

CMP: INR 6,179

Rating: Accumulate

Target Price: INR 7,006

Stock Info

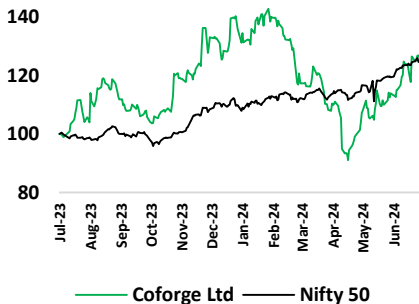
BSE	532541
NSE	COFORGE
Bloomberg	COFORGE:IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (as of March'24)(INR mn)	620
Mkt Cap (INR mn)	409500
52w H/L (INR)	6,840/4,291
Avg Yearly Vol (in 000')	16

Shareholding Pattern %
(As on Mar, 2024)

Promoters	26.63
FII	24.78
DII	37.20
Public & Others	11.39

	1m	3m	12m
Coforge	14.93	21.38	30.15
Nifty 50	3.87	6.44	24.28

Coforge Vs Nifty 50



Coforge reported good Nos; In-line with our estimate. Coforge reported revenue growth of 1.6% CC QoQ/7.8% YoY. Order intake was USD 314 Mn. (Tenth consecutive quarter of US\$ 300+ mn order intake.) Revenue for the quarter was INR 24,008 Mn (Estimated INR 24,234 Mn) & USD 291.4 Mn (USD 291Mn), Up 8.1% YoY in INR terms and 7.2% YoY in US\$ terms QoQ and Up 1.8% in INR terms and 1.6% in USD terms QoQ/EBIT margin came in at 13.6% (Estimated 13.4%); down by 81bps QoQ/expansion 205bps YoY. Adjusted EBITDA margin at 17.9%, improved by 189bps QoQ/down by 111bps YoY. Adj. PAT came in at INR 2,285 Mn in-line with our (Estimated INR 2,300 Mn) -2.1% QoQ / +25.3% YoY. Headcount at 26,612 for Q1FY25; net addition of 1,886 QoQ.. LTM attrition (IT) at 11.4%, down 10 bps QoQ. (among the lowest in industry). The company's 12-month executable order book stands at \$1.07 bn, up 19.3% YoY. 10 new clients were added in Q1FY25. DSO stands at 59 up by 2 days. Utilization was down 10 bps QoQ to 81.6%. The Board has recommended an interim dividend of INR 19/- per share. Acquires 28% stake in Cigniti Limited, Revamps Board. Coforge Limited's subsidiary, Coforge DPA NA Inc., will acquire OptML Inc.'s customer contracts and key personnel for an initial payout of USD 6.6 mn to expand its AI/Data Science capabilities.

Acquisition Synergy with Cigniti Technologies: The company secured a 28% stake in Cigniti Technologies and will increase it to 51%-54% in Q2. Cigniti reported a 2.4% sequential US dollar growth, a 16.7% sequential EBITDA increase, and a 10% PAT rise in Q1. Coforge expects significant revenue and margin expansion in Q2, with Cigniti's \$50 million cash position supporting future growth. Coforge is poised to capitalize on synergies and drive sustainable growth in the future. It will be EPS accretive for the Coforge and enhance EPS between ~3-6% for the FY25&FY26. The company expects a 50 bps higher adjusted EBITDA margin for H1FY25 compared to H1FY24.

Strong orderbook led by slight macro improvements: The company reported an order intake of \$314 mn in Q1FY25, marking the 10th consecutive quarter with over \$300 mn in order intake. Two large deals were signed: one with a leading global bank focused on data and analytics, and another with a top airline. The order executable book now stands at \$1,070 Mn, up 19.3% YoY, and 10 new logos were added in Q1FY25.

