

Strong quarterly performance, robust guidance...

Coforge Ltd (Coforge) reported healthy revenue growth, up 5.1% QoQ in constant currency (CC) terms, above our estimate of 3.0% QoQ growth. The revenue growth was led by insurance (up 3.9% QoQ), others (up 17.9% QoQ) and BFS (up 1.3% QoQ). The company declared a dividend of ₹ 13 per share. **Coforge has guided for organic revenue growth of 17% in CC terms (highest in our coverage universe) in FY22E and EBITDA margin (excluding Esop and acquisition related costs) expansion of 1% to 19% in FY22E.**

Inorganic growth, healthy deal pipeline to drive growth

The company has reported ~6% YoY growth in FY21 dollar revenue growth despite travel segment impact and Covid challenges. We believe this was mainly due to its ability to win large deals and traction in healthcare, insurance and banking. Going forward, with the acquisition of SLK, we expect Coforge to further penetrate into the banking vertical and participate in large deals. The company is seeing an increase in deal size and is currently pursuing three greater than US\$50 million deals (of which one is US\$100 million deal). The materialisation of these deals coupled with healthy order book bottoming out of travel vertical and preferred partnership with Fortune 500 insurance & Tier 1 banking companies bodes well for revenue growth in coming quarters. In addition, traction in cloud, data, cybersecurity and artificial intelligence (AI) (via partnerships with large players in cloud and partnering with product start-ups) will drive long term revenues for the company. Further, on synergies with recent acquisition and aggressive hiring, we expect Coforge to register a dollar CAGR of 22.5% in FY21-23E.

Margins to remain healthy, going forward

EBITDA margins were flat on a QoQ basis despite higher revenue growth due to one-time bonus to employees. The company plans to give wage hikes in FY22E. However, we believe Coforge would be able to offset this and other cost headwinds due to higher offshoring, higher margins in acquired company, reversal of travel discount and revenue growth. We expect margins to improve 253 bps to 19.4% in FY21-23E.

Valuation & Outlook

The company is witnessing a healthy deal pipeline and growing deal sizes, which will help improve revenue growth, going forward. In addition, ramp up in BFS & Insurance, revival in travel segment, traction in healthcare and strategic acquisition of SLK global will help drive long term revenues. This, coupled with improving margins, prompt us to have a positive view on the stock from a long term perspective. Hence, we upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 3985 (30x PE on FY23E EPS) (earlier target price ₹ 3300).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	21,117.1
Total Debt (₹ Crore)	4.8
Cash & Investment (₹ Crore)	917.1
EV (₹ Crore)	20,204.8
52 week H/L	3448/ 1228
Equity capital	62.5
Face value	10.0

Key Risk

- We assume that acceleration in digital technologies will drive revenue growth of IT companies. However, a slower-than-expected pace of growth in digital technologies will adversely impact Coforge's revenue growth
- We believe that in a post Covid world higher revenue growth, offshoring and other cost savings like travel facility cost will not return to normal levels. However, if Coforge is unable to realise the cost savings or realise the benefits of the cost savings it will adversely impact its margins

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	3,676	4,184	4,663	6,108	7,168	24.0%
EBITDA	645	720	786	1,173	1,391	33.0%
EBITDA Margins (%)	17.6	17.2	16.9	19.2	19.4	
Net Profit	403	444	456	677	815	33.7%
EPS (₹)	65.7	71.4	73.3	109.0	131.0	
P/E	51.7	47.6	46.4	31.2	25.9	
RoNW (%)	19.5	18.5	19.2	24.7	25.5	
RoCE (%)	25.2	23.0	23.6	27.6	28.6	

Source: Company, ICICI Direct Research, * will update FY21 balance sheet cash flow post receipt of annual report

