

## Coforge (COFORGE)

BUY

Robust consequent quarter amid seasonality

## Summary

A consequent robust quarter (\$397.1mn, +7.5%/+40.8% QoQ/YoY) of beating street estimates & company's expectation. The augmented revenue was driven by broad based growth across all geos, verticals & service lines and specifically cigniti acquisition proved to be a game changer for the company. Management expects this momentum to continue in the coming quarters as well backed by the strong executable order intake (\$1.3bn, +5%/40% QoQ/YoY), synergy benefits (to payout from Q4FY25 or Q1FY26) coupled with the gradual recovery in demand environment. The run rate of approx. \$1.6bn which has augmented by 60% within 2 years and strong growth in cigniti gives the belief to management to achieve aspirational run rate of \$2bn in the coming years. Re-iterating that with, synergy benefits, cross selling & execution rigor (functional expertise) company shall achieve \$2bn revenue run rate by FY27. There-upon, we value the stock at TP of Rs. 9,459 (38.3x FY27E EPS) v/s previous TP of Rs. 7,815 rolling over to FY27 by maintaining the BUY rating.

## Key Highlights and Investment Rationale

- AI infusion & GCC:** Building on capabilities/ service lines (30 till now) around AI/ Gen AI by expanding company's portfolio would drive growth. Management saw traction on Gen AI adoption focused on data landscape like data modernization, data vectorization and infrastructure to support AI adoption.
- Partnership with hyper-scalers:** Recent acquisition of Xceltrait Inc. \$17.85mn, specializes in implementation of Service Now's products gives confidence that company is focusing on enhancing partnership. Hyper-scalers like Salesforce, Microsoft, Pega-systems & ServiceNow to offer innovative & scalable solutions (software embedded with license) to their clients.

TP	Rs9,459
CMP	Rs8,225
Potential upside/downside	15%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(12.2)	21.0	31.0
Rel to Sensex	(10.3)	25.6	23.9

V/s Consensus			
EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	144	204	247
Consensus	147	205	249
% difference	(2.1)	(0.6)	(0.8)

Key Stock Data	
Bloomberg/Reuters	COFORGE IN / NITT.BO
Sector	IT Services
Shares o/s (mn)	67
Market cap. (Rs mn)	549,925
3-m daily avg Trd value (Rs mn)	221.4
52-week high / low	10,018 / 4,291
Sensex / Nifty	76,520 / 23,205

Shareholding Pattern (%)	
Promoters	--
FII	42.6
DII	47.3
Public	10.1

## Financial snapshot

(Rs mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	1,24,093	1,53,883	1,82,225
Change (yoy, %)	25	15	35	24	18
EBITDA	14,053	15,152	20,734	24,426	29,495
Change (yoy, %)	26	8	37	18	21
EBITDA Margin(%)	17.5	16.5	16.7	15.9	16.2
Adj.PAT	6,938	8,180	9,616	14,410	18,396
EPS (Rs)	114	132	144	204	247
Change (yoy, %)	6.6	16.6	8.6	42	21
PE(x)	72	62	57	40	33
Dividend Yield (%)	0.8	0.9	1.3	2	2
EV/EBITDA (x)	36	34	25	21	18
RoE (%)	24	24	20	18	18
RoCE (%)	30	28	28	22	21

Source: IDBI Capital Research

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### Other Key Concall Highlights

