

**ADD**

TP: Rs 2,630 | ▲ 7%

**COFORGE**

IT Services

22 October 2020

## Executable order book hits record high

**Coforge (erstwhile NIIT Tech) reported a robust Q2FY21 performance, marked by 8.1% QoQ CC revenue growth that was broad-based across verticals. Operating margin at 13.8% rose 220bps QoQ. Management's FY21 outlook was positive backed by its highest ever executable order book of US\$ 489mn. We raise FY21-FY23 EPS by 6-8% and roll forward to a new Sep'21 TP of Rs 2,630 (from Rs 2,110). Our target P/E stands revised from 18.5x to 21.5x backed by a robust deal pipeline and diversified revenue mix. Maintain ADD.**

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**Strong Q2 growth:** Coforge's revenue grew by a stellar 8.1% QoQ CC vs. our estimate of 7%, driven by better utilisation and revenue mix diversification. Growth was broad-based across verticals, especially insurance. Travel recovered, growing 9.1% QoQ (INR terms) to form 19% of total revenue (with 5.5-6% coming from airlines). Revenue share of digital and product/IP-based business stood at 43% vs. 40% in Q1. EBIT margin at 13.8% (post-RSU) was broadly in line with estimates (13.5%), rising 220bps QoQ. Margins expanded on strong topline momentum, despite higher employee and SG&A costs.

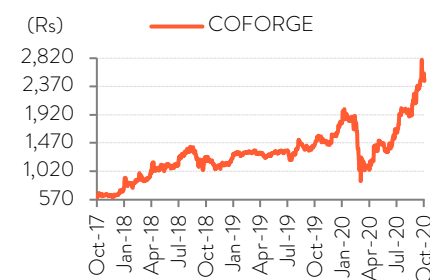
**Record-high TTM executable order book:** Fresh order intake stood at US\$ 201mn with a record-high US\$ 489mn executable order book (up 5% QoQ, 21% YoY) over the next 12 months. Of the US\$ 201mn order book, US\$ 121mn came from the US, US\$ 58mn from EMEA and US\$ 21mn from RoW. Two large deals were signed in the insurance (worth US\$ 32mn) and BFS verticals.

**Upbeat outlook:** After delivering on Q2FY21 revenue and margin guidance, management expects FY21 organic growth to be at least 6% QoQ CC. EBIT margin guidance for the year has been maintained at 17.8% (before RSU cost). Coforge expects inorganic growth to also contribute in FY21.

Ticker/Price	COFORGE IN/Rs
	2,457
Market cap	US\$ 2.1bn
Shares o/s	62mn
3M ADV	US\$ 19.2mn
52wk high/low	Rs 2,814/Rs 735
Promoter/FPI/DII	70%/13%/17%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	48,112	58,954	66,339
EBITDA (Rs mn)	6,453	7,431	8,414	10,641	11,761
Adj. net profit (Rs mn)	4,089	4,539	4,985	7,149	7,811
Adj. EPS (Rs)	66.2	73.5	80.7	115.7	126.4
Adj. EPS growth (%)	45.9	11.0	9.8	43.4	9.3
Adj. ROAE (%)	20.3	18.7	17.9	22.5	21.3
Adj. P/E (x)	37.1	33.4	30.4	21.2	19.4
EV/EBITDA (x)	23.0	19.6	16.8	12.8	11.2

Source: Company, BOBCAPS Research

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## Other highlights

- Demand in the airline segment (~5% of revenue) continues to be suppressed. Coforge's QoQ growth from airline in Q2 has come on the back of wallet share gains from pre-pandemic customers. Demand weakness in this vertical till Mar'21 has been baked into the guidance.
- Management will be carving out healthcare as a separate vertical from the 'others' segment going forward.
- Deal velocity is expected to continue in the coming quarters.

