



Sturdy Growth, Healthy Deal Pipeline

Coforge Ltd (Coforge) reported a healthy set of results in Q1FY22. Revenue in Q1FY22 grew by 16% QoQ in CC terms, above our expectations at Rs 1,461 Cr. Operating profit showed a growth of 4% QoQ at Rs 236 Cr while operating margins witnessed a marginal de-growth of 18 bps QoQ and stood at 16.1%. This was largely on account of lower utilization. The management is confident about the sustainable operating margins at 19% from here on which emanates from strong cost optimization and execution efforts. Net income for Q1FY22 stood at Rs 124 Cr, declining by 7% QoQ even as lower foreign exchange income and higher tax expenses impacted the bottom line. Deal pipeline remained strong in the current quarter. Coforge signed Order intake during the quarter has been \$318 Mn and the order book executable over the next 12 months now stands at \$645 Mn. The management has guided for at least 19% YoY growth in FY22 on the conversion of large deals and is likely to continue going ahead.

We recommend a BUY and assign 37x P/E multiple to its FY23E earnings of Rs 139.5/share which gives a TP of Rs 5,220 /share, implying an upside of 10% from CMP.

Encouraging growth across verticals

On the vertical front, BFS vertical grew by 43% QoQ, Travel vertical showed a robust recovery with 15% QoQ growth, Manufacturing, Med & Others grew by 3% QoQ. The majority of the verticals are expected to see a strong recovery and are likely to report growth from the next quarter onwards backed by a strong deal pipeline in forthcoming quarters.

On the geographical front, North America (52% of revenue) grew by 32% QoQ, EMEA (35% of revenue) showed strong growth of 2% QoQ, RoW business grew by 8% QoQ.

Our Take:

Coforge has a robust business structure in addition to multiple long-term contracts spread across verticals which will help Coforge generate sustainable growth momentum, moving ahead. **We recommend a BUY and assign 37x P/E multiple to its FY23E earnings of Rs 139.5/share which gives a TP of Rs 5,220 /share, implying an upside of 10% from CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	4,184	4,663	6,057	7,276
EBIDTA	723	780	1,008	1,237
Net Profit	468	466	663	845
EPS (Rs)	77.2	76.9	109.4	139.4
PER (x)	27.2	44.2	43.4	34.0
EV/EBIDTA (x)	17	24	27	22
P/BV (x)	5	8	9	8
ROE (%)	20%	18%	22%	24%

Source: Company, Axis Research

(CMP as of July 28, 2020)

CMP (Rs)	4745
Upside /(Downside (%))	10%
High/Low (Rs)	3,448/1,228
Market cap (Cr)	Rs 20,586
Avg. daily vol. (6m) Shrs.	1,76,431
No. of shares (Cr)	6.05

Shareholding (%)

	Dec-20	Mar-20	Jun-20
Promoter	64.0	64.0	55.7
FIs	14.4	14.6	19.4
MFs / UTI	10.0	9.3	11.5
Banks / FIs	0.0	0.0	0.0
Others	11.6	12.1	13.4

Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
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EBITDA	780	1,008	1,237
Net Profit	466	663	845
EPS (Rs)	76.9	109.4	139.4
PER (x)	44.2	43.4	34.0
EV/EBITDA (x)	24	27	22
P/BV (x)	8	9	8
RoE (%)	18%	22%	24%

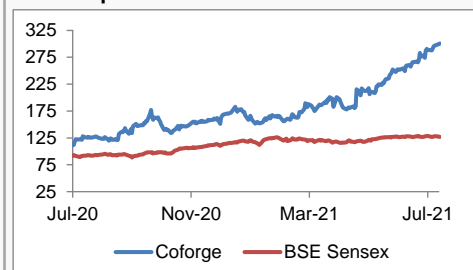
ESG disclosure Score**

Environmental Disclosure	12
Social Disclosure Score	38
Governance Disclosure Score	39
Total ESG Disclosure Score	26

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall takeaways

- 1) The Coforge has completed the acquisition of a 60% stake in SLK Global Solutions Private Limited with the founders of the company completely exiting. The firm is focused on the BPM offering within the North America BFS segment. Fifth Third Bank is its top client and minority stakeholder in the company. Its stake is now reduced to 40% and shall continue at that level for the next 2 years. Coforge will acquire an additional 20% stake from Fifth Third Bank after the completion of 2 years.
- 2) The travel & Hospitality vertical is witnessing accelerated demand. Coforge's management said that most of its Travel & Hospitality clients have recovered in terms of their business and are witnessing demand revival.
- 3) Management has indicated that the company has witnessed deep margins due to lower utilization (77% from vs 81% in Q4 FY22).

