

CMP: INR 4,487

Rating: Buy

Target Price: INR 5,611

Stock Info

BSE	533179
NSE	COFORGE
Bloomberg	COFORGE.IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	611
Mkt Cap (INR mn)	321,818
52w H/L (INR)	6,840/4055
Avg Yearly Vol (in 000')	598

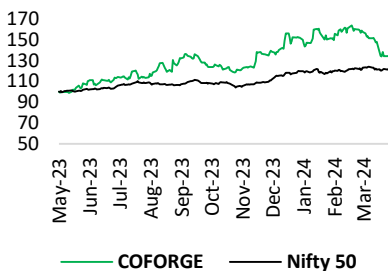
Shareholding Pattern %

(As on Mar, 2024)

Promoters	26.63
FII	24.78
DII	37.2
Public & Others	11.39

	1m	3m	12m
Coforge	-7.8	4.7	34.0
Nifty 50	1.9	10.3	19.6

Coforge Vs Nifty 50



Coforge reported revenue growth of 1.9% CC QoQ/9% YoY. Order intake was USD 1,019 Mn. In Q4FY24, Coforge secured a TCV of USD 400 Mn through the signing of a large deal. Revenue for the quarter was INR 23,585 Mn (Estimated INR 24,060 Mn) & USD 282 Mn (USD 290Mn), Up 8.7% YoY in INR terms and 8.5% YoY in US\$ terms QoQ and Up 1.5% in INR terms and 1.7% in USD terms QoQ EBIT margin came in at 14.4% (Estimated 15.4%); expansion of 66bps QoQ/144bps. Adjusted EBITDA margin at 19%, improved by 102 bps QoQ. PAT came in at INR 2,237 Mn in below our expectation INR 2,733 Mn, -6% QoQ / +94.9% YoY. Total order intake Q4FY24 stood at USD 1,973 Mn, up 56% YoY. Headcount at 24,726 for Q4FY24 vs global headcount of 24,607 in Q3FY24. LTM Attrition (excl. BPS) stood at 11.5%, improved 60 bps QoQ and 258 bps YoY. Coforge launched Orion- A Gen AI-based autonomous self-service solution to enhance customer experience across multiple industries. Coforge has signed a definitive agreement to take over Cigniti Technologies Limited. The acquisition will create three new scaled-up verticals - Retail, Technology, and Healthcare. The board recommends an interim dividend of INR 19 per share.

Acquisition Synergy with Cigniti Technologies: The acquisition will help to achieve \$ 2 Bn firm by FY27 and improve operating margins by 150 – 250 bps improvement in operating margin in this time. The acquisition will add three new industry verticals, expand presence in the West, Mid west, South West market of the US, and address opportunities in AI assurance services. Three new industry verticals - Retail, Hitech, and Healthcare - will be integrated into Coforge's operations. With the integration anticipated to be completed by Q2FY25, 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. Valuation, consideration, INR 20,000 Mn for 50.5% stake and INR 1415 per share on 2% premium as per 2nd May 24 close. Revenue for FY24 revenue of INR 18,150 Mn with the Valuation at 2.1x EV/sales.

Margin below estimate led by direct cost on QoQ: EBIT margin came in at 14.4% (Estimated 15.4%); expansion of 66bps QoQ/144bps. The big drivers of a continued QoQ expansion in margins in Q4Y24 led by improvement in utilization to 81.7% and the continued ramp up in offshore revenue percentage. Company is confident of expanding both gross margin and adjusted EBITDA by 50 bps each in FY25, and the acquisition of Cigniti will facilitate growth into a \$2 bn firm by FY27 with 150 to 250 bps higher margin.