- Consolidated revenue stood at Rs. 33,182mn up 7.5%/40.8% QoQ/YoY and 8.4%/40.3% QoQ/YoY in CC terms. The Cigniti business has grown 3.5% and non-Cigniti business has grown 9.4% in CC terms sequentially. The growth was broad across all geos, verticals & service lines and management expects this momentum to continue and drive growth. As follows; BFS was impacted by furloughs (+20.4% YoY), Insurance (+20.3% YoY), Travel (+43.4% YoY), Govt. outside India (48% YoY) and Other emerging (88.2% YoY). Geo-wise: Americas (9.2% QoQ), EMEA (8.9% QoQ); Data and the Integration (+4.1%/+22.9% QoQ/YoY), BPS (1%/17% QoQ/YoY) and Cloud & Infra (+19.5%/+42.1% QoQ/YoY).
- An expansion of 122bps in EBITDA margin at 17.8% in a seasonally soft quarter (adj. EBITDA margin exclud. Cigniti is at 17.9%) whereas, Cigniti margin expanded by /140bps~600bps QoQ/YoY at 17.6% (12% last year). This expansion is despite of ~50bps headwinds on account of furloughs, however, management expects furloughs to reverse in the next quarter implying the headwinds of 130bps. EBIT margins in this quarter was impacted by amortization (\$10.7mn YoY) of intangibles like customer relationship and non-compete created on account of purchase price.
- Fresh order intake during the quarter stood at US\$501mn. Executable order book over next 12months at \$1365mn (up by 4.6%/40% QoQ/YoY). Company signed 4 large deals during the quarter (one from cigniti), 3 North America and 1 in Asia. Management is sanguine on robust deal pipeline in the coming quarters. With the large deals, company has been setting up GCCs for their clients such as one for US based wealth management (\$1.5trillion in assets).
- **AI/ Gen AI:** Company has expanded their service line portfolio for AI/ Gen AI more than 30 capabilities. Company also re-iterated on enhancing their Quasar AI platform to help clients deploy agentic platforms. Demand for Gen AI adoption is persistently increasing from past 18-20months and it is around data landscape which includes data maturity, cleanup, data vectorization, infrastructure creation to support AI model training. Also, lot of traction is seen to improve personalization in products & offerings and to automate process and with respect to travel, more traction is coming from travel tech partners which are focused on loyalty, legacy modernization and network & capacity expansion by airlines.
- **Demand Environment:** Management said the demand environment is eminent but gradual across all the sectors. Despite the ongoing inflationary pressure travel vertical is showing good traction. With respect to

BFS & insurance, continue to see demand across multiple micro areas, particularly operational resilience and regulatory compliance.

- During the quarter ESOPs cost was at 2.1% of revenue, up by 30bps QoQ. This was on account of new ESOPs grant during the end of last quarter. Management expects this cost to dip marginally over next 2 quarters (20 -25bps for Q4FY25 & Q1FY26) and from Q3FY26 onwards come to 1% of revenue reflecting tailwinds in margins for that quarter. ESOP cost would impact the EBIT margin till Q2FY26 and would improve to 13.5% effectively (tailwind of ~150bps).
- Company acquired 100% stake in Xceltrait Inc. for \$17.85 million, a US based company, specializing in the implementation of Service Now's Financial Services Operations (FSO) and Customer Service Management (CSM) modules and brings expertise in the P&C insurance industry. This acquisition majorly operates in US and turnover of the company for CY21, 22 and 23 is \$3.7mn, \$4.5mn and \$5.8mn, respectively. The consideration includes an initial payout of approximately \$7mn and further earn out amount not exceeding \$10.85mn payable to the stockholders in two tranches based on the achievement/performance.
- Management is optimistic about the revenue growth on the back of higher order bookings and emphasized on broad based growth. Management expects margins to improve from here further.
- Headcount for the quarter is 33,094 with net addition of 611 (1,441 organic business) with utilization of 81.3% down by 2.5% QoQ due to trainees & laterals sustainable utilization to be at 81.5% and attrition at 11.9%. Company has 95% of workforce certified for AI tools & foundational AI concepts to cater to the demand.

## Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>397</b>	<b>369</b>	<b>7.5</b>	<b>282</b>	<b>40.8</b>
<b>Revenues</b>	<b>33,182</b>	<b>30,623</b>	<b>8.4</b>	<b>23,233</b>	<b>42.8</b>
COGS	22,165	20,701	7.1	15,543	42.6
Gross profit	11,017	9,922	11.0	7,690	43.3
SG&A	5,827	5,060	15.2	3,678	58.4
<b>EBITDA</b>	<b>5,168</b>	<b>4,862</b>	<b>6.3</b>	<b>4,012</b>	<b>28.8</b>
Depreciation & amortization	1,268	1,243	2.0	811	56.4
EBIT	3,900	3,619	7.8	3,201	21.8
Other income	-489	-462	5.8	-257	90.3
PBT	3,411	3,157	8.0	2,944	15.9
Tax	874	799	9.4	516	69.4
Minority interest	404	314	28.7	48	741.7
<b>Reported net profit</b>	<b>2,155</b>	<b>2,022</b>	<b>7</b>	<b>2,380</b>	<b>-9</b>
Exceptional items	0	0	<i>n.m</i>	0	<i>n.m.</i>
<b>Adjusted net profit</b>	<b>2,155</b>	<b>2,022</b>	<b>7</b>	<b>2,380</b>	<b>-9</b>
<b>Diluted EPS (Rs)</b>	<b>32.3</b>	<b>30.32</b>	<b>7</b>	<b>38.63</b>	<b>-16</b>
<b>As % of net revenue</b>					
Gross profit	33.2	32.4		33.1	
SG&A	17.6	16.5		15.8	
EBITDA	15.6	15.9		17.3	
EBIT	11.8	11.8		13.8	
Adjusted net profit	6.5	6.6		10.2	
Tax rate	25.6	25.3		17.5	

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. estimates**

Year to March	Q3FY25	Q3FY25E	Variance (%)
Revenue (US\$ mn)	397	385	3.1
Revenue (Rs mn)	33,182	32,499	2.1
EBIT (Rs mn)	3,922	4,139	(5.2)
EBIT margin (%)	11.8%	12.7%	-92 bps
PAT (Rs mn)	2,155	2,616	(17.6)
PAT margin (%)	6.5%	8.0%	-155 bps
EPS (Rs)	31.9	39.7	(19.5)

Source: Company; IDBI Capital Research

**Exhibit 3: Earnings Revision**

Year-end: March	FY25E			FY26E			FY27E
	New	Old	Chg (%)	New	Old	Chg (%)	New
Revenue (US\$ mn)	1,485	1,368.71	8.5	1,819	1,664	9.3	2,149
Revenue (Rs bn)	1,24,093	1,15,519	7.4	1,53,883	1,35,199	13.8	1,82,225
EBIT (Rs mn)	16000	15,106	5.9	19386	18712	3.6	24094
EBIT margin (%)	12.9%	13.1%	-18 bps	12.6%	13.84%	-124bps	13.2%
EPS (Rs/sh)	144.2	160.2	(10.0)	203.9	198.2	2.9	247.2