Valuations and outlook

Q1 results show promising signs of revenue growth and an uptick in the orderbook (12M \$1.07 Bn up by 19% YoY). Additionally, the company has significantly expanded its headcount, reflecting its strong hiring strategy. The demand commentary remains positive and aligns with industry peers. The company is also focused on improving margins in both its core business and its Cigniti operations. It appears that the cycle of earnings estimate downgrades is behind us, and consensus estimates for the core business are expected to gradually increase. We have factored in 18.5% YoY growth in organic business in FY25E. This coupled with acquisition of Cigniti (expected to be completed by Q2FY25E) we have factored in US\$ revenue growth of ~18% YoY and 24% YoY in FY25E & FY26E respectively. Hence, we expect PAT & EPS to grow at a CAGR of 28% & 28% over FY24-FY27E. **We value, Coforge at a PE of 25x its FY27E EPS of ~280, which yields a target price of INR 7,006 per share (Earlier target price of INR 5,611 per share). We downgrade our rating to an Accumulate from Buy earlier on the stock.**

Exhibit 1: Financial Overview

YE March	Revenue (INR Mn)	Net Sales (Mn USD)	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY24	1118	91,790	14,277	8,080	133.3	15.6%	22.0%	46.3
FY25E	1313	1,08,808	17,518	10,422	172.0	16.1%	22.8%	35.9
FY26E	1617	1,34,886	22,008	13,790	227.6	16.3%	23.5%	35.9
FY27E	1911	1,59,542	26,165	16,983	280.3	16.4%	22.7%	22.0

Source: Arihant Research, Company Filings

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Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	291.4	286.8	271.8	1.6%	7.2%
Gross Revenue (INR Mn)	24,008	23,585	22,210	1.8%	8.1%
Gross Profit	7,911	8,034	6,809	-1.5%	16.2%
GM %	33.0%	34.1%	30.7%	-111bps	229bps
Selling / General And Administration	3,625	3,561	3,264	1.8%	11.1%
SG&A to Revenue %	15.1%	15.1%	14.7%	0bps	40bps
Adj. EBITDA	4,286	4,473	3,545	-4.2%	20.9%
Adj. EBITDA margin %	17.9%	19.0%	16.0%	-111bps	189bps
Cost of ESOPS	199	222	216	-10.4%	-7.9%
EBITDA (INR Mn)	4,087	4,251	3,329	-3.9%	22.8%
EBITDA margin %	17.0%	18.0%	14.99%	-100bps	203bps
Depreciation and Amortization	815	846	757	-3.7%	7.7%
EBIT	3,272	3,405	2,572	-3.9%	27.2%
EBIT margin %	13.63%	14.44%	11.58%	-81bps	205bps
Other Income (net)	-272	-452	-160	-	-
Profit Before Tax	3,000	2,953	2,412	1.6%	24.4%
PBT % (Before exceptional items)	12.5%	12.5%	10.9%	-2bps	164bps
Transaction Related expenses	953	-	-	-	-
\$1 Bn Milestone celebration cost	-	97	165	-	-
Profit Before Tax	2,047	2,856	2,247	-28.3%	-8.9%
PBT %	8.5%	12.1%	10.1%	-358bps	-159bps
Provision for Tax	654	564	485	16.0%	34.8%
Minority Interest	61	55	104	10.9%	-41.3%
PAT (INR Mn)	1,332	2,237	1,658	-40.5%	-19.7%
Adj. Profit After Tax*	2,285	2,334	1,823	-2.1%	25.3%
PAT margin %	5.5%	9.5%	7.5%	-394bps	-192bps
EPS (INR)	20.9	36.2	27.0	-42.3%	-22.6%
Adj EPS (INR)	36	38	29	-5.8%	22.9%
Particulars (in INR million)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Americas	11979	11256	11,030	6.4%	8.6%
Europe , Midd le East and Africa	9,286	9,447	8,575	-1.7%	8.3%
Asia Pacific	1,832	1,577	1,563	16.2%	17.2%
India	911	1,305	1,042	-30.2%	-12.6%

Q1FY25 Conference call Highlights

Margin: 100bps impact of visa cost+ Onsite headcount increase led to dip in margin to 17.0%. Guided for 50 bps higher adjusted EBITDA margin for H1FY25 vs H1FY24.

BFSI Outlook: BFSI had temporary blip in Q1, growth should resume from Q2.No material change in the demand environment compared to Q4FY24.

Positive momentum in top accounts to be back in Q2FY25.