Valuations and outlook

We are optimistic that strong executable order of USD 1 Bn+ will generate substantial organic growth in FY2025. The company has guided that adjusted EBITDA margin is expected to increase by 50 bps in FY25. The acquisition of Cigniti Technologies is viewed as strategic game changer, allowing the company to establish three new scaled-up verticals. With this acquisition, the company aims for USD 2 Bn in sales by FY27, with a 150-250 bps improvement in operating margins during the same period. Despite being impressed with Coforge and considering it one of the best managed IT Tier-II companies. We may see some slowdown in Coforge growth in FY25 after reporting strong double digit growth in FY24. **We value, Coforge at a PE of 26x its FY27E EPS of ~215.8, which yields a target price of INR 5,611 per share (Earlier target price of INR 7,292 per share). We upgrade our rating to Buy from Accumulate earlier on the stock.**

Exhibit 1: Financial Overview

YE	Revenue (Mn USD)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)								
FY23	1002	80,146	12,807	6,938	111.5	16.0%	24.2%	40.2
FY24	1118	91,790	14,277	8,080	133.3	15.6%	22.0%	33.7
FY25E	1241	103,004	16,069	9,270	153.0	15.6%	20.8%	29.3
FY26E	1416	117,851	18,503	10,962	180.9	15.7%	20.1%	24.8
FY27E	1617	134,197	21,337	13,077	215.8	12.4%	24.3%	20.8

Source: Arihant Research, Company Filings

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Exhibit 2: Q4FY24 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	286.8	282.0	264.4	1.7%	8.5%
Gross Revenue (INR Mn)	23,585	23,233	21,700	1.5%	8.7%
Direct Cost (INR Mn)	15,551	15,555	14,306	0.0%	8.7%
Gross Profit	8,034	7,678	7,394	4.6%	8.7%
GM %	34.1%	33.0%	34.1%	102bps	-1bps
Selling / General And Administration	3,561	3,508	3,150	1.5%	13.0%
SG&A to Revenue %	15.1%	15.1%	14.5%	0bps	58bps
Adj. EBITDA	4,473	4,170	4,244	7.3%	5.4%
Adj.EBITDA margin %	19.0%	17.9%	19.6%	102bps	-59bps
Cost of ESOPS	222	158	168	40.5%	32.1%
EBITDA (INR Mn)	4,251	4,012	4,076	6.0%	4.3%
EBITDA margin %	18.0%	17.3%	18.8%	76bps	-76bps
Depreciation and Amortization	846	811	717	4.3%	18.0%
EBIT	3,405	3,201	3,359	6.4%	1.4%
EBIT margin %	14.44%	13.78%	15.48%	66bps	-104bps
Other Income (net)	-452	-257	-487	-	-
Profit Before Tax	2,953	2,944	2,872	0.3%	2.8%
PBT % (Before exceptional items)	12.5%	12.7%	13.2%	-15bps	-71bps
\$1 Bn Milestone celebration cost	97	-	803	-	-
Profit Before Tax	2,856	2,944	1,546	-3.0%	84.7%
PBT %	12.1%	12.7%	7.1%	-56bps	498bps
Provision for Tax	564	516	379	9.3%	48.8%
Minority Interest	55	48	19	14.6%	189.5%
PAT (INR Mn)	2,237	2,380	1,148	-6.0%	94.9%
PAT margin %	9.5%	10.2%	5.3%	-76bps	419bps
EPS (INR)	36.2	38.6	18.8	-6.2%	92.6%
Particulars (in INR million)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Americas	11256	10819	10,481	4.0%	7.4%
Europe , Midd le East and Africa	9,447	9,300	8,589	1.6%	10.0%
Asia Pacific	1,577	1,608	1,518	-1.9%	3.9%
India	1,305	1,506	1,112	-13.3%	17.4%