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20 YoY (%)	Q3FY21	Q3FY21 1oQ (%)	Comments
Revenue	1,261.5	1,214.3	1,109.3	13.7	1,190.6	6.0 US\$ revenues increased 7.1% QoQ to \$172.4 million led by healthy growth in Insurance & Other vertical
Employee expenses	858.0	827.3	728.9	17.7	809.6	6.0
Gross Margin	403.5	387.0	380.4	6.1	381.0	5.9
Gross margin (%)	32.0	31.9	34.3	-231 bps	32.0	-1 bps
SG&A expenses	191.3	182.1	183.3	4.4	180.1	6.2
EBITDA	212.2	204.9	197.1	7.7	200.9	5.6
EBITDA Margin (%)	16.8	16.9	17.8	-95 bps	16.9	-5 bps EBITDA margins were broadly flat QoQ
Depreciation & amortisation	44.9	46.2	43.3	3.7	46.2	-2.8
EBIT	167.3	158.7	153.8	8.8	154.7	8.1
EBIT Margin (%)	13.3	13.1	13.9	-60 bps	13.0	27 bps
Other income (less interest)	10.9	1.9	18.0	-39.4	1.9	473.7
PBT	178.2	160.6	171.8	3.7	156.6	13.8
Tax paid	40.8	35.3	34.8	17.2	33.1	23.3
PAT	133.0	123.8	113.6	17.1	122.0	9.0 PAT was higher than our expectation due to higher than expected other income

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,902	6,108	3.5	6,791.0	7,168	5.6	Healthy deal pipeline, inorganic acquisition and the company's robust guidance prompt us to revise our estimates upwards
EBITDA	1,133	1,173	3.5	1,317.0	1,391	5.6	
EBITDA Margin (%)	19.2	19.2	0 bps	19.4	19.4	1 bps	Margins to stabilise at 19.4% in FY23E
PAT	635	677	6.7	748.0	815	8.9	
EPS (₹)	102.1	109.0	6.7	120.3	131.0	8.9	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Revenue outlook** – The company reported robust revenue growth in Q4FY21 and FY21 despite having higher exposure to the travel vertical. Going forward, Coforge is pursuing three greater than US\$50 million deals (of which one is US\$100 million deal) and has also seen a healthy order book. This, coupled with bottoming out of travel vertical, improved growth in healthcare (10% of revenue, with external leader, sales team leader, business leader and delivery leader) and ramp up in Insurance & hi tech (8% of revenues) vertical bode well for the company's long term revenue trajectory. Coforge is also becoming a preferred partner for Fortune 500 insurance and Tier 1 banking companies, which will help in winning large deals, going forward. In addition, the company's prowess in cloud, data and application has given it the confidence of 17% YoY organic growth in FY22E. This, coupled with synergies with recent acquisition and aggressive hiring (headcount up 20% since January 2021), we expect the company to register a dollar CAGR of 22.5% in FY21-23E
- **Margin trajectory** –EBITDA margins were flat on a QoQ basis despite higher revenue growth due to one-time bonus to employees. The company plans to give wage hikes in FY22E. However, we believe Coforge would be able to offset this and other cost headwinds due to higher offshoring, higher margins in acquired company, reversal of travel discount and revenue growth. Hence, we expect margins to improve 253 bps to 19.4% in FY21-23E
- **Digital business** – The company has stopped reporting digital revenues. In the other segment, retail & healthcare accounts for 10% of revenues, hi Tech 8% of revenues and 8% government business outside India
- **Deal wins** – Fresh order intake was at US\$201 million, up 5% QoQ. The executable order book over the next 12 months is up 11.1% YoY to US\$520 million. The company added 11 new customers of which four were from the US, five from EMEA and two from RoW
- **Client position** – The company's top five and top 6-10 clients increased 11.7% QoQ and 17.9% QoQ, respectively
- **DSO days** –DSO days declined by five days QoQ at 70 days
- **Employees** – The company added 967 employees to 12,391. Utilisation also increased 210 bps QoQ to 81.0% while attrition was flat at 10.5%

Key Metrics

Exhibit 3: Geography-wise break-up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue by geography (%)					
America	46.0	47.0	48.0	49.0	46.0
EMEA	40.0	36.0	36.0	36.0	40.0
RoW	14.0	17.0	16.0	15.0	14.0
Growth QoQ (%)					
America	-1.9	-7.4	12.8	6.0	0.7
EMEA	10.6	-18.5	10.5	3.8	19.1
RoW	-4.5	10.0	4.0	-2.7	0.1

