

Arihant Capital values your support in the Asiamoney Brokers Poll 2022 for Institutional Team. We request your ballot

ASIAMONEY

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CMP: INR 3,726

Rating: Hold

Target Price: INR 4,133

Stock Info

BSE	532541
NSE	COFORGE
Bloomberg	COFORGE IN
Reuters	NIIT.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR mn)	609
Mkt Cap (INR mn)	2,27,020
52w H/L (INR)	6,135 / 3,218
Avg Yearly Vol (in 000')	441

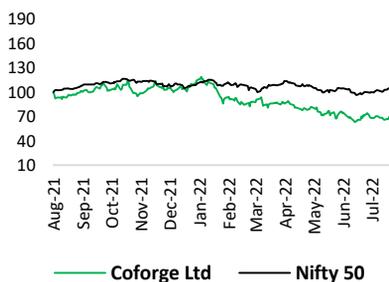
Shareholding Pattern %

(As on June, 2022)

Promoters	40.09
FII	21.87
DII	25.89
Public & Others	12.15

Stock Performance (%)	1m	3m	12m
Coforge	6.3	-9.7	-20.0
Nifty	8.4	-2.6	5.6

Coforge Vs Nifty



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Revenue below our estimates: Reported revenue of \$ 238.7Mn (up 2.7% QoQ/19.5%YoY in USD terms) against our estimate of \$240 Mn. The cc growth was 4.7% QoQ. Reported revenue of INR 18,294 up 5% QoQ/ 25.2% YoY against our estimate of INR 18,467mn. Geography wise, the revenue growth for the quarter was driven by America region, which reported 5.6% QoQ growth while EMEA region reported 4.8% QoQ decline.

Miss in margins; While, margins increased annually: EBITDA margin was down 390bps QoQ/+33bpsYoY at 16.5% below our estimates of 17%(Impacted due to annual wage hike (-250bps impact) and increase in SG&A expenses (-100bps) impact.

Revenue & Margin guidance for FY23: The company upgraded its guidance from 20% CC revenue growth in FY23 to at least 20% CC revenue growth in FY23. The company also maintained its EBITDA margin guidance at 18.5%-19%. The company mentioned that its guidance on both revenues and margins fully factored in any weakness on global macros and subsequent moderation of tech spending, if any. The company also mentioned that it has given higher salary hike this year while it does not foresee any abrupt increase in attrition in the foreseeable future.

Vertical: The management indicated that BFS growth continued to be strong on account of healthy deal wins in the previous quarters. The company had won a large US\$105mn deal in Q1FY22, to be delivered over 4 years, While the scope of work includes all of its core transformation capabilities across Enterprise Architecture, Industry consulting, Data architecture, Cloud engineering, Digital integration and Intelligent automation. It was followed by another US\$50mn deal in Q4 in BFS space. In the insurance verticle, the growth was weak for the Q1FY22 led by one client-specific issue and the management stated that the Insurance vertical is expected to bounce back in Q2FY23.

Valuations

The company has upgraded its guidance for FY23 at least 20% in cc term and reiterated Adjusted EBITDA margin guidance between 18.5% and 19.0% during the year led by a robust deal win. Travel volume bounce back much faster and surpass the pre-covid level. Also partnership with Fortune 500 insurance & Tier 1 banking companies. The company saw generic volume decline in Q1FY23 but will see rebound in Q2FY23. We believe, revenue will grow by 19% and margin expansion by ~17.9% in FY23E.

We value Coforge at a PE of 25x to its FY24E EPS of INR 165, which yields a revised target price of INR 4,133 per share(earlier target price; INR 3,637 per share). We upgrade our rating to Hold from Neutral earlier.

