

BUY

TP: Rs 4,080 | ▲ 20%

COFORGE

| IT Services

| 06 May 2021

Bumper FY22 guidance; reiterate BUY

Coforge reported a strong Q4FY21 with 7.1% QoQ USD revenue growth led by the 'other' vertical, though EBIT margin underperformed at 13.6% (+63bps QoQ). Management has guided for 17%+ CC YoY organic growth and a 19%+ EBITDA margin for FY22, backed by its highest-ever executable order book of US\$ 520mn. We raise FY22/FY23 EPS by 9%/6% and upgrade our target P/E to 25x (vs. 22x) based on the robust deal pipeline and upbeat outlook. On rollover, we have a new Mar'22 TP of Rs 4,080 (from Rs 3,350). **BUY.**

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Growth outperforms estimates: Coforge declared revenue growth of 7.1% QoQ USD in Q4, bettering our estimate of 5.3%. Growth was driven by a 17% QoQ increase in the 'other' vertical (comprising retail, manufacturing, overseas government and hi-tech). Insurance rebounded with an increase of 2.6% QoQ in reported terms, following contraction of 2.9% in Q3FY21. EBIT margin at 13.6% (est. 15.1%, +63bps QoQ) was affected by a one-time bonus given to 85% of employees, record hiring of over 950 employees in Q4FY21 and costs from the SLK Global acquisition.

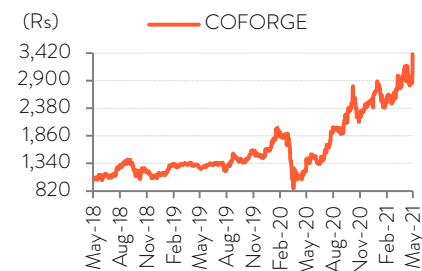
Record executable order book: Fresh order intake totalled US\$ 201mn, leading to a record-high US\$ 520mn executable order book (+4% QoQ, +11% YoY) over next 12 months. Of the fresh orders, US\$ 119mn came from the US, US\$ 65mn from EMEA and US\$ 17mn from RoW. Two large deals signed in Q4 were both from the travel vertical, indicating recovery in FY22.

Maintain BUY: Coforge has shown resilience in FY21 with 5.8% YoY USD growth despite the impact of Covid and its highest exposure to the travel and hospitality vertical among peers. Its 17%+ CC YoY organic growth guidance for FY22, 19%+ organic EBITDA margin guidance and US\$ 520mn in executable orders support our FY23E target P/E upgrade to 25x (2SD above the 5Y mean).

Ticker/Price	COFORGE IN/ Rs 3,396
Market cap	US\$ 2.9bn
Shares o/s	62mn
3M ADV	US\$ 22.5mn
52wk high/low	Rs 3,449/Rs 1,302
Promoter/FPI/DII	70%/13%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	46,628	62,726	74,551
EBITDA (Rs mn)	6,453	7,431	7,911	11,733	14,283
Adj. net profit (Rs mn)	4,089	4,539	4,556	8,023	9,909
Adj. EPS (Rs)	66.2	72.9	75.0	132.1	163.2
Adj. EPS growth (%)	45.9	10.1	2.9	76.1	23.5
Adj. ROAE (%)	20.3	18.7	16.5	25.2	26.2
Adj. P/E (x)	51.3	46.6	45.3	25.7	20.8
EV/EBITDA (x)	32.2	27.6	25.4	16.8	13.7

Source: Company, BOBCAPS Research | P – Provisional

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Guidance strengthened

- **Revenue guidance:** In line with our optimistic FY22 growth estimates following the SLK Global acquisition (see: [SLK Global acquisition to derisk travel business](#)), management has guided for organic growth of at least 17%+ YoY CC for the year. It also expects SLK to post higher growth and EBITDA margins than Coforge. Management further believes the travel, transportation and hospitality (TTHL) vertical will rebound materially in FY22. All this contributes towards its guidance of industry-leading growth for FY22.
- **Margin guidance:** EBITDA margin is guided at 19%+ for the organic business in FY22, which came as a positive surprise. The three key levers to drive robust margins are: (1) significant fillip due to price discount reversal for TTHL clients, (2) 17%+ YoY CC growth guidance, and (3) expected ramp-up in offshoring. These levers are likely to offset the negative impact due to (1) salary hikes, and (2) increased employee retention cost to stave off enhanced competition for acquiring talent.