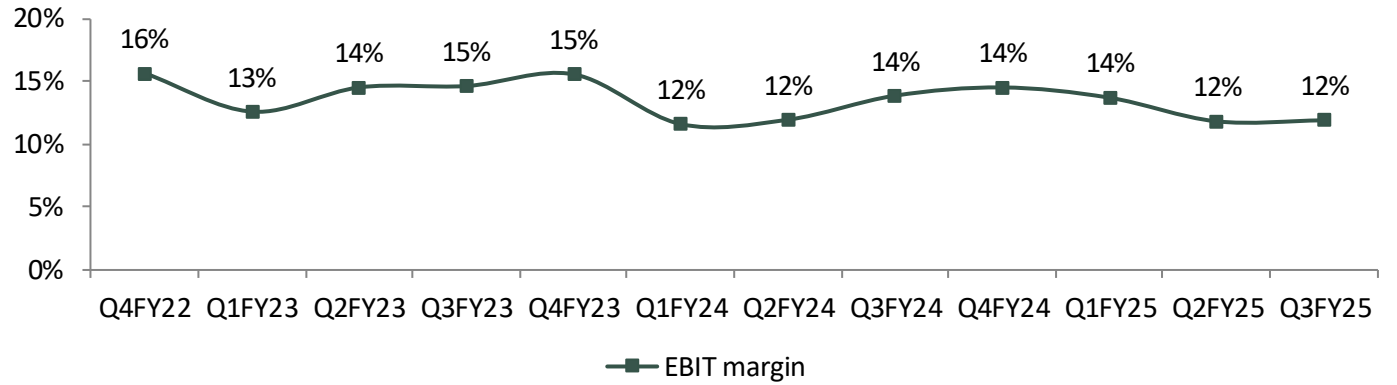
Source: Company; IDBI Capital Research

**Exhibit 4: Large clients trend**

No. of large clients	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
USD1m – USD5m	98	101	102	104	109	112	118	173	176
USD5m – USD10m	23	23	24	23	23	24	25	29	31
USD10m+	21	21	21	23	24	24	23	29	31