YE	Revenue (CC Terms)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)	(Mn USD)							
FY21	633	46,628	7,795	4,556	75.2	16.7%	19.2%	49.6
FY22	866.5	64,320	11,019	6,617	109.2	17.1%	23.4%	34.1
FY23E	1025	76,723	13,733	8,112	133.9	17.9%	23.1%	27.8
FY24E	1189	88,254	16,239	10,019	165.3	18.4%	22.3%	22.5

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	238.7	232.4	199.7	2.7%	19.5%
Net Revenue	18,294	17,429	14,616	5.0%	25.2%
Raw Material	387	593	392	-34.7%	-1.3%
Employee cost	10,995	10,119	9,024	8.7%	21.8%
Other Expenses	4,026	3,592	3,086	12.1%	30.5%
EBITDA	2,886	3,125	2,114	-7.6%	36.5%
EBITDA margin %	15.8%	17.9%	14.5%	-215bps	131bps
Depreciation	630	584	524	7.9%	20.2%
EBIT	2,256	2,541	1,590	-11.2%	41.9%
EBIT margin %	12.3%	14.6%	10.9%	-225bps	145bps
Other Income	140	232	161	-39.7%	-13.0%
Finance costs	184	183	119	0.5%	54.6%
PBT	2,212	2,590	1,632	-14.6%	35.5%
Tax Expense	493	342	320	44.2%	54.1%
Effective tax rate %	22.3%	13.2%	19.6%	908bps	268bps
PAT	1,719	2,248	1,312	-23.5%	31.0%
MI & Associates	-222	-171	-76	29.8%	192.1%
Consolidated PAT	1,497	2,077	1,236	-27.9%	21.1%
Exceptional item	-	-	-		
Reported PAT	1,497	2,077	1,236	-27.9%	21.1%
PAT margin %	8.2%	11.9%	8.5%	-373bps	-27bps
EPS (INR)	24.6	34.1	20.4	-27.9%	20.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 Key Conference call Highlights

- **Guidance:** The company upgraded its guidance from 20% CC revenue growth in FY23 to at least 20% CC revenue growth in FY23. The company also maintained its EBITDA margin guidance at 18.5%-19%.
- The company is able to deliver strong performance in FY23 also milestone year not only achieve but surpass the performance and \$2 mn revenue guidance.
- **Margin lever:** 1) Utilization nearly 76.2% one of the very smart rebound Q2 over Q1 2) offshore revenue continue to rise to 48% from 40.1% in Q1FY22 3) Number of freshers hire getting bilable in Q2FY23.
- **Segment:** Travel vertical grew by 15.4% QoQ cc term and contributed 19.4% in revenue. Insurance vertical contracted 6.3% QoQ in cc which contributes 23.1% in revenue mix. Other emerging vertical grew 11.4% which contributes 28% of total revenue mix.
- **Geography:** North America which contributes 51.3% grew by 5.5% QoQ and EMEA which contributes 36.9% grown by 24.4% in the previous quarter and flat in the current quarter. Other which contribute 11.9% and grew by 20.3% QoQ.
- **Travel:** Travel vertical grew by 15.4% last year surpassed the pre-covid level and will continue to drive growth going ahead. Airline business don't seeing any demand problem and PSA data saw 20% increase. Revenue passenger kilometres matrix gone up by 9.3%. Travel volume bounce back much faster and surpass the pre-covid level.
- **Hospitality:** Hotel occupancy across North America is higher. As per the US travel association travel spending and volume surge will be there during the year.
- The company says that cloud transformation, incremental use of contact less technology at the airports and automation are some of the key spending areas in this vertical.
- The company is also indicated that in case of any macro headwinds in the future, only ADM service line vulnerable to any tech spend cut, while they do not foresee any major impact on the other service lines.
- **SLK:** The company indicated that minority interest for the quarter has increased because of improving profitability at the SLK global. The company also mentioned that profitability at SLK global has been improving because company's focus on the automation which is also reflection of headcount reduction.
- The company saw generic volume decline in Q1FY23 but will see rebound in Q2FY23.

BFSI continue to deliver outstanding growth due to multiple large deal wins. Insurance vertical after the contraction in Q1FY23 is poised to very smart bounce back in Q2FY23.