Other highlights

- Coforge has been working towards a healthier client and business mix. The top-5 client share has decreased from 27% in Q4FY20 to 25% in Q4FY21. On a QoQ basis, one new client was added in the US\$ 1mn-5mn bucket. The company has also worked aggressively to lower its exposure to travel, with the vertical's revenue share reducing from 27% in Q4FY20 to 19% in Q4FY21.
- Attrition was stable at 10.5% (+10bps QoQ).
- The board has recommended dividend of Rs 13/sh in Q4FY21.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue (US\$ mn)	172.1	154.8	11.2	160.8	7.1	627.4	593.3	5.8
Revenue (Rs mn)	12,615	11,093.0	13.7	11,906	6.0	46,628.0	41,839.0	11.4
Operating Expenditure	10,447	9,122.0	14.5	9,897	5.6	38,717.5	34,641.0	11.8
Cost of revenues	8,580	7,289.0	17.7	8,096	6.0	31,692.5	27,528.0	15.1
as % of sales	68.0	65.7	-	68.0	-	68.0	65.8	-
SG&A expenses	1,867	1,833.0	1.9	1,801	3.7	7,025.0	7,113.0	(1.2)
as % of sales	14.8	16.5	-	15.1	-	15.1	17.0	-
EBITDA	2,168	1,971.0	10.0	2,009	7.9	7,910.6	7,198.0	9.9
Depreciation	449	433.0	3.7	462	(2.8)	1,836.0	1,730.0	6.1
EBIT	1,719	1,538.0	11.8	1,547	11.1	6,074.6	5,468.0	11.1
Other Income	63	180.0	-	19	-	67.0	558.0	-
PBT	1,782	1,590.0	12.1	1,566	13.8	5,961.6	5,955.0	0.1
Total Tax	408	348.0	17.2	331	23.3	1,302.0	1,278.0	1.9
Adjusted PAT	1,374	1,242.0	10.6	1,235	11.3	4,659.6	4,677.0	(0.4)
(Profit)/loss from JV's/Ass/MI	44.0	106.0	-	15.0	-	104.0	236.0	-
APAT after MI	1,330	1,136.0	17.1	1,220	9.0	4,555.6	4,441.0	2.6
Extra ordinary items	46	128.0	-	0	-	226.0	185.0	-
Reported PAT	1,376	1,264.0	8.9	1,220	12.8	4,781.6	4,626.0	3.4
Reported EPS	21.4	18.2	17.1	19.6	9.0	73.2	70.7	3.5
Margins (%)			(bps)		(bps)			(bps)
EBITDA	17.2	17.8	(58)	16.9	31	17.0	17.2	(24)
EBIT	13.6	13.9	(24)	13.0	63	13.0	13.1	(4)
EBT	14.1	14.3	(21)	13.2	97	12.8	14.2	(145)
PAT	10.9	11.4	(49)	10.2	66	9.8	10.6	(84)
Effective Tax rate	22.9	21.9	101	21.1	176	21.8	21.5	38

Source: BOBCAPS Research, Company

FIG 2 – OPERATING METRICS

(in INR terms)	Q4FY21 (% Contr. to Revenues)	Growth (%)	
		QoQ	YoY
Revenue by Geography			
North America	46	(0.5)	13.7
EMEA	40	17.7	13.7
RoW	14	(1.1)	13.7
Revenue by Vertical			
Banking and Financial Services	17	0.1	28.9
Insurance	31	2.6	13.7
Transportation	19	0.7	(20.0)
Other	33	16.6	39.0
Revenue Mix Onsite/Offshore			
Offshore	39	8.7	23.2
Onsite	61	4.2	8.4
Client Concentration			
Top 5	25	10.4	5.3
Non-Top 5 client	75	4.6	16.8
Top 10	36	12.2	10.6

(in INR terms)	Q4FY21 (% Contr. to Revenues)	Growth (%)	
		QoQ	YoY
Attrition (%)	10.5	10bps	(130bps)
Utilisation (%)	81	210bps	290bps
DSO (days)	70	(5days)	(4days)
	Q4FY21	QoQ	YoY
Number of employees	12,391	967	1,235
	Q4FY21	Q3FY21	Q4FY20
Significant New Customer Addition			
USA	4	4	3
Europe	5	5	6
ROW	2	2	1
Total	11	11	10
Fresh Order Intake (US\$ mn)			
USA	119	116	81
Europe	65	45	52
ROW	17	32	47
Total	201	193	180
Executable Orders Over Next 12M (US\$ mn)	520	501	468

Source: BOBCAPS Research, Company

Valuation methodology

Coforge has guided for 17%+ CC organic revenue growth in FY22, backed by ~11% YoY growth in the executable order book and two large deal wins in Q4FY21. Management also put out an above-expected 19%+ EBITDA margin outlook for the organic business. Following the strong Q4 results and stellar FY22 guidance, we raise FY22/FY23 EPS estimates by 9%/6%.