**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Revenue (US\$ mn)</b>	<b>154.9</b>	<b>148.7</b>	<b>3.9</b>	<b>139.6</b>	<b>10.7</b>
Revenue (Rs mn)	11,537	10,385.0	11.1	10,570	9.1
Operating Expenditure	9,489	8,487.0	11.8	8,884	6.8
Cost of revenues	7,776	6,796.0	14.4	7,240	7.4
as % of sales	67.4	65.4	-	68.5	-
SG&A expenses	1,713	1,691.0	1.3	1,644	4.2
as % of sales	14.8	16.3	-	15.6	-
EBITDA	2,048	1,898.0	7.9	1,686	21.5
Depreciation	460	447.0	2.9	465	(1.1)
<b>EBIT</b>	<b>1,588</b>	<b>1,451.0</b>	<b>9.4</b>	<b>1,221</b>	<b>30.1</b>
Other Income	(63)	76.0	-	(132)	-
PBT	1,525	1,527.0	(0.1)	1,089	40.1
Total Tax	303	276.0	9.8	260	16.5
<b>Adjusted PAT</b>	<b>1,222</b>	<b>1,251.0</b>	<b>(2.3)</b>	<b>829</b>	<b>47.5</b>
(Profit)/loss from JV's/Ass/MI	15.0	56.0	-	30.0	-
APAT after MI	1,207	1,195.0	1.0	799	51.1
Extra ordinary items	0	0.0	-	180	-
Reported PAT	1,207	1,195.0	1.0	979	23.3
Reported EPS	19.4	19.3	0.2	12.8	51.1
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>
EBITDA	17.8	18.3	(52)	15.9	181
EBIT	13.8	14.0	(21)	11.5	222
EBT	13.2	14.7	(149)	10.3	292
PAT	10.5	11.5	(104)	9.3	120
Effective Tax rate	19.9	18.1	179	23.9	(402)

Source: BOBCAPS Research

**FIG 2 – OPERATING METRICS**

(in INR terms)	Q2FY21 (% Contr. to Revenue)	Growth (%)	
		QoQ	YoY
<b>Revenue by Geography</b>			
North America	48	11.5	8.8
RoW	16	2.7	27.0
<b>Revenue by Vertical</b>			
Banking and Financial Services	17	9.1	11.1
Insurance	34	12.5	21.8
Transportation	19	9.1	(24.6)
Other	30	9.1	38.9
<b>Revenue Mix</b>			
Offshore	36	3.4	17.6
Onsite	64	12.7	7.7
<b>Client Concentration</b>			
Top 5	25	5.0	(4.2)
Non-Top 5 client	75	10.6	17.4
Top 10	36	3.4	2.5
	<b>Q2FY21</b>	<b>Q1FY21</b>	<b>Q2FY20</b>
Number of Employees	11,162	564	362
Attrition (%)	10.5	(134bps)	(180bps)
Utilisation (%)	81	400bps	30bps
DSO (Days)	75	4Days	2Days
	<b>Q2FY21</b>	<b>Q1FY21</b>	<b>Q2FY20</b>
<b>Significant New Customer Addition (Nos.)</b>			
USA	7	5	7
Europe	3	5	1
ROW	0	0	2
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Fresh Order Intake (US\$ mn)</b>			
USA	121	85	65
Europe	58	70	41
ROW	21	31	70
<b>Total</b>	<b>200</b>	<b>186</b>	<b>176</b>
<b>Executable Orders Over Next 12mths (US\$ mn)</b>			
	489	465	405

Source: BOBCAPS Research

## Valuation methodology

Post the Q2FY21 results, we raise FY21/FY22/FY23 EPS estimates by 6%/8%/8%. On rolling valuations forward, we arrive at a revised Sep'21 target price of Rs 2,630 (from Rs 2,110) as we reset our target P/E from 18.5x to 21.5x based on the company's upbeat outlook.

