

Weak operating performance; Cigniti acquisition to support FY27 goals

Information Technology ▶ Result Update ▶ May 3, 2024

TARGET PRICE (Rs): 5,200

Coforge posted weak Q4 results – revenue and margin both missed estimates. Deal intake grew >2x in Q4, QoQ and YoY, on the back of a large renewal deal (USD400mn TCV; 6Y tenure). NTM executable orderbook grew 5%/17% QoQ/YoY; growth was slower than the deal intake on higher share of renewal. Mgmt refrained from giving quantitative revenue guidance, unlike in prior few years, due to market uncertainty. Coforge has entered into a share purchase agreement with promoters/select public shareholders of Cigniti Technologies, for acquiring up to ~54% stake for cash consideration of Rs1,415/sh, to scale new verticals/improve US presence. We cut FY25E/26E EPS by 15.3%/11.8%, factoring-in the Q4 miss, slower revenue and weak margin trajectory. We do not incorporate the Cigniti acquisition in our estimate, awaiting more clarity. Given the soft margin trajectory, potential equity dilution, and merger-related risks, we cut target PER to 28x (from 30x). Despite the 10%/22% correction in stock price in the last 1M/3M, we believe valuation is rich as the earnings cut remains rather severe; retain REDUCE; cut TP to Rs5,200 at 28x Mar-26E EPS.

Coforge: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	64,320	80,146	91,790	102,673	116,808
EBITDA	11,019	12,807	15,052	16,849	20,203
Adj. PAT	6,617	7,314	8,341	9,305	11,536
Adj. EPS (Rs)	108.6	111.2	130.7	150.5	186.6
EBITDA margin (%)	17.1	16.0	16.4	16.4	17.3
EBITDA growth (%)	39.5	16.2	17.5	11.9	19.9
Adj. EPS growth (%)	33.9	2.3	17.6	15.2	24.0
RoE (%)	25.5	25.7	24.9	24.4	27.1
RoIC (%)	35.9	31.1	32.4	31.0	36.4
P/E (x)	45.9	41.6	37.0	33.1	26.7
EV/EBITDA (x)	27.5	23.6	20.5	18.2	14.9
P/B (x)	11.1	9.9	8.5	7.7	6.8
FCFF yield (%)	2.0	2.6	2.1	2.8	3.7

Source: Company, Emkay Research

Results Summary

Revenue grew 1.7% QoQ (1.9% cc) to USD286.8mn, lower than our estimate of USD290.2mn. For FY24, the company delivered revenue growth of 13.3% YoY (in cc), close to the lower end of its guidance of 13-16%. Adjusted EBITDAM (excluding ESOP and acquisition related expenses) expanded by 100bps QoQ to 19%, and missed Management guidance of 150-200bps expansion as well as our expectation of 19.7%. Reported EBITM missed our estimates by 120bps due to the adjusted EBITDAM miss and higher ESOP costs. Revenue growth was led by BFS (6.6% QoQ) and Travel (1%). The insurance vertical was flat, whereas other emerging verticals declined (-2%). Total TCV of fresh-order intake was USD774mn (including 2 large deals) vs USD354mn in Q3. Executable order book over the next 12 months is USD1,019m compared with USD974mn in Q3. The quarter saw 8 new client additions. Headcount grew 0.5% QoQ to 27,726. The company declared a final dividend of Rs19 per share. **What we liked:** Strong deal wins, traction in BFS. **What we did not like:** EBITM miss and guidance trajectory.

Earnings Call KTAs

1) Company has agreed to enter into a share purchase agreement with the promoters and select public shareholders of Cigniti Technologies, to acquire up to ~54% stake (between ~51% and ~54%, depending on the open offer outcome). It intends to merge both companies via share swap, after obtaining shareholder approval post-open offer. 2) Cigniti acquisition will help Coforge grow into a USD2bn firm by FY27, with ensuing synergies aiding it to improve margin by 150-250bps over the same period (more details ahead). 3) Demand environment remains challenging amid macro uncertainties, though Mgmt expects all verticals to register growth. 4) Order intake for Q4 was USD774mn, with 8 new client logos being added. This quarter included 2 large deals: a USD400mn 6-year deal in the BFS vertical, and a USD55mn 3-year deal in the insurance vertical. Company ended FY24 with its highest-ever order intake of USD1.97bn. 5) Management is confident about delivering robust growth in FY25, backed by a 17.3% higher executable order book YoY. 6) Mgmt. believes that gross margin and adjusted EBITDAM will expand by 50bps each in FY25. Reported EBITDAM should remain flat in FY25 due to higher ESOP costs (50-60bps higher YoY due to first year of the new ESOP scheme). It expects 70-80bps margin tailwinds in ESOP costs in FY26. 7) Weakness in travel was on account of the largest account in the vertical being under immense pressure. Ex this, travel vertical would have grown in double digits. This account is bottoming out now. 8) BFS continues to lead the growth in FY24, while Insurance has turned around smartly.