Source: Company, ICICI Direct Research

EMEA led growth in the quarter

Exhibit 4: Vertical wise break-up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue by verticals (%)					
Banking & financial services	15.0	17.0	17.0	18.0	17.0
Insurance	31.0	33.0	34.0	32.0	31.0
Transport	27.0	19.0	19.0	20.0	19.0
Others	27.0	30.0	30.0	30.0	33.0
Growth QoQ (%)					
Banking & financial services	-4.0	2.7	10.5	9.9	1.3
Insurance	5.8	-3.6	13.8	-2.3	3.9
Transport	-4.7	-36.2	10.5	9.3	1.9
Others	10.5	0.7	10.5	3.8	17.9

Source: Company, ICICI Direct Research

The growth was led by Insurance and Others

Exhibit 5: Service-wise break-up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue by service mix (%)					
SI & PI	1.0	5.0	5.0	3.0	2.0
IP Assets	8.0	6.0	7.0	7.0	7.0
Managed Services	17.0	16.0	17.0	18.0	17.0
Application Development & Manager	72.0	70.0	69.0	69.0	72.0
BPO	3.0	3.0	3.0	3.0	2.0
Growth QoQ (%)					
SI & PI	-48.8	353.0	10.5	-37.7	-28.5
IP Assets	36.5	-32.1	28.9	3.8	7.2
Managed Services	8.7	-14.7	17.4	9.9	1.3
Application Development & Manager	0.9	-11.9	8.9	3.8	11.9
BPO	2.3	-9.4	10.5	3.8	-28.5

Source: Company, ICICI Direct Research

Exhibit 6: Client & human resource matrix

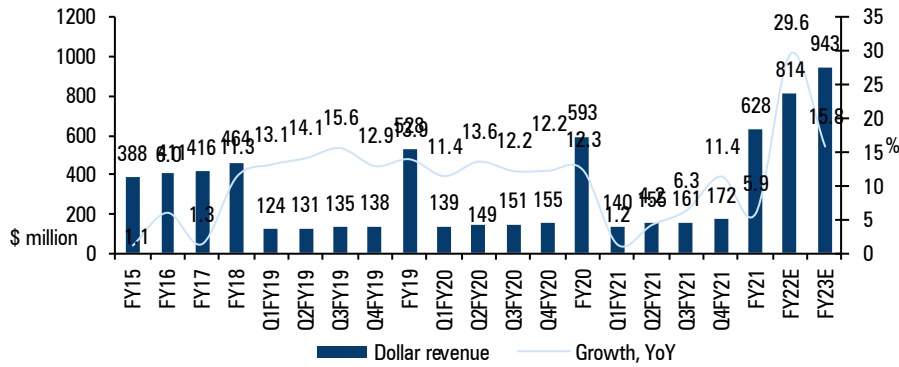
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<u>Client metrics</u>					
Between 1 to 5 million	80	81	83	87	88
Between 5 to 10 million	15	15	16	17	16
Above 10 million	11	11	10	11	11
<u>Headcount, Utilization, Attrition</u>					
Total Employees	11,156	10,598	11,162	11,424	12,391
Utilization	78.1	77	81	78.9	81
Attrition	11.8	11.8	10.5	10.4	10.5

Source: Company, ICICI Direct Research

Utilisation increased in the quarter. The company added 967 employees and attrition was flat QoQ