Revenue by Vertical

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Banking and Financial Services	15%	17%	17%	18%	17%	21%
Insurance	31%	33%	34%	32%	31%	31%
Transport	27%	19%	19%	20%	19%	19%
Others	27%	30%	30%	30%	33%	29%

Source: Company, Axis Research

Revenue by Service

No of Active clients	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
ADM	72%	70%	69%	69%	72%	0%
IP Assets	8%	6%	7%	7%	7%	0%
Managed Services	17%	16%	16%	18%	17%	0%
SI &PI	1%	5%	5%	3%	2%	0%
BPO	3%	3%	3%	3%	2%	0%

Source: Company, Axis Research

Revenue by Geography

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
America	46%	47%	48%	49%	46%	52%
EMEA	40%	36%	36%	36%	40%	35%
ROW	14%	17%	16%	15%	14%	13%

Source: Company, Axis Research

Revenue Mix

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Onsite	64%	62%	64%	62%	61%	60%
Offshore	36%	38%	36%	38%	39%	40%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Revenue Mix

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Onsite	710	655	738	738	770	875
Offshore	399	402	415	452	492	586
Total	1,109	1,057	1,154	1,191	1,262	1,462

Source: Company, Axis Research

Order Book (In \$mn)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
USA	81	85	121	116	119	46
EMEA	52	7	58	45	65	227
ROW	47	31	21	32	17	46
Total	180	123	200	193	201	319
Executable Order book in next 12 months	468	465	489	501	520	645

Source: Company, Axis Research

Client

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Repeat business	87%	97%	89%	87%	86%	96%

Source: Company, Axis Research

New Client additions

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
USA	3	5	7	4	4	6
EMEA	6	5	3	5	5	4
APAC	0	0	0	2	2	1
India	1	1	2	-	-	-
Total	10	11	12	11	11	11
DSO	74	71	75	75	70	74
TOP 5	27%	26%	25%	24%	25%	27%
TOP10	37%	38%	36%	34%	36%	37%
Client Size						
Upto \$5Mn	80	81	83	87	88	80
Upto \$10Mn	15	15	16	17	16	15
Above \$10 mn	11	11	10	11	11	11

Source: Company, Axis Research

Employee matrix

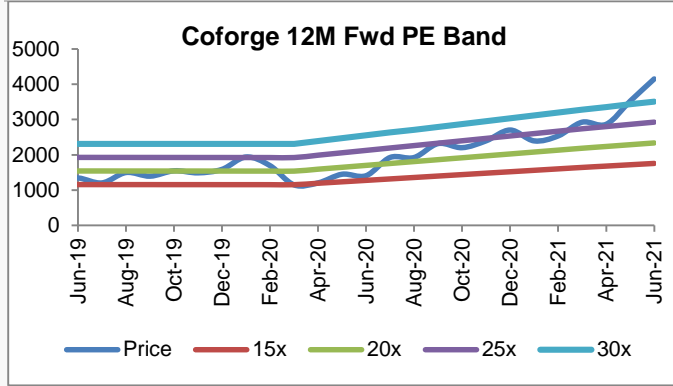
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Billable person	2,451	2,260	2,524	2,506	2,536	3,361
Onsite	7,823	7,476	7,757	8,032	8,933	15,378
Offshore	10,274	9,736	10,281	10,538	11,469	18,739
Total	170	184	191	189	188	258
Sales and Marketing	712	786	690	697	734	1494
Others	11,156	10,706	11,162	11,424	12391	20491
Total						
	78%	77%	81%	79%	81%	77%
Utilization (%)						
	12%	12%	11%	10%	11%	13%
Attrition (%)	2,451	2,260	2,524	2,506	2,536	3,361