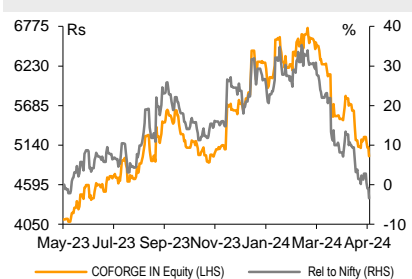
Target Price – 12M	Mar-25
Change in TP (%)	(14.0)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	4.3
CMP (02-May-24) (Rs)	4,985.7

Stock Data	Ticker
52-week High (Rs)	6,847
52-week Low (Rs)	4,055
Shares outstanding (mn)	61.8
Market-cap (Rs bn)	308
Market-cap (USD mn)	3,693
Net-debt, FY25E (Rs mn)	-2,074
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	2,335.3
ADTV-3M (USD mn)	28.0
Free float (%)	59.0
Nifty-50	22,648
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	-
FPIs/MFs (%)	35.0/54.3

Price Performance

(%)	1M	3M	12M
Absolute	(10.3)	(22.4)	20.7
Rel. to Nifty	(11.0)	(25.7)	(3.7)

1-Year share price trend (Rs)



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Acquisition details and rationale

- Company has agreed to enter into a share purchase agreement with the promoters and select public shareholders of Cigniti Technologies, to acquire up to ~54% stake (between ~51% to ~54%, depending on the open offer outcome). It intends to merge both companies through share swap after obtaining shareholder approval following the open offer.
- The promoters and public investors, combined, will initially sell 25% stake (10-15% each) before the open offer and thereafter sell further stake to reach at least ~51%, depending on the open offer outcome.
- Company expects CCI approval to come in around 45-50 days, after which Coforge will take the control of the Board. Once the Board control is taken, Company will start working on driving synergies. Open offer has already been triggered and Company expects open offer approval from the SEBI in the next 60-65 days. It sees the open offer process concluding by mid-August. Following this, Coforge intends to merge both the entities through share swaps, subject to necessary approvals.
- Coforge aims to fund the acquisition of up to ~54% stake in Cigniti Technologies through fund-raise via QIP. It expects the QIP process to be completed after the CCI approval. The Board has approved issuance of corporate guarantee for up to USD312.5mn for Coforge Pte (a wholly owned subsidiary based in Singapore) to secure the bridge financing facility for an amount of up to USD250mn from the Hongkong and Shanghai Banking Corporation.
- According to Management, the Cigniti acquisition will be a game changer for three key reasons:
 - The acquisition of Cigniti enables Coforge to scale up and create three new verticals – Retail, Hi-Tech, and Healthcare. The merged firm's Retail vertical will entail a size of ~USD100mnpa, whereas the size of the Hi-Tech and Healthcare verticals will burgeon to ~USD50mnpa immediately post-merger.
 - Coforge currently derives only 48% of its global revenues from its North American operations because its presence has largely been East Coast-centric in the USA. Expansion in North America has been a key objective for Coforge. The acquisition of Cigniti will expand Coforge's North America revenue by ~33% and help it establish a significant beachhead in the crucial West, South-West and Mid-West markets. It will acquire 28 new F500 companies as its clients with this acquisition and plans to further nurture these relationships through cross-selling of additional services.
 - The acquisition also allows Coforge to address significant opportunities that the proliferation of AI is creating for specialized assurance services.
- In key areas of non-functional testing like performance, security device testing, UI/UX testing, where Cigniti operates, there are significant upsides.
- There has been a financial and forensic due diligence of Cigniti before the deal was announced. Coforge is extremely comfortable with the people running the company, the composition of the board, and the governance processes.
- Cigniti's top-10 clients are tenured, whereas there has been a churn in the tail accounts. There is stability in the >USD5mn cohort of Cigniti.
- Coforge believes that the acquisition of Cigniti will not only help it grow into a USD2bn firm by FY27 (implying ~14% CAGR), but equally and importantly, the ensuing synergies will ensure that Coforge's operating margins improve by 150-250bps in that timeframe too.

