	116 bps
Other income	109	52	(77)	(122)	(119)	(209.2)	NA	(266)	113	(335.4)
PBT	1,782	1,632	2,062	2,332	2,590	45.3	11.1	9,098	5,962	52.6
Tax	408	320	446	360	342	(16.2)	(5.0)	1,468	1,302	12.7
PAT after MI	1,330	1,236	1,468	1,837	2,077	56.2	13.1	7,100	4,424	60.5
NPM (%)	10.5	8.5	9.4	11.1	11.9	137 bps	84 bps	11.0	9.5	155 bps

KEY CON-CALL HIGHLIGHTS

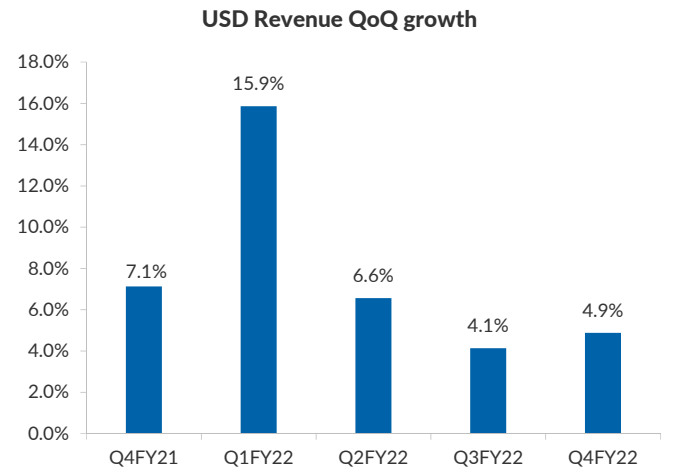
- Guided for 20% revenue growth in cc terms for FY23. Adjusted EBITDA margin guidance for FY23 of 18.5% to 19%.
- Aims to achieve revenue of \$2bn over medium term
- Wage hike for FY23 has been taken with effect from 1st April 2022.
- The company signed 11 large deals during the year with 1 deal with \$100mn TCV and 3 deals with \$50 mn TCV.
- Continues to de-risk the business as revenue from top 5 clients grew by 25.8% in FY22; while revenue from top 10 clients grew by 32.4% yoy.
- Headcount grew by 34.6% YoY in FY22; While attrition remains one of the lowest in the industry at 17.7%
- Offshore revenue mix continues to grow. This trend is structural in nature and likely to sustain.

Exhibit 2: Revenue growth was led by Transportation vertical

Exhibit 3: Revenue growth momentum remains strong



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	615	618	625	606	609	609	609
Reserves & surplus	17,125	20,105	23,340	24,055	26,722	31,852	38,537
Shareholders' funds	17,740	20,723	23,965	24,661	27,331	32,461	39,146
Minority Interests and others	222	75	0	0	983	983	983
Non-current liabilities	2,889	1,770	2,491	1,947	9,438	9,478	9,547
Long-term borrowings	179	100	48	551	4,302	4,087	3,883
Other non-current liabilities	2,710	1,670	2,443	1,396	5,136	5,391	5,665
ST borrowings, Curr maturity	0	0	0	275	594	535	481
Other current liabilities	5,847	6,166	7,942	8,150	11,198	9,128	10,093
Total (Equity and Liabilities)	26,698	28,734	34,398	35,033	49,544	52,585	60,251
Non-current assets	10,519	9,598	12,888	14,096	27,335	27,084	26,364
Fixed assets (Net block)	6,370	5,753	6,705	5,982	10,127	9,629	8,641
Other non-current assets	4,096	3,800	6,183	6,530	15,517	15,782	16,065
Current assets	16,179	19,136	21,510	20,937	22,209	25,500	33,887
Cash & current investment	7,835	9,227	9,171	8,246	4,535	7,644	13,141
Other current assets	8,344	9,909	12,339	12,691	17,674	17,856	20,746
Total (Assets)	26,698	28,734	34,398	35,033	49,544	52,585	60,251
Total debt	179	100	48	826	4,896	4,622	4,364

Exhibit 5: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	29,914	36,762	41,839	46,628	64,320	77,256	91,522
Operating expenses	(24,902)	(30,309)	(34,641)	(38,717)	(52,925)	(63,417)	(74,744)
EBITDA	5,012	6,453	7,198	7,911	11,395	13,839	16,778
Depreciation	(1,273)	(1,248)	(1,730)	(1,836)	(2,272)	(2,704)	(3,203)
EBIT	3,739	5,205	5,468	6,075	9,123	11,135	13,575
Other income	299	476	558	113	(266)	(500)	(542)
Exceptional & extraordinary	0	56	71	(226)	241	0	0
Profit before tax	4,038	5,737	6,097	5,962	9,098	10,634	13,033
Tax (current + deferred)	(950)	(1,404)	(1,278)	(1,302)	(1,468)	(2,393)	(2,932)
Profit / (Loss) for the period	3,088	4,333	4,819	4,660	7,630	8,242	10,101
P/L of Associates, Min Int, Pref Div	(285)	(188)	(236)	(236)	(530)	(684)	(684)
Reported Profit / (Loss)	2,803	4,145	4,583	4,424	7,100	7,558	9,417
Adjusted net profit	2,803	4,089	4,512	4,650	6,859	7,558	9,417