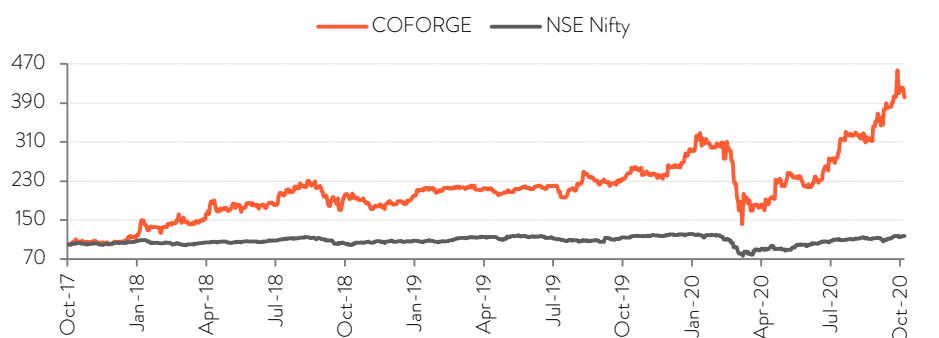
Coforge's mid-single-digit CC revenue growth guidance for FY21 (~6%) is backed by ~21% YoY growth in the executable order book and large deal wins (in insurance and BFS), despite its highest exposure to the travel vertical among peers. Maintain ADD.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	610	638	4.5	698	756	8.2	786	851	8.2
YoY growth (%)	2.9	7.5	-	14.4	18.5	-	12.6	12.5	-
Revenues	46,578	48,112	3.3	54,465	58,954	8.2	61,334	66,339	8.2
EBITDA (post RSU)	7,914	8,414	6.3	9,837	10,641	8.2	10,871	11,761	8.2
EBITDA margins (%)	17.0	17.5	-	18.1	18.0	-	17.7	17.7	-
Net profits	4,683	4,985	6.4	6,629	7,149	7.8	7,216	7,811	8.2
EPS (Rs)	75.8	80.7	6.4	107.3	115.7	7.8	116.8	126.4	8.2

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Downside risks to our earnings estimates include:

- challenges at the company's top clients,
- a sharp decline in demand, and
- adverse currency movement.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>36,762</b>	<b>41,839</b>	<b>48,112</b>	<b>58,954</b>	<b>66,339</b>
EBITDA	6,453	7,431	8,414	10,641	11,761
Depreciation	1,248	1,730	1,849	2,131	2,291
EBIT	5,205	5,701	6,566	8,510	9,470
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	476	462	413	1,370	1,334
Exceptional items	0	0	0	0	0
EBT	5,681	5,978	6,799	9,880	10,804
Income taxes	1,404	1,203	1,588	2,371	2,593
Extraordinary items	0	185	180	0	0
Min. int./Inc. from associates	188	236	225	360	400
<b>Reported net profit</b>	<b>4,089</b>	<b>4,539</b>	<b>4,985</b>	<b>7,149</b>	<b>7,811</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>4,089</b>	<b>4,539</b>	<b>4,985</b>	<b>7,149</b>	<b>7,811</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	6,345	7,222	8,304	10,176	11,450
Provisions	3,626	4,127	4,745	5,815	6,543
Debt funds	224	224	224	224	224
Other liabilities	455	455	455	455	455
Equity capital	615	615	615	615	615
Reserves & surplus	21,625	25,657	28,887	33,557	38,666
Shareholders' fund	22,240	26,272	29,502	34,172	39,281
<b>Total liabilities and equities</b>	<b>32,890</b>	<b>38,299</b>	<b>43,230</b>	<b>50,841</b>	<b>57,953</b>
Cash and cash eq.	8,726	13,390	17,349	22,941	29,199
Accounts receivables	7,352	8,368	9,622	11,791	13,268
Inventories	0	0	0	0	0
Other current assets	3,324	3,783	4,350	5,330	5,998
Investments	3,955	3,955	3,955	3,955	3,955
Net fixed assets	8,302	7,572	6,723	5,593	4,302
CWIP	7	7	7	7	7
Intangible assets	0	0	0	0	0
Deferred tax assets, net	1,231	1,231	1,231	1,231	1,231
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>32,890</b>	<b>38,299</b>	<b>43,230</b>	<b>50,841</b>	<b>57,953</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	5,525	6,505	7,059	9,640	10,501
Interest expenses	(476)	(462)	(413)	(1,370)	(1,334)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(151)	(97)	(120)	(208)	(142)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>4,898</b>	<b>5,946</b>	<b>6,526</b>	<b>8,062</b>	<b>9,026</b>
Capital expenditures	(750)	(1,000)	(1,000)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	476	462	413	1,370	1,334
<b>Cash flow from investing</b>	<b>(274)</b>	<b>(538)</b>	<b>(587)</b>	<b>370</b>	<b>334</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	0	(744)	(1,980)	(2,839)	(3,102)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>0</b>	<b>(744)</b>	<b>(1,980)</b>	<b>(2,839)</b>	<b>(3,102)</b>
<b>Changes in cash and cash eq.</b>	<b>4,624</b>	<b>4,664</b>	<b>3,959</b>	<b>5,592</b>	<b>6,258</b>
<b>Closing cash and cash eq.</b>	<b>8,726</b>	<b>13,390</b>	<b>17,349</b>	<b>22,941</b>	<b>29,199</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	66.2	73.5	80.7	115.7	126.4
Adjusted EPS	66.2	73.5	80.7	115.7	126.4
Dividend per share	0.0	10.0	26.6	38.2	41.7
Book value per share	360.0	425.2	477.5	553.1	635.8