Exhibit 1: Proforma Combined entity size

FY24	Coforge	Combined*
Revenue - Rs Mn	91,790	109,940
PAT - Rs Mn	8,080	9,939

* Audited FY24 Consolidated financials. Cigniti PAT adjusted for Rs. 203Mn towards one-time long service award

FY24	Coforge	Combined*
Revenue - \$ Mn	1,119	1,340
PAT - \$ Mn	98	121
PAT %	8.8%	9.0%

* Rs/\$ conversion at 82.05 for Cigniti

Source: Company

Exhibit 2: Quarterly snapshot

(Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenue (USD mn)	286.8	282.0	1.7	264.4	8.5
Revenue	23,585	23,233	1.5	21,700	8.7
Operating expenses	19,334	19,221		17,624	
EBITDA	4,251	4,012	6.0	4,076	4.3
Margins (%)	18.0	17.3	80	18.8	(80)
Depreciation	846	811		717	
EBIT	3,405	3,201	6.4	3,359	1.4
Margins (%)	14.4	13.8	70	15.5	(100)
Other income	-548	-257		-1,813	
Pre-tax profit	2,857	2,944	-3.0	1,546	84.8
Tax provided	564	516		379	
Profit after tax	2,293	2,428		1,167	
Minority Interest	55	48		19	
Emkay Net profit	2,334	2,380	-1.9	2,327	0.3
EPS (Rs)	37.8	38.5	-2.0	38.1	-0.9

Source: Company, Emkay Research

Exhibit 3: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net revenues (USD mn)	286.8	290	287	-1.2%	-0.2%	Revenue growth was weaker than our estimate
Sales	23,585	24,088	23,850	-2.1%	-1.1%	
EBIT	3,405	3,762	3,722	-9.5%	-8.5%	Adjusted EBITDAM expanded by 100bps QoQ to 19%, missing Management guidance of 150-200bps expansion and our expectations of 19.7%. Higher ESOP costs led to a 120bps miss on reported EBITM
EBIT margin	14.4%	15.6%	15.6%	-120 bps	-120 bps	
PAT	2,334	2,727	2,721	-14.4%	-14.2%	PAT missed expectations due to operating performance miss

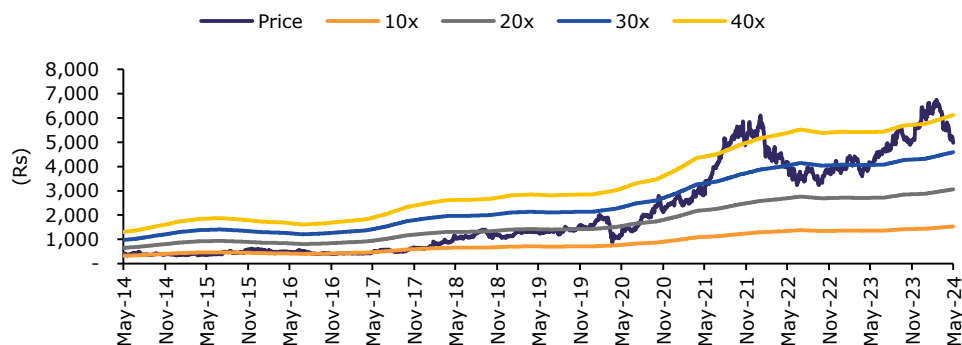
Source: Company, Bloomberg, Emkay Research

Exhibit 4: Changes in estimates

(Rs mn)	FY25E			FY26E		
	Old	New	change	Old	New	change
Revenue (USD mn)	1,260	1,222	-3.0%	1,450	1,374	-5.2%
YoY growth	12.3%	9.3%		15.0%	12.4%	
Revenue	105,843	102,673	-3.0%	123,210	116,808	-5.2%
EBIT	15,119	13,274	-12.2%	17,889	16,178	-9.6%
EBIT margin (%)	14.3	12.9		14.5	13.9	
Net Profit	10,969	9,305	-15.2%	13,066	11,536	-11.7%
EPS (Rs)	177.6	150.5	-15.3%	211.6	186.6	-11.8%