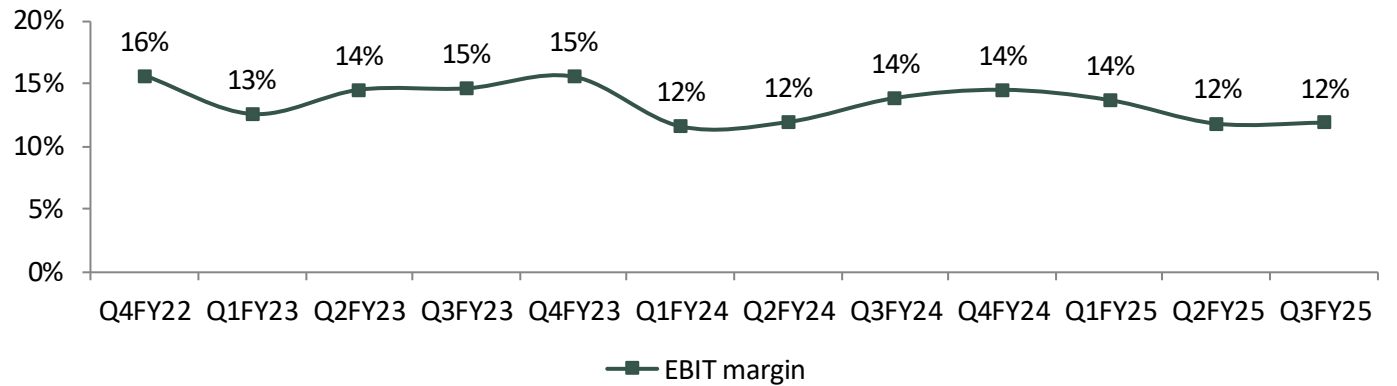
Source: Company; IDBI Capital Research

**Exhibit 5: Q3FY25 revenue growth was above our estimates**

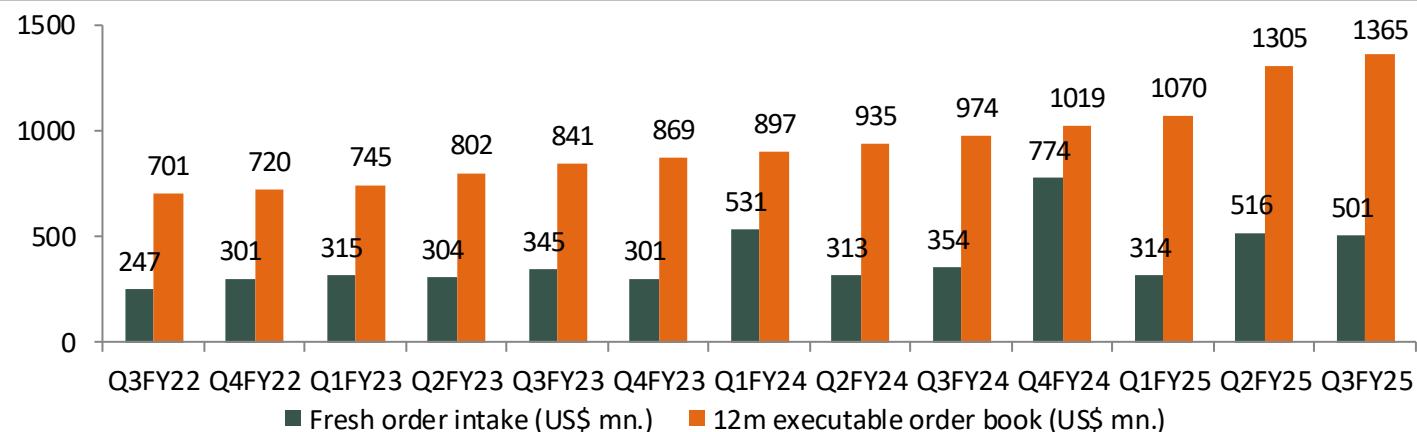


Source: Company; IDBI Capital Research

**Exhibit 6: EBIT margin remained flat**



Source: Company; IDBI Capital Research

**Exhibit 7: 12month order book continued to be robust**

Source: Company; IDBI Capital Research

**Exhibit 8: Revenue growth across various segments (%)**

	% of revenue (%)	YoY (%)
<b>Total revenue</b>		<b>7.8%</b>
<b>by geography</b>		
North America	56.0%	69.2%
Europe	34.2%	20.4%
RoW	9.8%	3.0%
<b>by vertical</b>		
BFS	27.5%	20.4%
Insurance	18.8%	20.3%
Transportation	18.1%	43.4%
Govt (outside India)	6.9%	48.0%
Others	28.7%	88.2%

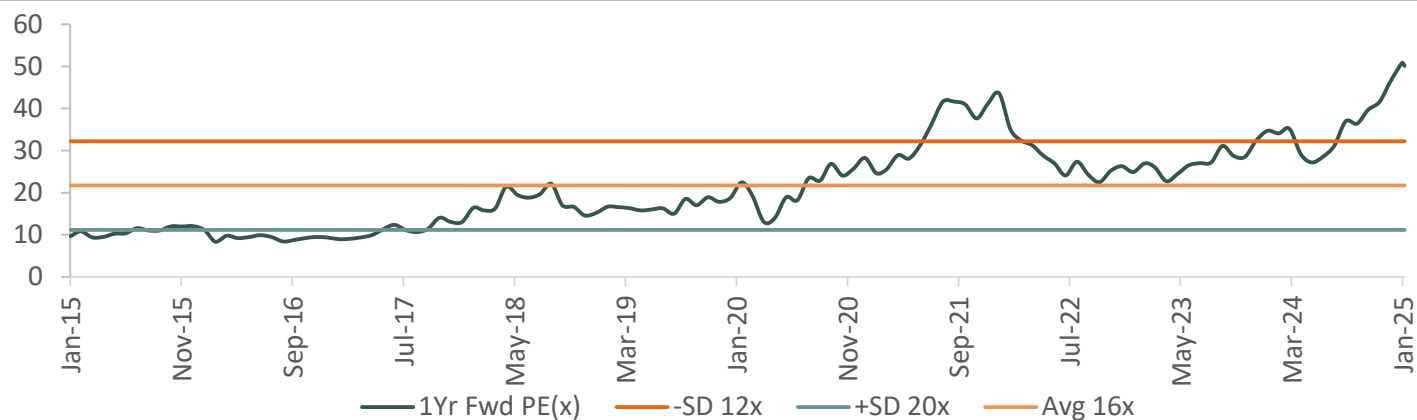
Source: Company; IDBI Capital Research

**Exhibit 9: Geo wise Adj. EBITDA margin trend**

Regions	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Americas	15%	13%	15%	18%	19%	20%	16%	17%	16%
Europe	24%	19%	19%	17%	21%	20%	14%	16%	18%
APAC	16%	15%	9%	7%	7%	7%	1%	7%	5%
India	-15%	5%	-22%	-17%	-14%	-16%	-8%	-11%	-11%