The company saw generic volume decline in Q1FY23 but will see rebound in Q2FY23.

Hotel occupancy across North America is higher. As per the US travel association travel spending and volume surge will be there during the year.

Upgrade on the Guidance front due to continue increase of offshore, improving utilization and Fresher's becoming billable.

High degree of repeat business (96% in Q1FY23).

Business Mix	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Vertical Mix						
Insurance	31.2%	30.8%	29.2%	27.8%	25.7%	23.1%
BFS	16.8%	21.1%	24.1%	28.4%	27.7%	29.5%
Travel and Transport	18.9%	18.9%	18.6%	18.3%	20.1%	19.4%
Others	33.1%	29.2%	28.1%	25.4%	26.5%	28.0%
Total	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%
Service Line Mix						
Product Engineering	15.5%	14.0%	12.7%	10.8%	10.7%	10.5%
Intelligent Automation	15.4%	14.5%	14.3%	14.0%	12.7%	12.6%
Data and Integration	22.7%	20.2%	20.6%	20.5%	22.0%	23.3%
Cloud and Infrastructure Management (CIMS)	18.8%	17.1%	17.0%	18.6%	18.0%	18.2%
Application Development and Maintenance (ADM)	26.5%	25.9%	23.9%	24.7%	25.3%	24.2%
Business Process Management (BPM)	1.1%	8.4%	11.6%	11.4%	11.2%	11.1%
Geography Mix						
Americas	51.3%	51.6%	52.2%	53.3%	49.9%	51.3%
EMEA	36.9%	35.3%	32.5%	33.7%	39.8%	36.9%
ROW	11.9%	13.1%	15.3%	13.0%	10.3%	11.9%
Total	100%	100%	100%	100%	100%	100%
Billable People						
Onsite	52%	60%	56%	54%	53%	52%
Offshore	48%	40%	44%	46%	47%	48%
Total	100%	100%	100%	100%	100%	100%

Client Data	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
New Clients Added						
Americas	4	6	6	8	10	6
EMEA	5	4	5	3	2	4
Rest of World	2	1		2		2
Total	11	11	11	13	12	12
Repeat Business %	86%	96%	93%	92%	93%	96%

Client Concentration (% of Revenue)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Top 5	25%	25%	23%	25%	23%	23%
Top 10	36%	36%	33%	36%	35%	36%
No. of Clients (by Client Engagement Size)						
Above USD 10 Mn	11	15	16	18	18	19
USD 5-10 Mn	16	20	22	21	19	24
USD 1-5 Mn	88	95	92	94	100	98

People Data	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
By Role						
Billable Personnel						
IT	11,076	12,221	13,035	14,122	14,903	15,448
BPS	393	7,118	6,544	6,816	6,391	6,046
Total Billable	11,469	19,339	19,579	20,938	21,294	21,494
Sales and Marketing	188	258	297	281	278	285
Others	734	894	910	911	928	963
Total	12,391	20,491	20,786	22,130	22,500	22,742

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Revenue (Mn USD)	633	866.5	1025	1189
Change (%)	14.9%	37.0%	18.3%	16.1%
Revenues	46,628	64,320	76,723	88,254
Change (%)	11.4%	37.9%	19.3%	15.0%
Operating Costs	1,935	1,724	2,992	3,442
Gross Profit	44,693	62,596	73,731	84,812
Employee Costs	28,158	38,346	45,267	51,628
Other Expenses	8,740	13,231	14,731	16,945
Total Expenses	38,833	53,301	62,990	72,015
EBITDA	7,795	11,019	13,733	16,239
Depreciation	1,836	2,272	2,349	2,426
Interest	143	650	689	730
PBT	6,142	8,615	11,079	13,524
Extra-ordinary	180	0	0	0
PBT after ext-ord.	5,962	8,615	11,079	13,524
Tax	1,302	1,468	2,437	2,975
Rate (%)	21.8%	22.0%	22.0%	22.0%
PAT	4,660	7,147	8,642	10,549
MI & Associates	-104	-530	-530	-530
Consolidated PAT	4,556	6,617	8,112	10,019
Change (%)	5.0%	39.7%	22.6%	23.5%