Q4FY24 Conference call Highlights:**Cigniti Technologies Acquisition**

- The company signed a definitive agreement to acquire 54% stake in Cigniti Technologies Limited, which will add three new industry verticals (retail, healthcare, and high-tech) and expand its presence in the Southwest, Midwest, and West regions of the US.
- The acquisition funding will be through a mix of cash purchase from promoters, open offer and an equity raise (QIP) of around USD 250 Mn Post-merger, Cigniti will be merged into Coforge through a share-swap.
- The acquisition is expected to help Coforge build a horizontal AI assurance offering and create synergies, with the combined entity targeting USD 2 Bn in revenue by FY27 and 150-250 bps higher margins.
- Post acquisition, Cigniti's retail vertical will operate at close to USD 100 Mn revenue run-rate, while healthcare and hi-tech verticals will be over USD 50 Mn each.
- The acquisition will help Coforge gain 28 new Fortune 500 client accounts, especially in the West/Southwest US regions.
- The acquisition will expand Coforge's North American revenue by about 33%.
- Post acquisition, the company expects Cigniti's EBITDA margins to improve from current ~10% levels to Coforge's operating band through cost synergies.
- Valuation: Consideration, INR 20,000 Mn for 50.5% stake and INR 1415 per share on 2% premium as per 2nd May 24 close. Revenue for FY24 revenue of INR 18,150 Mn with the Valuation at 2.1x EV/sales.

Guidance

Management guided for flat adjusted EBITDA margins increase FY25 by 50 bps and an 80-100 bps expansion in FY26 due to structural tailwinds from the ESOP scheme.

Order Intake and Large Deals

- Q4FY24 was a strong quarter for order intake and large deal signings.
- The company signed two large deals – a USD 400 Mn TCV 6-year deal in the BFS vertical and a USD 55 Mn 3-year transformation deal in insurance with a new client.
- Total order book executable over the next 12 months stands at USD 1,019 Mn, up 17.3% YoY.

Debt Reduction

- Strong cash flow generation in Q4FY24 enabled the company to reduce bank borrowings by 65%
- The company aims to repay USD 40 Mn bank borrowing by end of Q1FY25 with an aim to become a net cash company by the end of FY25 by repaying existing debt on their books.

People and Utilization

- Added 1,502 employees during FY24 and 119 in Q4FY24, taking the total headcount to 24,726 at the end of Q4FY24.
- Utilization during Q4 stood at 81.7%.
- The last 12M attrition rate further decreased to 11.5%, maintaining the company's position as one of the lowest attrition firms in the industry.

Other Highlights

- The company plan normal salary hike increments for employees in FY25 as well, similar to prior years.
- CCI approval for Cigniti's acquisition is expected in 45-60 days and the integration process will begin thereafter.
- Travel vertical was impacted by one large client underperformance but is expected to rebound.

Wage Hike: Salary increments, effective from April 1, 2024, were fully implemented across the entire employee base since the beginning of the last fiscal year to maintain high retention and commitment levels.