Source: Company; IDBI Capital Research

**Exhibit 10: One-year forward PER trend**



Source: Company; IDBI Capital Research



## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>64,320</b>	<b>80,146</b>	<b>91,790</b>	<b>1,24,093</b>	<b>1,53,883</b>	<b>1,82,225</b>
<i>Change (yoy, %)</i>	37.9	25	15	35	24	18
Operating expenses	(53,166)	(66,093)	(76,638)	(1,03,359)	(1,29,457)	(1,52,730)
<b>EBITDA</b>	<b>11,154</b>	<b>14,053</b>	<b>15,152</b>	<b>20,734</b>	<b>24,426</b>	<b>29,495</b>
<i>Change (yoy, %)</i>	41.8	26	8	37	18	21
<i>Margin (%)</i>	17.3	17.5	16.5	16.7	15.9	16.2
Depreciation	(2,272)	(2,585)	(3,186)	(4,712)	(5,040)	(5,400)
<b>EBIT</b>	<b>8,882</b>	<b>11,468</b>	<b>11,966</b>	<b>16,022</b>	<b>19,386</b>	<b>24,094</b>
Interest paid	-	-	-	-	-	-
Other income	(266)	(630)	(1,156)	(1,700)	742	1,385
<b>Pre-tax profit</b>	<b>8,616</b>	<b>10,838</b>	<b>10,810</b>	<b>14,322</b>	<b>20,128</b>	<b>25,479</b>
Tax	(1,468)	(2,061)	(2,093)	(3,523)	(4,959)	(6,115)
<i>Effective tax rate (%)</i>	17.0	19.0	19.4	24.6	24.6	24.0
Minority Interest	(530.0)	(513.0)	(276.0)	(1,183.0)	(758.4)	(968.2)
<b>Net profit</b>	<b>6,618</b>	<b>9,590</b>	<b>8,702</b>	<b>9,616</b>	<b>14,410</b>	<b>18,396</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>6,618</b>	<b>6,938</b>	<b>8,180</b>	<b>9,616</b>	<b>14,410</b>	<b>18,396</b>
<i>Change (yoy, %)</i>	34.6	5	18	18	50	28
EPS	106.5	113.6	132.4	143.7	203.9	247.2
DPS	50.7	65.3	76.0	108.1	153.0	185.4
<i>Dividend Payout (%)</i>	47.6	57.5	57.4	75	75	75