Balance Sheet (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	606	609	609	609
Reserves & Surplus	24,055	26,722	34,576	44,337
Net Worth	24,661	28,314	35,185	44,946
Loan Funds	3	3,365	3,541	3,726
MI, Deferred Tax & other Liabilities	1,071	1,864	1,864	1,864
Capital Employed	25,735	33,543	40,590	50,536
Application of Funds				
Gross Block	10,206	20,667	21,366	22,064
Net Block	8,370	18,395	19,017	19,638
CWIP	2	168	86	86
Other Non-current Assets	254	1,045	1,045	1,045
Deferred Tax Assets	1,447	2,736	2,736	2,736
Net Fixed Assets	10,073	22,344	22,884	23,505
Investments	124	0	0	0
Debtors	12,267	15,585	18,498	21,278
Inventories	0	0	0	0
Cash & Bank Balance	8,122	4,536	11,637	20,772
Loans & Advances & other CA	2,611	4,808	4,808	4,808
Total Current Assets	23,000	24,929	34,942	46,858
Current Liabilities	8,435	14,507	17,236	19,827
Provisions	3	-	-	-
Net Current Assets	14,562	10,422	17,706	27,031
Total Assets	25,735	33,543	40,590	50,536

Cash Flow Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
PBT	5,962	8,615	11,079	13,524
Depreciation	1,836	2,272	2,349	2,426
Interest & others	-287	-398	-225	-241
Cash flow before WC changes	7,511	10,489	13,203	15,709
(Inc)/dec in working capital	-3,045	1,126	-183	-190
Operating CF after WC changes	4,466	11,615	13,020	15,519
Less: Taxes	-1,302	-1,468	-2,437	-2,975
Operating Cash Flow	3,164	10,147	10,583	12,544
(Inc)/dec in F.A + CWIP	-209	-2,780	-699	-698
(Pur)/sale of investment	13	124	0	0
Cash Flow from Investing	-196	-2,656	-699	-698
Free Cash Flow (FCF)	2,564	9,447	9,884	11,846
Equity raised	-19	3	0	0
Interest & others	-2,873	-3,932	-2,171	-2,108
Dividend	-788	-788	-788	-788
Cash Flow from Financing Activities	-3,725	-1,355	-2,783	-2,710
Net inc /(dec) in cash	-757	6,136	7,101	9,135
Opening balance of cash	9,034	8,277	14,413	21,514
Closing balance of cash	8,277	14,413	21,514	30,649

Key Ratios				
Year End-March	FY21	FY22	FY23E	FY24E
Per share (Rs)				
EPS	75.2	109.2	133.9	165.3
CEPS	105.5	146.7	172.6	205.4
BVPS	406.9	467.2	580.6	741.7
DPS	13.0	13.0	13.0	13.0
Div. Payout (%)	0.2	0.1	0.1	0.1
P/E	49.6	34.1	27.8	22.5
P/CEPS	35.3	25.4	21.6	18.1
P/BV	9.2	8.0	6.4	5.0
EV/EBITDA	8.2	6.4	4.7	3.4
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	16.7%	17.1%	17.9%	18.4%
EBIT Margin	12.8%	13.6%	14.8%	15.7%
PAT Margin	10.2%	10.3%	10.6%	11.4%
ROE	19.2%	23.4%	23.1%	22.3%
ROCE	23.2%	26.1%	28.0%	27.3%
Leverage Ratio (%)				
Total D/E	0.0	0.1	0.1	0.1
Net D/E	-0.3	0.0	-0.2	-0.4
Turnover Ratios				
Asset Turnover (x)	1.8	1.9	1.9	1.7
Receivable Days	96	88	88	88
Payable days	66	82	82	82

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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