

**BUY**

TP: Rs 2,800 | ▲ 16%

**COFORGE**

| IT Services

| 28 January 2021

## Travel recovery and BFS drive growth

Coforge reported a robust Q3FY21 performance, marked by 3.3% QoQ CC revenue growth led by the BFS and travel verticals. Operating margin was in line at 13% (-77bps QoQ). Management's FY21 outlook was positive backed by its highest ever executable order book of US\$ 501mn. We raise FY23 EPS by 4%, keeping FY22 EPS unchanged, and roll forward to a revised Dec'21 TP of Rs 2,800 (from Rs 2,690). Our target P/E stays unchanged at 22x given a robust deal pipeline and diversified revenue mix. Maintain BUY.

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**Growth and margins in line:** Coforge declared revenue growth of 3.3% QoQ CC, meeting our estimate. Growth was driven by a ~9% QoQ increase in both the BFS and travel verticals, marking a strong rebound in travel. Insurance was weak with a decline of 2.9% QoQ in reported terms, following accelerated growth of 12.5% in Q2FY21. EBIT margin was in line at 13%, down 77bps QoQ due to lower utilisation and selective wage hikes to control attrition.

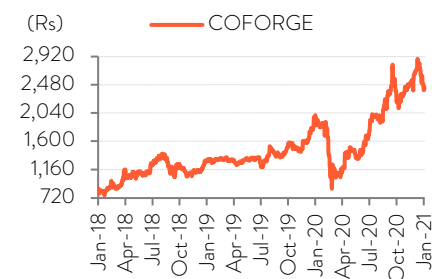
**Strong order intake:** Fresh order intake totalled US\$ 193mn, leading to a record-high US\$ 501mn executable order book (+2% QoQ, +18% YoY) over the next 12 months – crossing the US\$ 500mn mark for the first time. Of the US\$ 193mn order book, US\$ 116mn came from the US, US\$ 45mn from EMEA and US\$ 32mn from RoW. Two large deals were signed – one each in the insurance space (worth US\$ 45mn) and healthcare vertical.

**Upbeat outlook:** After a robust revenue growth and margin performance in Q3, management expects FY21 growth to be at least 6.3% CC. EBIT margin guidance for the year has been revised slightly upwards to 18% from 17.8% earlier (before RSU cost). This guidance includes the impact from impending wage hikes for the rest of the staff.

Ticker/Price	COFORGE IN/ Rs 2,420
Market cap	US\$ 2.0bn
Shares o/s	62mn
3M ADV	US\$ 15.6mn
52wk high/low	Rs 2,910/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	47,097	59,263	68,540
EBITDA (Rs mn)	6,453	7,431	8,124	10,352	11,937
Adj. net profit (Rs mn)	4,089	4,539	4,803	7,142	8,102
Adj. EPS (Rs)	66.2	73.5	77.7	115.6	131.1
Adj. EPS growth (%)	45.9	11.0	5.8	48.7	13.4
Adj. ROAE (%)	20.3	18.7	17.3	22.6	22.1
Adj. P/E (x)	36.6	32.9	31.1	20.9	18.5
EV/EBITDA (x)	22.6	19.3	17.1	13.0	10.9

Source: Company, BOBCAPS Research

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## Other highlights

- Travel (especially airline traffic) is expected to bounce back to pre-Covid levels around Nov'21. Wallet share has grown significantly for Coforge despite the size of the wallet having shrunk. Spending has started to come back and Covid-related pricing discounts are also winding down which will give a push to EBITDA margins (pre-RSU) – we estimate >18% margins in FY22-FY23. Management is currently pursuing a large deal in travel.
- Coforge is working towards a healthier client mix. The top-5 client share has decreased from 25% in Q2FY21 to 24% in Q3. On a QoQ basis, one new client each was added in the >US\$ 10mn and US\$ 5mn-10mn buckets, with four added in the US\$ 1mn-5mn bucket.
- The share of others' vertical is increasing which includes healthcare, hi-tech and government sector work outside India. Coforge has also bagged a large deal in healthcare in Q4FY21.
- Revenue share of digital & product/IP-based business was 44% (43% in Q2).