Exhibit 3: Business Matrix

Business Mix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Vertical Mix								
BFS	23.1%	23.2%	22.1%	22.2%	22.6%	31.6%	32.2%	33.7%
Insurance	29.5%	31.7%	31.1%	31.0%	31.1%	22.6%	22.0%	21.6%
Travel and Transport	19.4%	19.3%	19.3%	18.8%	18.5%	18.5%	17.8%	17.6%
Others	28.0%	25.8%	27.4%	28.0%	27.8%	27.3%	28.0%	27.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Service Line Mix								
Product Engineering	10.5%	10.5%	9.9%	9.5%	9.4%	8.9%	7.8%	7.8%
Intelligent Automation	12.6%	12.6%	11.8%	11.1%	11.5%	12.1%	11.3%	11.2%
Data and Integration	23.3%	23.1%	23.9%	23.6%	24.0%	24.5%	25.7%	25.2%
Cloud and Infrastructure Management (CIMS)	18.2%	17.5%	18.6%	19.0%	20.0%	18.5%	18.9%	19.1%
Software Engineering	24.2%	25.8%	26.7%	27.7%	25.6%	26.6%	27.1%	27.3%
Business Process Management (BPM)	11.1%	10.4%	9.1%	9.0%	9.5%	9.5%	9.2%	9.4%
Geography Mix								
Americas	51.3%	51.3%	49.2%	48.3%	49.7%	49.4%	46.6%	47.7%
EMEA	36.9%	38.5%	40.3%	39.6%	38.6%	38.8%	40.0%	40.1%
ROW	11.9%	10.2%	10.5%	12.1%	11.7%	11.8%	13.4%	12.2%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Billable People								
Onsite	52%	50%	50%	49%	49%	48%	48%	48%
Offshore	48%	50%	51%	51%	51%	52%	52%	53%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Client Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
New Clients Added								
Americas	6	5	5	6	4	5	3	5
EMEA	4	4	2	2	1	2	2	2
Rest of World	2	2	4	2	1	1	2	1
Total	12	11	11	10	6	8	7	8
Repeat Business %	96%	94%	93%	92%	96%	95%	94%	93%
Client Concentration (% of Revenue)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Top 5	23%	23%	24%	23%	25%	24%	23%	23%
Top 10	36%	36%	36%	36%	38%	35%	34%	34%
No. of Clients (by Client Engagement Size)								
Above USD 10 Mn	19	19	21	21	21	23	24	24
USD 5-10 Mn	24	26	23	23	24	23	23	24
USD 1-5 Mn	98	97	98	101	102	104	109	112
People Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
By Role								
Billable Personnel								
IT	15,448	15,912	15,721	16,182	16,827	17,106	16,897	16,930
BPS	6,046	5,780	5,432	5,633	5,935	6,025	6,210	6,313
Total Billable	21,494	21,692	21,153	21,815	22,762	23,131	23,107	23,243
Sales and Marketing	285	291	317	350	363	360	368	388
Others	963	1,008	1,035	1,059	1,099	1,147	1,132	1,095
Total	22,742	22,991	22,505	23,224	24,224	24,638	24,607	24,726
Utilization/Attrition (Excl BPS)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Utilization	76.20%	77.30%	80.30%	81.50%	81.00%	80.00%	79.40%	81.70%
Attrition Rate	18.00%	16.40%	15.80%	14.10%	13.30%	13.00%	12.10%	11.50%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	1002	1118	1241	1416	1617
Change (%)	15.6%	11.6%	11.0%	14.1%	14.2%
Revenues	80,146	91,790	103,004	117,851	134,197
Change (%)	24.6%	14.5%	12.2%	14.4%	13.9%
Operating Costs	551	94	103	118	134
Gross Profit	79,595	91,696	102,901	117,733	134,062
Employee Costs	48,280	55,069	61,081	70,239	82,128
Other Expenses	18,508	22,350	25,751	28,991	30,597
Total Expenses	67,339	77,513	86,935	99,348	112,859
Adj. EBITDA	12,807	14,277	16,069	18,503	21,337
Adj. EBITDA Margin (%)	15.98%	15.55%	15.60%	15.70%	15.90%
Depreciation	2,585	3,186	3,472	3,890	4,136
EBIT	10,222	11,091	12,597	14,613	17,201
EBIT Margin	12.75%	12.08%	12.23%	12.40%	12.82%
Interest	806	1,256	1,382	1,520	1,520
PBT	10,035	10,333	12,039	14,236	16,983
Extra-ordinary	523.00	(116.00)	-	-	-
PBT after ext-ord.	9,512	10,449	12,039	14,236	16,983
Tax	2,061	2,093	2,769	3,274	3,906
Rate (%)	22.0%	23.0%	23.0%	23.0%	23.0%
PAT	7,451	8,356	9,270	10,962	13,077
MI & Associates	513	276.00	-	-	-
Consolidated PAT	6,938	8,080	9,270	10,962	13,077
Change (%)	12.8%	6.7%	16.4%	18.3%	19.3%