Wage hike: Effective from 1st July, wages align with industry standards, (If it had been implemented in April, the impact would have been 140 basis points lower on the margin)

Cigniti: Expects Cigniti business to show greater momentum going ahead. Effective merger date with Cigniti will be 1st April 2025. Company holds 28% in Cigniti and awaiting SEBI approval for open offer. Interest burden will go down from Q2FY25.

Travel and Aviation: Strong performance continues. In the travel segment, company is working with the top 10 airlines on technology solutions, addressing increased demand in hospitality with AI-supported solutions, and focusing on supply chain management and cost control in logistics through AI automation.

Order Book: Next 12-month order book increasing YoY, with slight macro improvements.

Headcount Addition: 250 graduates, billable in 4-8 months, 40-45 BPO positions, significant H2 FY25 growth, positive revenue impact.

Onsite Presence: Marginal increase to 48% from 47.5%.

Insurance Business: Rebounding with broad-based growth.

Exhibit 3: Business Matrix

Business Mix	Q1FY24	Q4FY24	Q1FY25
Vertical Mix			
BFS	22.6%	33.7%	31.8%
Insurance	31.1%	21.6%	21.4%
Travel and Transport	18.5%	17.6%	18.1%
Government (Overseas)	7.6%	7.6%	7.8%
Others	20.2%	19.5%	21.0%
Total	100.0%	100.0%	100.1%
Service Line Mix			
Engineering	35.0%	35.1%	32.1%
Intelligent Automation	11.5%	11.2%	11.7%
Data and Integration	24.0%	25.2%	27.4%
Cloud and Infrastructure Management (CIMS)	19.2%	19.1%	20.0%
Business Process Management (BPM)	9.5%	9.4%	9.4%
Geography Mix			
Americas	49.7%	47.7%	49.9%
EMEA	38.6%	40.1%	38.7%
ROW	11.7%	12.2%	11.4%
Total	100%	100%	100%
Billable People			
Onsite	49.7%	47.7%	49.90%
Offshore	38.6%	40.1%	38.70%
Total	11.7%	12.2%	11.40%
Client Data	Q1FY24	Q4FY24	Q1FY25
New Clients Added			
Americas	4	5	7
EMEA	1	2	2
Rest of World	1	1	1
Total	6	8	10
Repeat Business %	96.0%	93.0%	96.5%
Client Concentration (% of Revenue)	Q1FY24	Q4FY24	Q1FY25
Top 5	25%	23%	21%
Top 10	38%	34%	33%
No. of Clients (by Client Engagement Size)			
Above USD 10 Mn	21	24	23
USD 5-10 Mn	24	24	25
USD 1-5 Mn	102	112	118
People Data	Q1FY24	Q4FY24	Q1FY25
By Role			
Billable Personnel			
IT	16,827	16,930	17,920
BPS	5,935	6,313	7,117
Total Billable	22,762	23,243	25,037
Sales and Marketing	363	388	442
Others	1,099	1,095	1,133
Total	24,224	24,726	26,612
Utilization/Attrition (Excl BPS)	Q1FY24	Q4FY24	Q1FY25
Utilization	81.00%	81.70%	81.60%
Attrition Rate	13.30%	11.50%	11.40%
Days Sales Outstanding (DSO)	61	57	59

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	1118	1313	1617	1911
<i>Change (%)</i>	11.6%	17.5%	23.1%	18.2%
Revenues	91,790	1,08,808	1,35,021	1,59,542
<i>Change (%)</i>	14.5%	18.5%	24.1%	18.2%
Operating Costs	94	109	135	160
Gross Profit	91,696	1,08,699	1,34,886	1,59,383
Employee Costs	55,069	63,979	79,662	96,842
Other Expenses	22,350	27,202	33,215	36,376
Total Expenses	77,513	91,290	1,13,012	1,33,377
Adj. EBITDA	14,277	17,518	22,008	26,165
Adj. EBITDA Margin (%)	15.55%	16.10%	16.30%	16.40%
Depreciation	3,186	3,472	3,890	4,136
EBIT	11,091	14,046	18,119	22,029
EBIT Margin	12.08%	12.91%	13.42%	13.81%
Interest	1,256	1,382	1,520	1,520
PBT	10,333	13,535	17,909	22,056
Extra-ordinary	(116.00)	-	-	-
PBT after ext-ord.	10,449	13,535	17,909	22,056
Tax	2,093	3,113	4,119	5,073
<i>Rate (%)</i>	23.0%	23.0%	23.0%	23.0%
PAT	8,356	10,422	13,790	16,983
MI & Associates	276.00	-	-	-
Consolidated PAT	8,080	10,422	13,790	16,983
<i>Change (%)</i>	6.7%	30.9%	32.3%	23.2%

Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	611	611	611	611
Reserves & Surplus	35,648	45,161	58,042	74,116
Net Worth	36,259	45,772	58,653	74,727
Loan Funds	4,366	3,542	3,692	3,848
MI, Deferred Tax & other Liabilities	1,801	1,801	1,801	1,801
Capital Employed	42,426	51,115	64,146	80,376
Application of Funds				
Gross Block	11,792	12,489	13,185	13,880
Net Block	11,792	9,017	9,295	9,744
CWIP	232	232	232	232
Other Non-current Assets	3,368	3,368	3,368	3,368
Deferred Tax Assets	5,583	5,583	5,583	5,583
Net Fixed Assets	20,975	18,200	18,478	18,927
Investments	-	-	-	-
Debtors	19,503	24,444	30,333	35,842
Inventories	-	-	-	-
Cash & Bank Balance	3,213	15,072	27,680	43,328
Loans & Advances & other CA	5,509	5,509	5,509	5,509
Total Current Assets	28,225	45,025	63,523	84,679
Current Liabilities	18,512	23,848	29,594	34,968
Provisions	-	-	-	-
Net Current Assets	9,713	21,177	33,929	49,711
Total Assets	42,426	51,115	64,146	80,376

Cash Flow Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
PBT	10,449	13,535	17,909	22,056
Depreciation	3,186	3,472	3,890	4,136
Interest & others	1,034	511	210	-28
Cash flow before WC changes	14,669	17,518	22,008	26,165
(Inc)/dec in working capital	-3,691	395	-144	-134
Operating CF after WC changes	10,978	17,913	21,865	26,031
Less: Taxes	-2,093	-3,113	-4,119	-5,073
Operating Cash Flow	8,885	14,800	17,746	20,958
(Inc)/dec in F.A + CWIP	-4,601	-697	-696	-695
Cash Flow from Investing	-4,601	-697	-696	-695
Free Cash Flow (FCF)	8,187	14,103	17,050	20,263
Loan raised/(repaid)	984	-824	149	156
Equity raised	-	-	-	-
Interest & others	-6,933	-511	-3,682	-3,862
Dividend	-909	-909	-909	-909
Cash Flow from Financing Activities	-6,858	-2,244	-4,442	-4,615
Net inc / (dec) in cash	-2,574	11,859	12,608	15,648
Opening balance of cash	5,787	3,213	15,072	27,680
Closing balance of cash	3,213	15,072	27,680	43,328

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	133.3	172.0	227.6	280.3
CEPS	185.9	229.3	291.7	348.5
BVPS	598.3	755.3	967.9	1233.1
DPS	15.0	15.0	15.0	15.0
Div. Payout (%)	0.1	0.1	0.1	0.1
P/E	46.3	35.9	27.2	22.0
P/CEPS	33.2	27.0	21.2	17.7
P/BV	10.3	8.2	6.4	5.0
EV/EBITDA	5.1	3.5	2.2	1.2
Dividend Yield (%)	0.2%	0.2%	0.2%	0.2%
Return ratio (%)				
EBITDA Margin	15.6%	16.1%	16.3%	16.4%
EBIT Margin	12.1%	12.9%	13.4%	13.4%
PAT Margin	8.7%	9.6%	10.2%	10.6%
ROE	22.0%	22.8%	23.5%	22.7%
ROCE	26.1%	27.5%	28.2%	27.4%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.3	-0.4	-0.5
Turnover Ratios				
Asset Turnover (x)	2.2	2.1	2.1	2.0
Receivable Days	82	82	82	82
Payable days	80	80	80	80

Source: Arihant Research, Company Filings

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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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