**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Revenue (US\$ mn)</b>	<b>160.8</b>	<b>148.7</b>	<b>8.1</b>	<b>154.9</b>	<b>3.8</b>	<b>455.3</b>	<b>435.9</b>	<b>4.5</b>
Revenue (Rs mn)	11,906	10,385.0	14.6	11,537	3.2	34,013.0	30,397.0	11.9
Operating Expenditure	9,897	8,487.0	16.6	9,489	4.3	28,270.5	25,212.0	12.1
Cost of revenues	8,096	6,796.0	19.1	7,776	4.1	23,112.5	19,966.0	15.8
as % of sales	68.0	65.4	-	67.4	-	68.0	65.7	-
SG&A expenses	1,801	1,691.0	6.5	1,713	5.1	5,158.0	5,246.0	(1.7)
as % of sales	15.1	16.3	-	14.8	-	15.2	17.3	-
EBITDA	2,009	1,898.0	5.8	2,048	(1.9)	5,742.6	5,185.0	10.8
Depreciation	462	447.0	3.4	460	0.4	1,387.0	1,295.0	7.1
<b>EBIT</b>	<b>1,547</b>	<b>1,451.0</b>	<b>6.6</b>	<b>1,588</b>	<b>(2.6)</b>	<b>4,355.6</b>	<b>3,890.0</b>	<b>12.0</b>
Other Income	19	76.0	-	(63)	-	4.0	324.0	-
PBT	1,566	1,527.0	2.6	1,525	2.7	4,179.6	4,271.0	(2.1)
Total Tax	331	276.0	19.9	303	9.2	894.0	870.0	2.8
<b>Adjusted PAT</b>	<b>1,235</b>	<b>1,251.0</b>	<b>(1.3)</b>	<b>1,222</b>	<b>1.1</b>	<b>3,285.6</b>	<b>3,401.0</b>	<b>(3.4)</b>
(Profit)/loss from JV's/Ass/MI	15.0	56.0	-	15.0	-	60.0	134.0	-
APAT after MI	1,220	1,195.0	2.1	1,207	1.1	3,225.6	3,267.0	(1.3)
Extra ordinary items	0	0.0	-	0	-	180.0	57.0	-
<b>Reported PAT</b>	<b>1,220</b>	<b>1,195.0</b>	<b>2.1</b>	<b>1,207</b>	<b>1.1</b>	<b>3,405.6</b>	<b>3,324.0</b>	<b>2.5</b>
Reported EPS	19.6	19.3	1.3	19.4	1.1	51.8	52.0	(0.3)
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
EBITDA	16.9	18.3	(140)	17.8	(88)	16.9	17.1	(17)
EBIT	13.0	14.0	(98)	13.8	(77)	12.8	12.8	1
EBT	13.2	14.7	(155)	13.2	(7)	12.3	14.1	(176)
PAT	10.2	11.5	(126)	10.5	(22)	9.5	10.7	(126)
Effective Tax rate	21.1	18.1	306	19.9	127	21.4	20.4	102

Source: BOBCAPS Research

**FIG 2 – OPERATING METRICS**

(in INR terms)	Q3FY21 (% Contr. to Revenue)	Growth (%)	
		QoQ	YoY
<b>Revenue by Geography</b>			
North America	49	5.3	13.2
RoW	15	(3.3)	10.9
<b>Revenue by Vertical</b>			
Banking and Financial Services	18	9.3	24.8
Insurance	32	(2.9)	18.3
Transportation	20	8.6	(23.5)
Other	30	3.2	33.1
<b>Revenue Mix – Onsite/offshore</b>			
Offshore	38	8.9	17.1
Onsite	62	0.0	7.5
<b>Client Concentration</b>			
Top 5	24	(0.9)	(1.4)
Non-Top 5 client	76	4.6	15.5
Top 10	34	(2.5)	4.8
Number of employees	11,424	262	575
Attrition (%)	10.4	(10bps)	(150bps)
Utilisation (%)	78.9	(210bps)	(40bps)
DSO (Days)	75	0Days	8Days
	<b>Q3FY21</b>	<b>Q2FY21</b>	<b>Q3FY20</b>
<b>Significant New Customer Addition</b>			
USA	4	7	6
Europe	5	3	2
ROW	2	0	2
<b>Total</b>	<b>11</b>	<b>10</b>	<b>10</b>
<b>Fresh Order Intake (US\$ mn)</b>			
USA	116	121	90
EMEA	45	58	62
ROW	32	21	66
Total	193	200	218
<b>Executable Orders over 12 Months (US\$ mn)</b>	<b>501</b>	<b>489</b>	<b>424</b>