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.0	3.5	2.9	2.3	2.0
EV/EBITDA	23.0	19.6	16.8	12.8	11.2
Adjusted P/E	37.1	33.4	30.4	21.2	19.4
P/BV	6.8	5.8	5.1	4.4	3.9

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	75.9	73.3	72.4	72.3
Interest burden (PBT/EBIT)	109.1	104.9	103.5	116.1	114.1
EBIT margin (EBIT/Revenue)	14.2	13.6	13.6	14.4	14.3
Asset turnover (Revenue/Avg TA)	123.4	117.5	118.0	125.3	122.0
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.3	18.7	17.9	22.5	21.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	22.9	13.8	15.0	22.5	12.5
EBITDA	28.8	15.2	13.2	26.5	10.5
Adjusted EPS	45.9	11.0	9.8	43.4	9.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.6	17.8	17.5	18.0	17.7
EBIT margin	14.2	13.6	13.6	14.4	14.3
Adjusted profit margin	11.1	10.8	10.4	12.1	11.8
Adjusted ROAE	20.3	18.7	17.9	22.5	21.3
ROCE	18.1	20.5	24.8	34.3	41.7
<b>Working capital days (days)</b>					
Receivables	66	69	68	66	69
Inventory	0	0	0	0	0
Payables	132	128	129	134	128
<b>Ratios (x)</b>					
Gross asset turnover	4.3	5.3	6.7	9.6	13.4
Current ratio	1.9	2.3	2.4	2.5	2.7
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.4)	(0.5)	(0.6)	(0.7)	(0.7)

Source: Company, BOBCAPS Research

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

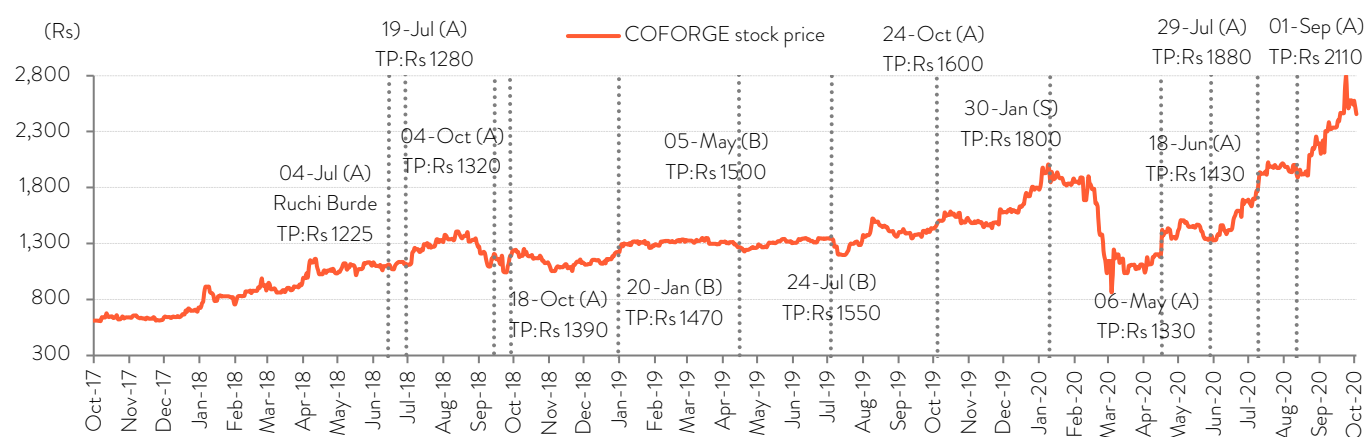
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): COFORGE (COFORGE IN)



B – Buy, A – Add, R – Reduce, S – Sell

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