We also upgrade our target FY23E P/E multiple to 25x (from 22x), which is two standard deviations above the stock's five-year mean, based on the company's upbeat outlook, record executable order book, timely revenue diversification and wallet share gains in the travel vertical. On rolling valuations forward, we move to a higher Mar'22 target price of Rs 4,080 (from Rs 3,350). Reiterate BUY.

FIG 3 – REVISED ESTIMATES

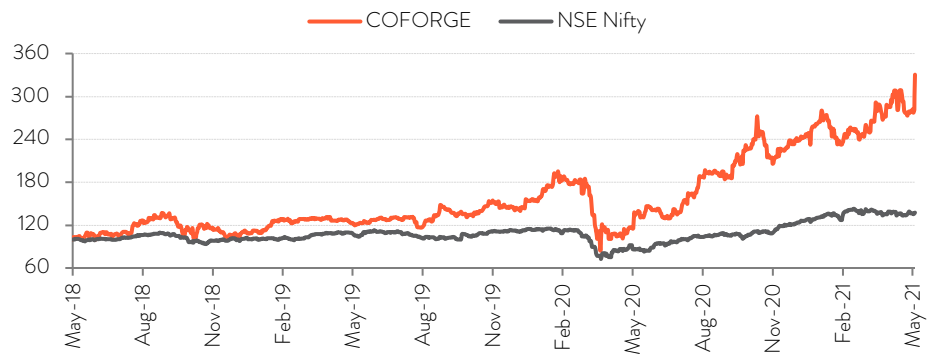
(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	804	820	2.0	963	953	(1.1)
YoY growth (%)	28.7%	30.7%	-	19.8	16.2	-
Revenues	61,512	62,726	2.0	75,370	74,551	(1.1)
EBITDA (post RSU)	10,959	11,733	7.1	13,754	14,283	3.8
EBITDA margin (%)	17.8	18.7	-	18.2	19.2	-
Net profits	7,505	8,023	6.9	9,488	9,909	4.4
EPS (Rs)	121.5	132.1	8.8	153.6	163.2	6.2

Source: BOBCAPS Research

FIG 4 – PEER COMPARISON

Company	Rating	Target Price (Rs)	US\$ revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target PE (x)
				FY22E	FY23E	FY22E	FY23E	
TCS	BUY	3,780	17.2	118	135	44.2	40.7	28
INFO	ADD	1,540	13.1	56	59	30.4	30.3	26
HCLT	BUY	1,190	11.9	55	63	22.6	23.1	19
TECHM	BUY	1,190	15.0	64	76	21.1	22.3	16
LTI	BUY	4,710	17.5	132	155	29.1	28.8	30
MPHL	REDUCE	1,550	14.4	81	96	22.4	23.8	17
PSYS	SELL	1,340	15.0	63	70	17.1	16.9	19
COFORGE	BUY	4,080	23.2	132	163	25.2	26.2	25

Source: BOBCAPS Research

FIG 5 – 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
- recovery failing to materialise in the travel vertical.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	36,762	41,839	46,628	62,726	74,551
EBITDA	6,453	7,431	7,911	11,733	14,283
Depreciation	1,248	1,730	1,836	2,131	2,291
EBIT	5,205	5,701	6,075	9,603	11,993
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	476	462	113	1,243	1,346
Exceptional items	0	0	0	0	0
EBT	5,681	5,978	5,962	10,845	13,339
Income taxes	1,404	1,203	1,302	2,277	2,801
Extraordinary items	0	185	226	0	0
Min. int./Inc. from associates	188	236	104	545	628
Reported net profit	4,089	4,539	4,556	8,023	9,909
Adjustments	0	0	0	0	0
Adjusted net profit	4,089	4,539	4,556	8,023	9,909

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	6,345	7,222	8,048	10,827	12,868
Provisions	3,626	4,127	4,599	6,187	7,353
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	25,651	28,501	33,882	40,484
Shareholders' fund	22,240	26,266	29,116	34,497	41,099
Total liabilities and equities	32,890	38,293	42,442	52,190	61,999
Cash and cash eq.	8,726	13,384	16,979	14,002	21,668
Accounts receivables	7,352	8,368	9,326	12,545	14,910
Inventories	0	0	0	0	0
Other current assets	3,324	3,783	4,216	5,671	6,740
Investments	3,955	3,955	3,955	13,135	13,135
Net fixed assets	8,302	7,572	6,736	5,605	4,315
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
Total assets	32,890	38,293	42,442	52,189	61,999