Source: Company, Axis Research

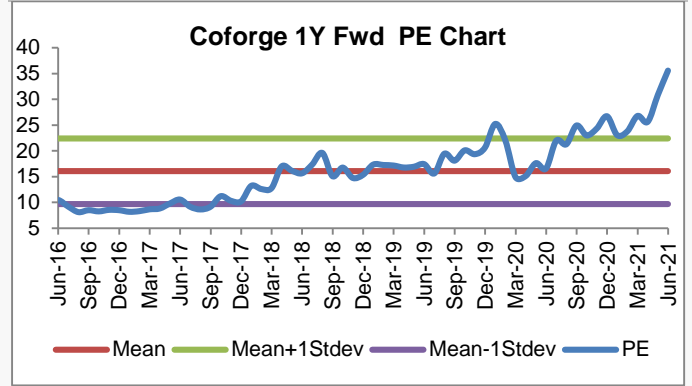
Valuation and Outlook

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Coforge 12M Fwd PE Band



Coforge 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update
(Rs Cr)

Y/E March	Q1 FY22	Q4 FY21	Q1 FY21	% change (YoY)	% change (QoQ)
Total Revenue	1,462	1,262	1,057	38%	16%
Direct cost	1,025	858	724		
Gross Profit	437	404	333		
SG & Other expenses	201	177	152		
EBITDA	236	227	181		
EBITDA margin	16.1%	18.0%	17.1%		
Depreciation	52	45	47		
Operating Income	184	182	164	12%	1%
Margin(%)	12.6%	14.4%	16%	-298	-186
Total Other Income/(Expense)	5	-4	5		
Income Before Income Taxes	163	178	172		
Total Taxes	32	41	26		
ETR (%)	20%	23%	15%	447	-329
Net Profit After Taxes	133	133	126	5%	0%
	8	0	3		
Net Income After Extraordinary Items	124	133	126	-2%	-7%
Margin(%)	20%	20%	21%	-123	-
EPS	20.40	21.90	12.80	59%	-7%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	4,184	4,663	6,057	7,276
Other operating income	0	0	0	0
Total income	4,184	4,663	6,057	7,276
Employee Expense				
Contribution (%)	84.4	193.5	264.5	363.8
Other Expenses	2,529.8	2,815.8	3,659.6	4,365.6
Operating Profit	846.4	874.0	1,125.1	1,309.7
Other income				
PBIDT	723	780	1,008	1,237
Depreciation	68	33	34	28
Interest & Fin Chg.				
E/o income / (Expense)	791	812	1,042	1,265
Pre-tax profit	173	184	200	194
Tax provision	16	14	13	2
PAT	-7	-18	0	0
(-) Minority Interests	595	596	829	1,070
Associates	128	130	166	225
Other Comprehensive Income	0	0	0	0
Adjusted PAT	0	0	0	0
Reported PAT	468	466	663	845

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	2,645	2,779	3,105	3,669
Net Block	591.0	467.4	562.6	663.6
CWIP	0.3	5.0	5.0	5.0
Investments	697.8	143.9	155.9	167.9
Wkg. cap. (excl cash)	537	403	653	813
Cash / Bank balance	819.5	1,761.0	1,729.8	2,020.5
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
Capital employed	2,645	2,779	3,105	3,669
Equity capital	62.5	62.5	62.5	62.5
Reserves	2,272	2,619	3,088	3,686
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	209	67	67	67
Def tax Liabilities	39.7	39.7	39.7	39.7

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	834	329	746	881
Cash profit	656	664	876	1,041
(-) Dividends	102	136	194	247
Retained earnings	554	528	682	793
Issue of equity	0.7	0.0	0.0	0.0
Change in Oth. Reserves	228.4	(42.1)	77.1	89.2
Borrowings	85	-142	0	0
Others	-34	-14	-13	-2
Applications	834	329	746	881
Capital expenditure	595.9	(477.8)	527.3	443.6
Investments	97.6	0.0	0.0	(13.5)
Net current assets	(170.6)	(134.6)	249.9	160.2
Change in cash	311.6	941.5	(31.2)	290.8