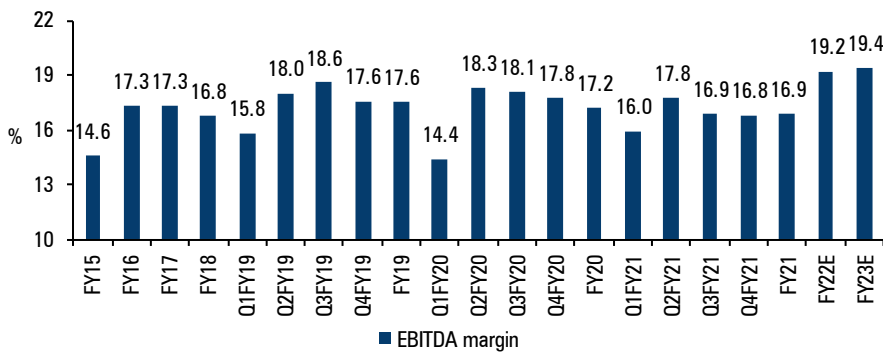
Financial story in charts

Exhibit 7: Dollar revenues may grow at 22.5% CAGR in FY21-23E



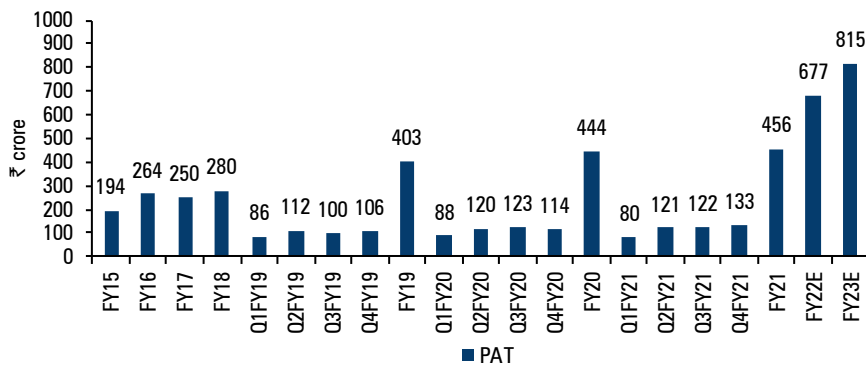
Source: Company, ICICI Direct Research

Exhibit 8: Margin estimates for FY22E, FY23E broadly unchanged



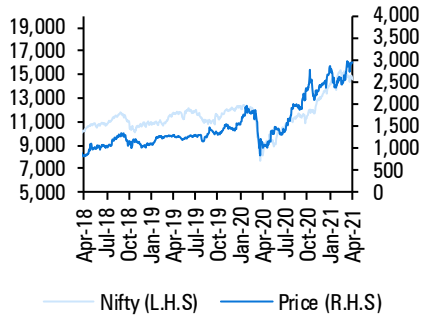
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Total operating Income	4,184	4,663	6,108	7,168
Growth (%)	13.8	11.4	31.0	17.4
COGS (employee expenses)	2,753	3,169	4,019	4,717
S,G&A expenses	711	707	916	1,061
Total Operating Expenditure	3,464	3,876	4,935	5,778
EBITDA	720	786	1,173	1,391
Growth (%)	11.6	9.3	49.1	18.6
Depreciation	173	184	238	280
Other Income (net)	56	11	(7)	(7)
PBT	603	614	927	1,104
Total Tax	128	130	204	240
Adjusted 'PAT	444	456	677	815
Growth (%)	10	3	49	20
Adjusted EPS (₹)	71.4	73.3	109.0	131.0
Growth (%)	8.7	2.6	48.7	20.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
	FY20	FY21E*	FY22E	FY23E
Profit before Tax	603	614	927	1,104
Add: Depreciation	173	184	238	280
(Inc)/dec in Current Assets	(362)	(113)	(401)	(293)
Inc/(dec) in CL and Provisions	-	93	281	207
Taxes paid	(181)	(130)	(204)	(240)
CF from operating activities	297	648	842	1,058
(Inc)/dec in Investments	(679)	-	-	-
(Inc)/dec in Fixed Assets	(73)	(89)	(1,038)	(136)
Others	7	11	(7)	(7)
CF from investing activities	112	(77)	(1,045)	(143)
Issue/(Buy back) of Equity	28	(337)	-	-
Inc/(dec) in loan funds	(5)	-	-	-
Dividend paid & dividend tax	(147)	(147)	(305)	(367)
CF from financing activities	(133)	(634)	(115)	(517)
Net Cash flow	300	(63)	(318)	398
Exchange difference	11	-	-	-
Opening Cash	558	903	840	522
Closing Cash	903	840	522	920

Source: Company, ICICI Direct Research, * will update FY21 post receipt of annual report