Exhibit 6: Cash Flow Statement

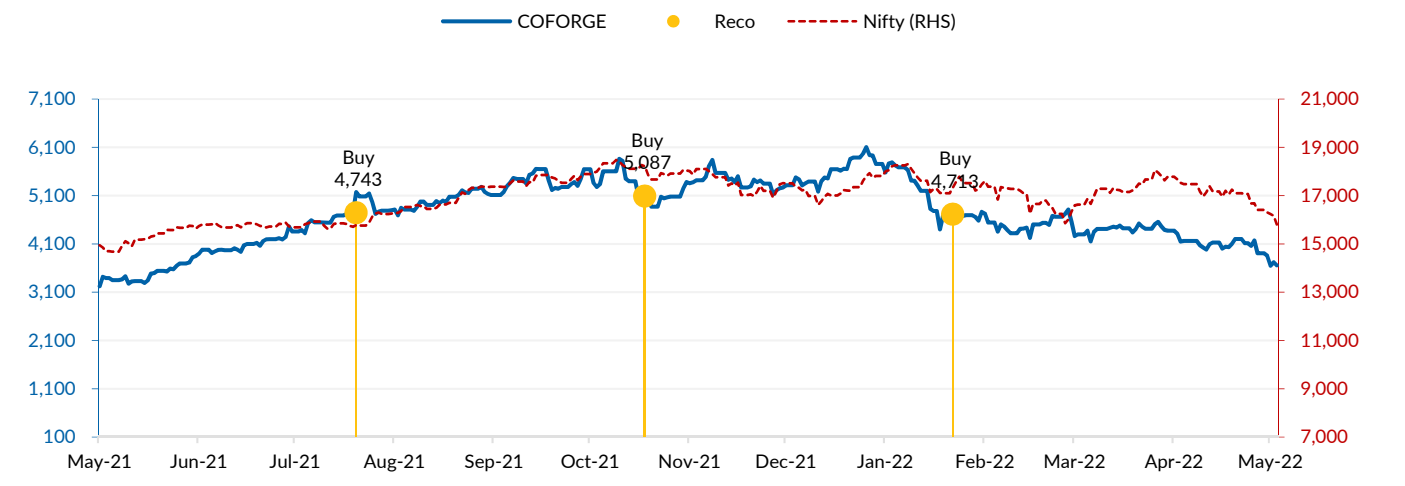
Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	4,038	5,737	6,097	5,962	9,098	10,634	13,033
Depreciation	1,273	1,248	1,730	1,836	2,272	2,704	3,203
Change in working capital	280	(1,262)	(786)	(737)	(1,935)	(2,252)	(1,925)
Total tax paid	(1,142)	(1,265)	(1,546)	(1,650)	(2,185)	(2,584)	(3,137)
Cash flow from operations (a)	4,449	4,458	5,495	5,411	7,250	8,502	11,174
Capital expenditure	(1,015)	(631)	(2,682)	(1,113)	(6,417)	(2,206)	(2,216)
Change in investments	(469)	9	3,559	(1,571)	17	17	17
Others	(110)	115	(470)	(67)	(1,216)	(73)	(78)
Cash flow from investing (b)	(1,594)	(507)	407	(2,751)	(7,616)	(2,262)	(2,277)
Free cash flow (a+b)	2,855	3,951	5,902	2,660	(366)	6,240	8,897
Equity raised/(repaid)	1	3	7	(19)	3	0	0
Debt raised/(repaid)	(35)	(79)	(52)	778	4,070	(275)	(258)
Dividend (incl. tax)	(810)	(1,086)	(1,469)	(686)	(2,124)	(2,428)	(2,731)
Others	(1,903)	(1,396)	(930)	(3,645)	(5,170)	(429)	(411)
Cash flow from financing (c)	(2,746)	(2,558)	(2,444)	(3,572)	(3,221)	(3,131)	(3,400)

Exhibit 7: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth (%)							
Revenue Growth	6.9	22.9	13.8	11.4	37.9	20.1	18.5
EBITDA Growth	3.8	28.8	11.5	9.9	44.0	21.4	21.2
EBIT Growth	3.5	39.2	5.1	11.1	50.2	22.1	21.9
Net Profit Growth	10.5	47.9	10.6	(3.5)	60.5	6.4	24.6
Profitability Ratios (%)							
EBITDA Margin	16.8	17.6	17.2	17.0	17.7	17.9	18.3
EBIT margin	12.5	14.2	13.1	13.0	14.2	14.4	14.8
Net Profit margin	9.4	11.1	10.8	10.0	10.7	9.8	10.3
RoA	14.6	18.8	17.3	17.5	21.6	21.8	24.1
RoE	16.2	21.3	20.2	19.1	26.4	25.3	26.3
RoCE	18.3	24.0	22.3	22.8	28.0	27.2	29.0
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.3)	0.0	(0.1)	(0.2)
Current ratio (x)	2.8	3.1	2.7	2.5	1.9	2.6	3.2
Quick ratio (x)	2.8	3.1	2.7	2.5	1.9	2.6	3.2
Valuation Ratios							
PER(x)	NA	NA	NA	NA	32.0	29.0	23.3
PCE(x)	NA	NA	NA	NA	24.0	21.4	17.4
Price/Book(x)	NA	NA	NA	NA	8.0	6.8	5.6
EV/EBITDA(x)	NA	NA	NA	NA	19.3	15.6	12.6

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin (%)	9.4	11.1	10.8	10.0	10.7	9.8	10.3
Asset turnover (x)	1.2	1.3	1.3	1.3	1.5	1.5	1.6
Leverage factor (x)	1.5	1.4	1.4	1.4	1.6	1.7	1.6
Return on Equity (%)	16.2	21.3	20.2	19.1	26.4	25.3	26.3

Recommendation Tracker



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