Source: Company, Axis Securities

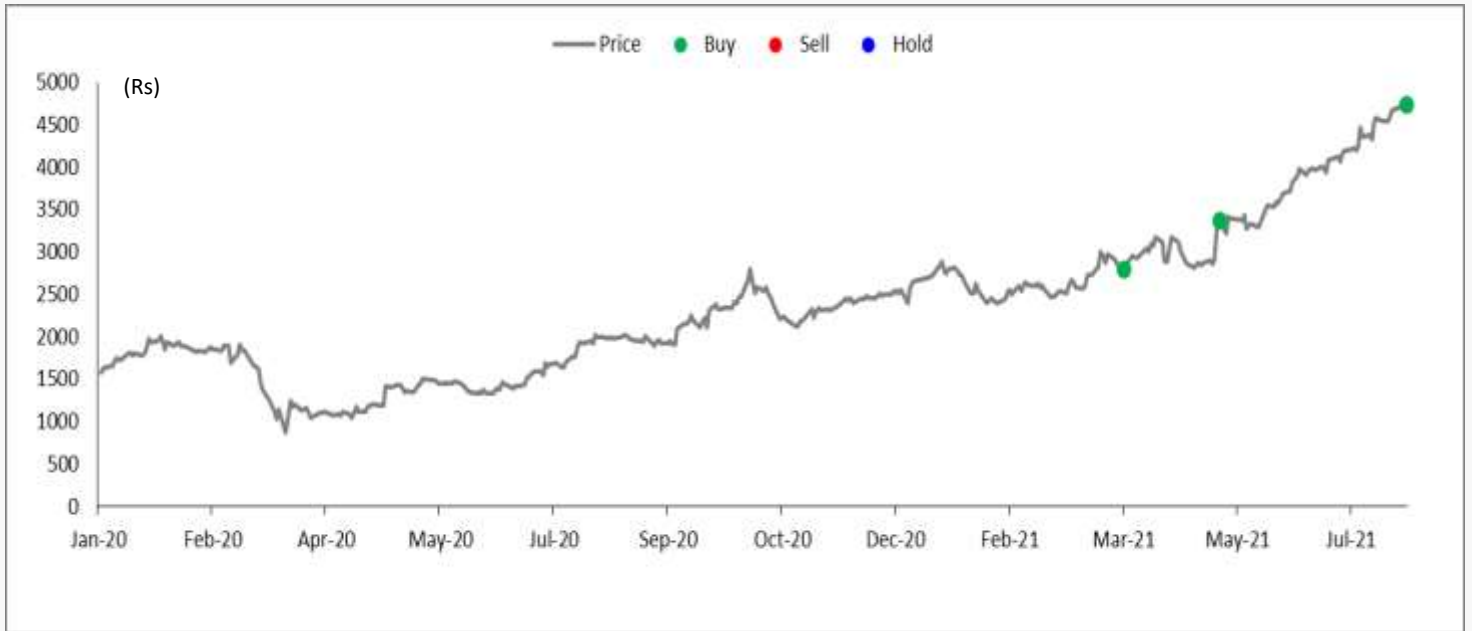
Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	13.8	11.4	29.9	20.1
OPM	17.3	16.7	16.6	17.0
Oper. profit growth	11.5	7.8	29.3	22.7
COGS / Net sales	2.0	4.1	4.4	5.0
Overheads/Net sales	20.2	18.7	18.6	18.0
Depreciation / G. block	2,436.6	(148.5)	210.0	192.1
Effective interest rate (%)	13.7	12.8	33.4	4.4
Net wkg.cap / Net sales	0.16	0.11	0.09	0.10
Net sales / Gr block (x)	3.5	3.7	3.9	3.9
RoCE	26%	23%	28%	30%
Debt / equity (x)	0.08	0.02	0.02	0.01
Effective tax rate	21.5	21.8	20.0	21.0
RoE	20%	18%	22%	24%
Payout ratio (Div/NP)	34.8	25.0	25.0	25.0
EPS (Rs.)	77.2	76.9	109.4	139.4
EPS Growth	14.2	(0.3)	42.3	27.5
CEPS (Rs.)	105.7	107.2	142.4	171.5
DPS (Rs.)	16.9	19.2	27.3	34.9

Source: Company, Axis Securities

Coforge Chart and Recommendation History



Date	Reco	TP	Research
26-Mar-21	BUY	3,200	Initiating Coverage
07-May-21	BUY	3,750	Result Update
29-Jul-21	BUY	5,220	Result Update

Source: Axis Securities

About the analyst

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