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E*	FY22E	FY23E
Liabilities				
Equity Capital	63	61	61	61
Reserve and Surplus	2,334	2,307	2,680	3,128
Total Shareholders funds	2,397	2,368	2,740	3,188
Total Debt	5	5	345	345
Provisions	59	59	59	59
Minority Interest / Other non	164	175	221	271
Total Liabilities	2,625	2,607	3,366	3,863
Assets				
Net Block	670	725	1,675	1,682
Capital WIP	0	0	0	0
Total Fixed Assets	671	725	1,676	1,682
Goodwill	409	409	409	409
Deferred tax assets	130	130	130	130
Debtors	857	898	1,176	1,380
Other Current Assets	377	420	550	645
Cash	903	840	522	920
Current Investments	14	14	14	14
Total Current Assets	2,151	2,171	2,261	2,959
Trade payables	284	317	415	487
Other current liabilities	498	555	727	853
Short term provisions	33	37	48	56
Total Current Liabilities	815	908	1,189	1,396
Net Current Assets	1,336	1,263	1,072	1,563
Application of Funds	2,625	2,607	3,366	3,863

Source: Company, ICICI Direct Research, * will update FY21 post receipt of annual report

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E*	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	71.4	73.3	109.0	131.0
DPS	31	24	50	60
Cash per Share	145.2	135.2	84.0	148.0
BV per share (Diluted)	385.3	380.9	440.8	512.9
Operating Ratios (%)				
EBITDA Margin	17.2	16.9	19.2	19.4
PBT Margin	14.4	13.2	15.2	15.4
PAT Margin	10.6	9.8	11.1	11.4
Debtor days	75	70	70	70
Creditor days	25	25	25	25
Return Ratios (%)				
RoE	18.5	19.2	24.7	25.5
RoCE	23.0	23.6	27.6	28.6
RoIC	32.0	34.4	33.0	37.9
Valuation Ratios (x)				
P/E (Adjusted)	47.6	46.4	31.2	25.9
EV / EBITDA	28.1	25.8	17.8	14.8
EV / Net Sales	4.8	4.3	3.4	2.9
Market Cap / Sales	5.0	4.5	3.5	2.9
Price to Book Value	8.8	8.9	7.7	6.6
Solvency Ratios				
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	1.5	1.5
Quick Ratio	1.5	1.5	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21E	FY22E	FY23E	FY20	FY21	FY22	FY23	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
										E	E	E								
HCL Tech (HCLTEC)	916	1,110	Buy	2,48,486	40.8	45.8	52.3	60.9	22	20	18	15	23.0	23.5	24.7	25.5	21.6	20.8	21.0	21.2
Infosys (INFTEC)	1,361	1,650	Buy	5,79,730	38.9	45.5	55.0	64.1	35	30	25	21	30.8	31.7	34.1	36.9	25.2	25.2	27.9	30.2
TCS (TCS)	3,111	3,800	Buy	11,51,070	86.2	86.7	109.3	128.7	36	36	28	24	44.4	45.9	51.2	54.4	38.4	37.5	43.3	45.7
Tech M (TECMAH)	978	1,120	Buy	94,618	59.5	50.2	60.1	70.2	16	19	16	14	18.3	19.8	21.2	22.5	17.5	17.8	19.1	19.9
Wipro (WIPRO)	512	530	Hold	2,80,681	16.6	19.1	20.5	24.8	31	27	25	21	19.3	21.3	21.6	25.7	17.4	19.5	21.0	25.4
Mindtree (MINCON)	2,247	2,390	Buy	37,034	38.3	67.4	79.8	94.0	59	33	28	24	23.0	32.5	32.6	32.6	20.0	25.7	25.5	25.3
LTI (LTINFC)	3,814	4,580	Buy	66,639	86.6	110.3	130.5	151.6	44	35	29	25	30.7	31.9	32.1	31.7	28.1	26.5	26.6	26.2
Coforge (NIITEC)	3,397	3,985	Buy	21,117	71.4	73.3	109.0	131.0	48	46	31	26	23.0	23.6	27.6	28.6	18.5	19.2	24.7	25.5
Infoedge (INFEDG)	4,759	5,725	Hold	61,193	26.8	21.8	38.9	49.0	178	218	122	97	18.0	8.3	14.0	16.3	13.5	6.3	10.5	12.3
Teamlease (TEASER)	3,353	3,290	Buy	5,732	20.5	53.1	68.8	85.6	164	63	49	39	15.0	13.5	15.7	16.5	6.5	14.4	15.5	16.3

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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