Source: BOBCAPS Research

## Valuation methodology

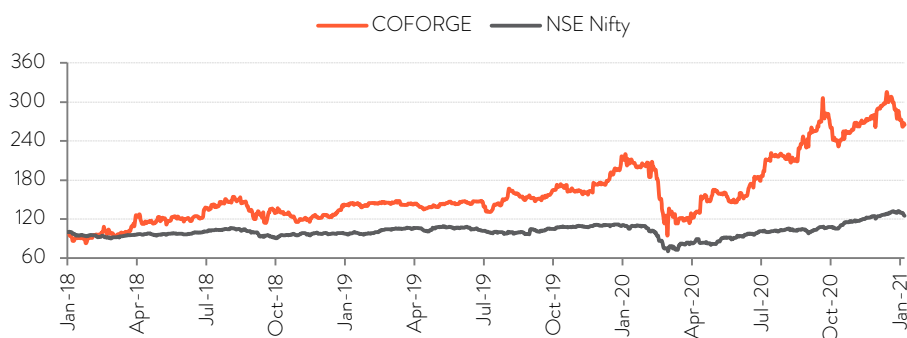
Following the Q3FY21 results, we adjust FY21/FY22/FY23 EPS estimates by -4%/0%/+4%. On rolling valuations forward, we arrive at a revised Dec'21 target price of Rs 2,800 (from Rs 2,690) on an unchanged target P/E of 22x that is based on the company's upbeat outlook, timely revenue diversification and wallet share gains in the travel vertical. Coforge's 6.3% CC revenue growth guidance for FY21 is backed by ~18% YoY growth in the executable order book and two large deal wins in Q3, which mitigates its highest level of exposure to the travel vertical among peers. Maintain BUY.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	638	630	(1.2)	756	775	2.5	851	879	3.3
YoY growth (%)	7.5	6.2	-	18.5	23.0	-	12.5	13.5	-
Revenues	48,112	47,097	(2.1)	58,954	59,263	0.5	66,339	68,540	3.3
EBITDA (post RSU)	8,414	8,124	(3.5)	10,641	10,352	(2.7)	11,761	11,937	1.5
EBITDA margins (%)	17.5	17.2	-	18.0	17.5	-	17.7	17.4	-
Net Profits	4,985	4,803	(3.6)	7,149	7,142	(0.1)	7,811	8,102	3.7
EPS (Rs)	80.7	77.7	(3.6)	115.7	115.6	(0.1)	126.4	131.1	3.7

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
- recovery not materializing in travel vertical.

## 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>47,097</b>	<b>59,263</b>	<b>68,540</b>
EBITDA	6,453	7,431	8,124	10,352	11,937
Depreciation	1,248	1,730	1,855	2,131	2,291
EBIT	5,205	5,701	6,269	8,221	9,646
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	476	462	218	1,360	1,324
Exceptional items	0	0	0	0	0
EBT	5,681	5,978	6,307	9,581	10,970
Income taxes	1,404	1,203	1,354	2,079	2,468
Extraordinary items	0	185	180	0	0
Min. int./Inc. from associates	188	236	150	360	400
<b>Reported net profit</b>	<b>4,089</b>	<b>4,539</b>	<b>4,803</b>	<b>7,142</b>	<b>8,102</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>4,089</b>	<b>4,539</b>	<b>4,803</b>	<b>7,142</b>	<b>8,102</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	8,129	10,229	11,830
Provisions	3,626	4,127	4,645	5,845	6,760
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	28,702	33,368	38,652
Shareholders' fund	22,240	26,272	29,317	33,983	39,267
<b>Total liabilities and equities</b>	<b>32,890</b>	<b>38,299</b>	<b>42,771</b>	<b>50,736</b>	<b>58,537</b>
Cash and cash eq.	8,726	13,390	17,190	22,753	29,150
Accounts receivables	7,352	8,368	9,419	11,853	13,708
Inventories	0	0	0	0	0
Other current assets	3,324	3,783	4,258	5,358	6,197
Investments	3,955	3,955	3,955	3,955	3,955
Net fixed assets	8,302	7,572	6,717	5,586	4,296
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>42,771</b>	<b>50,736</b>	<b>58,536</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	6,808	9,632	10,793
Interest expenses	(476)	(462)	(218)	(1,360)	(1,324)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(151)	(97)	(101)	(233)	(178)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>4,898</b>	<b>5,946</b>	<b>6,490</b>	<b>8,039</b>	<b>9,291</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	218	1,360	1,324
<b>Cash flow from investing</b>	<b>(274)</b>	<b>(538)</b>	<b>(782)</b>	<b>360</b>	<b>324</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)	(1,908)	(2,836)	(3,218)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>0</b>	<b>(744)</b>	<b>(1,908)</b>	<b>(2,836)</b>	<b>(3,218)</b>
<b>Changes in cash and cash eq.</b>	<b>4,624</b>	<b>4,664</b>	<b>3,800</b>	<b>5,563</b>	<b>6,397</b>
<b>Closing cash and cash eq.</b>	<b>8,726</b>	<b>13,390</b>	<b>17,190</b>	<b>22,753</b>	<b>29,150</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	66.2	73.5	77.7	115.6	131.1
Adjusted EPS	66.2	73.5	77.7	115.6	131.1
Dividend per share	0.0	10.0	25.7	38.1	43.3
Book value per share	360.0	425.2	474.5	550.0	635.6