**Balance Sheet**

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Shareholders' funds</b>	<b>27,331</b>	<b>30,825</b>	<b>36,266</b>	<b>58,247</b>	<b>80,652</b>	<b>1,04,053</b>
Share capital	609	611	618	667	705	705
Reserves & surplus	26,722	30,214	35,648	57,580	79,947	1,03,348
<b>Total Debt</b>	<b>3,365</b>	<b>3,382</b>	<b>3,399</b>	-	-	-
Other liabilities	5,709	4,028	4,467	7,073	6,155	7,289
<b>Curr Liab &amp; prov</b>	<b>12,156</b>	<b>17,725</b>	<b>15,942</b>	<b>37,778</b>	<b>46,977</b>	<b>55,572</b>
Current liabilities	11,840	17,365	15,525	36,537	45,438	53,750
Provisions	316	360	417	1,241	1,539	1,822
<b>Total liabilities</b>	<b>21,230</b>	<b>25,135</b>	<b>23,808</b>	<b>44,851</b>	<b>53,133</b>	<b>62,861</b>
<b>Total equity &amp; liabilities</b>	<b>49,544</b>	<b>56,834</b>	<b>61,077</b>	<b>1,05,284</b>	<b>1,36,729</b>	<b>1,70,826</b>
Net fixed assets	20,835	23,165	23,762	24,634	22,671	20,916
Investments	-	-	-	-	-	-
Other non-curr assets	4,809	5,833	9,826	9,826	9,826	9,826
<b>Current assets</b>	<b>23,900</b>	<b>27,836</b>	<b>27,489</b>	<b>70,825</b>	<b>1,04,231</b>	<b>1,40,085</b>
Inventories	-	-	-	-	-	-
Sundry Debtors	15,585	17,903	19,503	27,198	33,728	39,940
Cash and Bank	4,535	5,787	3,352	33,699	58,193	85,567
Loans and advances	-	-	-	-	-	-
<b>Total assets</b>	<b>49,544</b>	<b>56,834</b>	<b>61,077</b>	<b>1,05,284</b>	<b>1,36,729</b>	<b>1,70,826</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	8,616	10,838	10,810	14,322	20,128	25,479
Depreciation	724	2,585	3,186	4,712	5,040	5,400
Tax paid	(2,656)	(3,082)	(3,919)	(3,523)	(4,959)	(6,115)
Chg in working capital	(3,284)	3,251	(3,383)	14,140	2,670	2,383
Other operating activities	4,135	(2,833)	(524)	16,863	15,463	17,668
<b>Cash flow from operations (a)</b>	<b>7,535</b>	<b>10,759</b>	<b>6,170</b>	<b>46,515</b>	<b>38,342</b>	<b>44,815</b>
Capital expenditure	(11,351)	(4,915)	(3,783)	(5,584)	(3,078)	(3,645)
Chg in investments	-	-	-	-	-	-
Other investing activities	1,663	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(9,564)</b>	<b>(4,915)</b>	<b>(3,783)</b>	<b>(5,584)</b>	<b>(3,078)</b>	<b>(3,645)</b>
Equity raised/(repaid)	3	2	7	49	38	-
Debt raised/(repaid)	3,360	17	17	(3,399)	-	-
Dividend (incl. tax)	(3,150)	(3,989)	(4,699)	(7,235)	(10,808)	(13,797)
Chg in minorities	453	(622)	(147)	-	-	-
Other financing activities	(2,224)	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(1,558)</b>	<b>(4,592)</b>	<b>(4,822)</b>	<b>(10,585)</b>	<b>(10,770)</b>	<b>(13,797)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(3,587)</b>	<b>1,252</b>	<b>(2,435)</b>	<b>30,346</b>	<b>24,494</b>	<b>27,374</b>

### Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	439.9	505	587	871	1,141	1,398
Adj EPS (Rs)	106.5	113.6	132.4	143.7	203.9	247.2
Adj EPS growth (%)	34.7	7	17	9	42	21
EBITDA margin (%)	17.3	17.5	16.5	16.7	15.9	16.2
Pre-tax margin (%)	13.4	13.5	11.8	11.5	13.1	14.0
Net Debt/Equity (x)	0.0	-0.1	0.0	-0.6	-0.7	-0.8
ROCE (%)	27.9	30	28	28	22	21
ROE (%)	25.5	24	24	20	18	18

### DuPont Analysis

Asset turnover (x)	1.5	1.5	1.6	1.5	1.1	1.1
Leverage factor (x)	1.6	1.8	1.8	1.8	1.7	1.6
Net margin (%)	10.3	8.7	8.9	7.7	9.4	10.1

### Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	88	82	78	80	80	80
Payable days	45	38	41	37	37	37

### Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	77	72	62	57	40	33
Price/Book value (x)	18.7	16.3	14.0	9.4	7.2	5.9
EV/Net sales (x)	8	6	6	4	3	3
EV/EBITDA (x)	46	36	34	25	21	18
Dividend Yield (%)	0.6	0.8	0.9	1.3	1.9	2.3

Source: Company; IDBI Capital Research

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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