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	5,525	6,505	6,496	10,698	12,828
Interest expenses	(476)	(462)	(113)	(1,243)	(1,346)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(151)	(97)	(92)	(309)	(227)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	4,898	5,946	6,291	9,147	11,256
Capital expenditures	(750)	(1,000)	(1,000)	(1,000)	(1,000)
Change in investments	0	0	0	(9,180)	0
Other investing cash flows	476	462	113	1,243	1,346
Cash flow from investing	(274)	(538)	(887)	(8,937)	346
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	(749)	(1,809)	(3,186)	(3,935)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	0	(749)	(1,809)	(3,186)	(3,935)
Changes in cash and cash eq.	4,624	4,658	3,594	(2,977)	7,666
Closing cash and cash eq.	8,726	13,384	16,979	14,002	21,668

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	66.2	72.9	75.0	132.1	163.2
Adjusted EPS	66.2	72.9	75.0	132.1	163.2
Dividend per share	0.0	10.0	24.8	43.6	53.8
Book value per share	357.1	421.8	467.6	554.0	660.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	5.7	4.9	4.3	3.1	2.6
EV/EBITDA	32.2	27.6	25.4	16.8	13.7
Adjusted P/E	51.3	46.6	45.3	25.7	20.8
P/BV	9.5	8.1	7.3	6.1	5.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	75.9	76.4	74.0	74.3
Interest burden (PBT/EBIT)	109.1	104.9	98.1	112.9	111.2
EBIT margin (EBIT/Revenue)	14.2	13.6	13.0	15.3	16.1
Asset turnover (Revenue/Avg TA)	123.4	117.6	115.5	132.6	130.6
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.3	18.7	16.5	25.2	26.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	22.9	13.8	11.4	34.5	18.9
EBITDA	28.8	15.2	6.5	48.3	21.7
Adjusted EPS	45.9	10.1	2.9	76.1	23.5
Profitability & Return ratios (%)					
EBITDA margin	17.6	17.8	17.0	18.7	19.2
EBIT margin	14.2	13.6	13.0	15.3	16.1
Adjusted profit margin	11.1	10.8	9.8	12.8	13.3
Adjusted ROAE	20.3	18.7	16.5	25.2	26.2
ROCE	18.1	20.5	23.0	28.2	29.0
Working capital days (days)					
Receivables	66	69	69	64	67
Inventory	0	0	0	0	0
Payables	132	128	127	140	133
Ratios (x)					
Gross asset turnover	4.3	5.3	6.5	10.2	15.0
Current ratio	1.9	2.3	2.4	1.9	2.1
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.4)	(0.5)	(0.6)	(0.4)	(0.5)

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

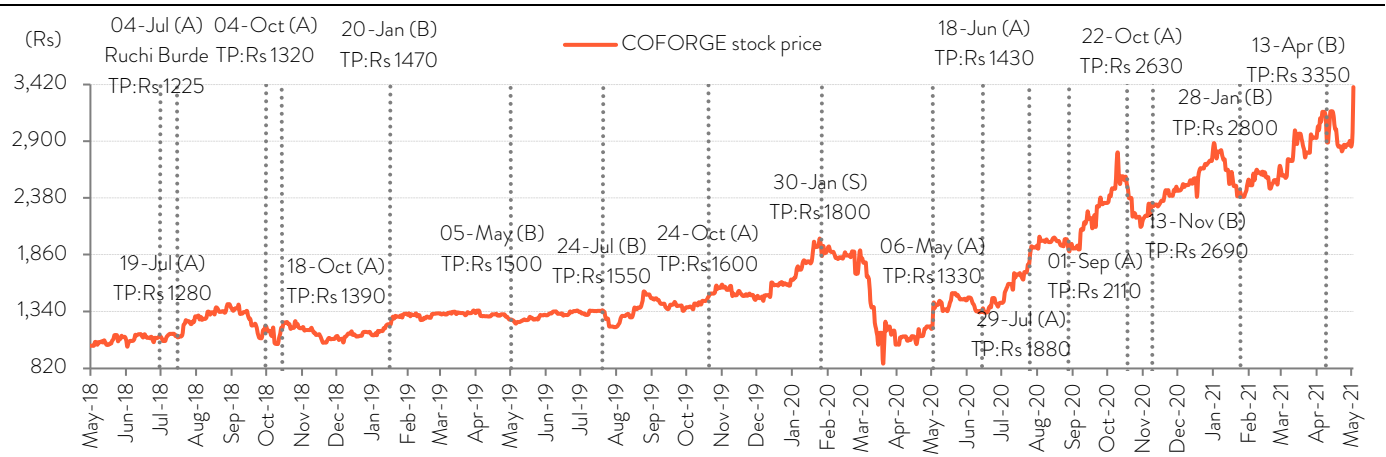
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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