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.0	3.4	2.9	2.3	1.9
EV/EBITDA	22.6	19.3	17.1	13.0	10.9
Adjusted P/E	36.6	32.9	31.1	20.9	18.5
P/BV	6.7	5.7	5.1	4.4	3.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	75.9	76.2	74.5	73.9
Interest burden (PBT/EBIT)	109.1	104.9	100.6	116.5	113.7
EBIT margin (EBIT/Revenue)	14.2	13.6	13.3	13.9	14.1
Asset turnover (Revenue/Avg TA)	123.4	117.5	116.2	126.8	125.4
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.3	18.7	17.3	22.6	22.1

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	12.6	25.8	15.7
EBITDA	28.8	15.2	9.3	27.4	15.3
Adjusted EPS	45.9	11.0	5.8	48.7	13.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.6	17.8	17.2	17.5	17.4
EBIT margin	14.2	13.6	13.3	13.9	14.1
Adjusted profit margin	11.1	10.8	10.2	12.1	11.8
Adjusted ROAE	20.3	18.7	17.3	22.6	22.1
ROCE	18.1	20.5	23.7	33.2	42.4
<b>Working capital days (days)</b>					
Receivables	66	69	69	66	68
Inventory	0	0	0	0	0
Payables	132	128	128	135	129
<b>Ratios (x)</b>					
Gross asset turnover	4.3	5.3	6.6	9.6	13.9
Current ratio	1.9	2.3	2.4	2.5	2.6
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

## Disclaimer

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

**BUY** – Expected return >+15%

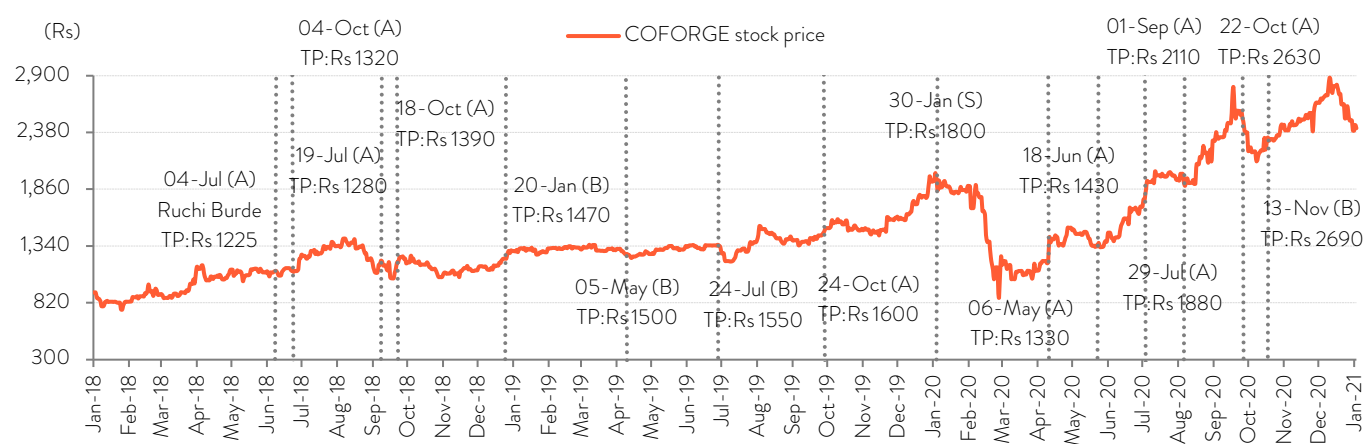
**ADD** – Expected return from >+5% to +15%

**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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