

# FIRST LIGHT

## RESEARCH

**Coforge | Target: Rs 4,080 | +20% | BUY**

Bumper FY22 guidance; reiterate BUY

**CEAT | Target: Rs 840 | -37% | SELL**

Rising raw material costs to impact earnings; SELL

## SUMMARY

### Coforge

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.

[Click here for the full report.](#)

### CEAT

CEAT's revenue was 8% ahead of our estimate at Rs 23bn in Q4FY21. Gross margin contracted 360bps QoQ, operating margin slipped 130bps YoY to 11.2%, and reported PAT was at Rs 1.4bn. Though we have raised FY22/FY23 revenue estimates based on market share gains and expected price hikes, these now stand in line with consensus. Our earnings projections are ~40% below consensus mainly because our gross margin assumptions are 200bps lower than the street. Maintain SELL with a new Mar'22 TP of Rs 840 (vs. Rs 780).

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	540
<a href="#">Transport Corp</a>	Buy	320

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.57	(3bps)	(16bps)	86bps
India 10Y yield (%)	5.98	(4bps)	(19bps)	(5bps)
USD/INR	73.92	(0.1)	(1.1)	2.4
Brent Crude (US\$/bbl)	68.96	0.1	6.3	132.0
Dow	34,230	0.3	3.2	44.6
Shanghai	3,447	(0.8)	(1.1)	19.8
Sensex	48,678	0.9	(2.7)	53.6
India FII (US\$ mn)	4 May	MTD	CYTD	FYTD
FII-D	85.2	90.4	(2,301.9)	(274.7)
FII-E	(236.2)	(461.3)	5,375.9	(1,950.5)

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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**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.

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

**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.

## STOCK PERFORMANCE



Source: NSE

**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).

## 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



**SELL**

TP: Rs 840 | ▼ 37%

**CEAT**

| Auto Components

| 06 May 2021

## Rising raw material costs to impact earnings; SELL

**CEAT's revenue was 8% ahead of our estimate at Rs 23bn in Q4FY21. Gross margin contracted 360bps QoQ, operating margin slipped 130bps YoY to 11.2%, and reported PAT was at Rs 1.4bn. Though we have raised FY22/FY23 revenue estimates based on market share gains and expected price hikes, these now stand in line with consensus. Our earnings projections are ~40% below consensus mainly because our gross margin assumptions are 200bps lower than the street. Maintain SELL with a new Mar'22 TP of Rs 840 (vs. Rs 780).**

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**Gross margin contracts 360bps QoQ:** At Rs 22.8bn (+50% YoY), Q4 revenue was 8% ahead of our estimate. Tonnage volumes grew 43% YoY in Q4. Gross margin declined 360bps sequentially, in line with our projections. EBITDA grew 34% YoY to Rs 2.6bn and the margin fell 130bps YoY to 11.2% (-350bps QoQ). On transition to the newer tax regime, CEAT recognised remeasurement gains in Q4, leading to PAT of Rs 1.4bn.

**Commodity price surge to erode margins:** With a 12% QoQ cost rise in the RM basket in Q4, a further expected rise of ~10% QoQ in Q1FY22 (per management) and the inability of tyre companies to fully pass on the cost burden, we anticipate gross margin deterioration for our tyre coverage (see our recent expert-led report: [Rubber prices headed for a structural bull run](#)). We factor in a further 130bps drop in CEAT's gross margin over Q4 levels, depleting operating margins.

**Maintain SELL:** Baking in market share gains in the PV segment and price hikes to offset costs, we raise our FY22/FY23 revenue estimates, leading to upward revision of earnings by 18%/7%. That said, we are still 40% below consensus due to lower margin forecasts. External borrowings to fund capex will also undermine the balance sheet and depress profits due to higher interest. We revise our Mar'22 TP to Rs 840, set at an unchanged 14x FY23E EPS. Maintain SELL.

Ticker/Price	CEAT IN/Rs 1,340
Market cap	US\$ 735.2mn
Shares o/s	40mn
3M ADV	US\$ 4.8mn
52wk high/low	Rs 1,763/Rs 712
Promoter/FPI/DII	47%/28%/9%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	68,313	65,811	75,728	90,149	101,298
EBITDA (Rs mn)	5,965	7,053	9,738	8,901	10,438
Adj. net profit (Rs mn)	2,889	3,005	4,477	2,327	2,422
Adj. EPS (Rs)	71.4	74.3	110.7	57.5	59.9
Adj. EPS growth (%)	3.7	4.0	49.0	(48.0)	4.1
Adj. ROAE (%)	10.5	10.3	14.5	7.0	6.8
Adj. P/E (x)	18.8	18.0	12.1	23.3	22.4
EV/EBITDA (x)	10.2	8.9	7.0	7.7	6.7

Source: Company, BOBCAPS Research | P - Provisional



## Disclaimer

### 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)

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