Balance Sheet (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Share Capital	611	611	611	611	611
Reserves & Surplus	30,214	35,648	44,009	54,062	66,230
Net Worth	30,825	36,259	44,620	54,673	66,841
Loan Funds	3,382	4,366	3,542	3,692	3,848
MI, Deferred Tax & other Liabilities	1,918	1,801	1,801	1,801	1,801
Capital Employed	36,125	42,426	49,964	60,166	72,490
Application of Funds					
Gross Block	21,366	11,792	12,489	13,185	13,880
Net Block	18,781	11,792	9,017	9,295	9,744
CWIP	46	232	232	232	232
Other Non-current Assets	1,364	3,368	3,368	3,368	3,368
Deferred Tax Assets	3,757	5,583	5,583	5,583	5,583
Net Fixed Assets	23,948	20,975	18,200	18,478	18,927
Investments	-	-	-	-	-
Debtors	17,903	19,503	23,141	26,476	30,148
Inventories	-	-	-	-	-
Cash & Bank Balance	5,787	3,213	13,952	23,795	35,581
Loans & Advances & other CA	4,858	5,509	5,509	5,509	5,509
Total Current Assets	28,548	28,225	42,602	55,780	71,238
Current Liabilities	19,835	18,512	22,576	25,830	29,413
Provisions	-	-	-	-	-
Net Current Assets	8,713	9,713	20,025	29,950	41,825
Total Assets	36,125	42,426	49,964	60,166	72,490

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
PBT	9,512	10,449	12,039	14,236	16,983
Depreciation	2,585	3,186	3,472	3,890	4,136
Interest & others	662	1,034	558	377	218
Cash flow before WC changes	12,759	14,669	16,069	18,503	21,337
(Inc)/dec in working capital	2,777	(3,691)	427	(81)	(90)
Operating CF after WC changes	15,536	10,978	16,495	18,421	21,248
Less: Taxes	(2,061)	(2,093)	(2,769)	(3,274)	(3,906)
Operating Cash Flow	13,475	8,885	13,726	15,147	17,342
(Inc)/dec in F.A + CWIP	(13,704)	(4,601)	(697)	(696)	(695)
Cash Flow from Investing	(13,704)	(4,601)	(697)	(696)	(695)
Free Cash Flow (FCF)	12,776	8,187	13,029	14,451	16,647
Loan raised/(repaid)	17	984	(824)	149	156
Equity raised	2	-	-	-	-
Interest & others	2,612	(6,933)	(558)	(3,849)	(4,108)
Dividend	(1,151)	(909)	(909)	(909)	(909)
Cash Flow from Financing Activities	1,480	(6,858)	(2,290)	(4,608)	(4,861)
Net inc/(dec) in cash	1,251	(2,574)	10,739	9,843	11,786
Opening balance of cash	4,536	5,787	3,213	13,952	23,795
Closing balance of cash	5,787	3,213	13,952	23,795	35,581

Key Ratios					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Per share (INR)					
EPS	111.5	133.3	153.0	180.9	215.8
CEPS	157.1	185.9	210.3	245.1	284.0
BVPS	508.7	598.3	736.3	902.2	1103.0
DPS	19.0	15.0	15.0	15.0	15.0
Div. Payout (%)	0.2	0.1	0.1	0.1	0.1
P/E	40.2	33.7	29.3	24.8	20.8
P/CEPS	28.6	24.1	21.3	18.3	15.8
P/BV	8.8	7.5	6.1	5.0	4.1
EV/EBITDA	5.4	5.1	3.8	2.8	1.9
Dividend Yield (%)	0.4%	0.3%	0.3%	0.3%	0.3%
Return ratio (%)					
EBITDA Margin	16.0%	15.6%	15.6%	15.7%	15.9%
EBIT Margin	12.8%	12.1%	12.2%	12.4%	12.4%
PAT Margin	9.3%	8.7%	9.0%	9.3%	9.7%
ROE	24.2%	22.0%	20.8%	20.1%	19.6%
ROCE	28.3%	26.1%	25.2%	24.3%	23.7%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Net D/E	-0.1	0.0	-0.2	-0.4	-0.5
Turnover Ratios					
Asset Turnover (x)	2.2	2.2	2.1	2.0	1.9
Receivable Days	82	82	82	82	82
Payable days	90	80	80	80	80

Source: Arianth 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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