Source: Company, Emkay Research

Exhibit 5: Coforge – One-year forward P/E



Source: Company, Emkay Research

Coforge: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	64,320	80,146	91,790	102,673	116,808
Revenue growth (%)	37.9	24.6	14.5	11.9	13.8
EBITDA	11,019	12,807	15,052	16,849	20,203
EBITDA growth (%)	39.5	16.2	17.5	11.9	19.9
Depreciation & Amortization	2,272	2,585	3,186	3,575	4,025
EBIT	8,747	10,222	11,866	13,274	16,178
EBIT growth (%)	44.2	16.9	16.1	11.9	21.9
Other operating income	0	0	0	0	0
Other income	518	619	100	298	505
Financial expense	650	806	1,256	1,337	1,361
PBT	8,615	10,035	10,710	12,234	15,322
Extraordinary items	0	(670)	(261)	0	0
Taxes	1,468	2,061	2,093	2,692	3,524
Minority interest	(530)	(513)	(276)	(238)	(261)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,617	6,791	8,080	9,305	11,536
PAT growth (%)	34.6	2.6	19.0	15.2	24.0
Adjusted PAT	6,617	7,314	8,341	9,305	11,536
Diluted EPS (Rs)	108.6	111.2	130.7	150.5	186.6
Diluted EPS growth (%)	33.9	2.3	17.6	15.2	24.0
DPS (Rs)	52.0	57.9	75.7	88.0	106.0
Dividend payout (%)	47.9	52.1	57.9	58.5	56.8
EBITDA margin (%)	17.1	16.0	16.4	16.4	17.3
EBIT margin (%)	13.6	12.8	12.9	12.9	13.9
Effective tax rate (%)	17.0	22.0	19.5	22.0	23.0
NOPLAT (pre-IndAS)	7,257	7,972	9,547	10,354	12,457
Shares outstanding (mn)	60.9	61.1	61.8	61.8	61.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	8,615	10,035	10,710	12,234	15,322
Others (non-cash items)	3,120	3,150	4,785	3,575	4,025
Taxes paid	(2,646)	(2,800)	(3,661)	(2,692)	(3,524)
Change in NWC	(1,433)	(1,027)	(2,800)	(1,479)	(1,441)
Operating cash flow	7,656	9,505	9,034	11,639	14,382
Capital expenditure	(1,475)	(1,537)	(2,598)	(3,110)	(3,110)
Acquisition of business	(9,286)	(1,222)	0	0	0
Interest & dividend income	18	43	120	0	0
Investing cash flow	(10,293)	(2,716)	(2,478)	(3,110)	(3,110)
Equity raised/(repaid)	51	18	7	0	0
Debt raised/(repaid)	3,519	(180)	(2,556)	33	(1,000)
Payment of lease liabilities	(386)	0	0	0	0
Interest paid	(265)	(1,135)	(1,540)	0	0
Dividend paid (incl tax)	(3,748)	(4,285)	(4,781)	(5,440)	(6,553)
Others	0	0	0	0	0
Financing cash flow	(829)	(5,582)	(8,870)	(5,407)	(7,553)
Net chg in Cash	(3,466)	1,207	(2,314)	3,121	3,719
OCF	7,656	9,505	9,034	11,639	14,382
Adj. OCF (w/o NWC chg.)	9,089	10,532	11,834	13,118	15,823
FCFF	6,181	7,968	6,436	8,529	11,272
FCFE	5,549	7,205	5,300	7,191	9,911
OCF/EBITDA (%)	69.5	74.2	60.0	69.1	71.2
FCFE/PAT (%)	83.9	106.1	65.6	77.3	85.9
FCFF/NOPLAT (%)	85.2	99.9	67.4	82.4	90.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	609	611	618	618	618
Reserves & Surplus	26,723	30,214	35,648	39,513	44,496
Net worth	27,332	30,825	36,266	40,131	45,114
Minority interests	983	874	1,003	1,241	1,502
Deferred tax liability (net)	(1,970)	(3,174)	(5,117)	(5,117)	(5,117)
Total debt	3,545	3,382	4,366	4,399	3,399
Total liabilities & equity	29,890	31,907	36,518	40,654	44,898
Net tangible fixed assets	4,752	4,751	4,734	4,498	4,156
Net intangible assets	4,113	4,634	4,474	4,264	3,941
Net ROU assets	1,176	2,069	2,657	2,637	2,388
Capital WIP	86	46	232	232	232
Goodwill	10,708	11,665	11,665	11,665	11,665
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	4,535	5,787	3,352	6,473	10,193
Current assets (ex-cash)	21,438	24,125	28,380	32,161	36,382
Current Liab. & Prov.	16,919	21,170	18,976	21,278	24,058
NWC (ex-cash)	4,519	2,955	9,404	10,883	12,324
Total assets	29,889	31,907	36,518	40,654	44,898
Net debt	(990)	(2,405)	1,014	(2,074)	(6,794)
Capital employed	29,890	31,907	36,518	40,654	44,898
Invested capital	25,268	26,074	32,934	33,948	34,474
BVPS (Rs)	448.7	504.6	586.6	649.1	729.8
Net Debt/Equity (x)	0.0	(0.1)	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.1)	(0.2)	0.1	(0.1)	(0.3)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	34.8	35.1	35.0	35.2	39.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	45.9	41.6	37.0	33.1	26.7
P/CE(x)	34.2	30.3	26.7	23.9	19.8
P/B (x)	11.1	9.9	8.5	7.7	6.8
EV/Sales (x)	4.7	3.8	3.4	3.0	2.6
EV/EBITDA (x)	27.5	23.6	20.5	18.2	14.9
EV/EBIT(x)	34.7	29.8	26.0	23.2	19.1
EV/IC (x)	12.0	11.7	9.4	9.1	8.9
FCFF yield (%)	2.0	2.6	2.1	2.8	3.7
FCFE yield (%)	1.8	2.4	1.7	2.3	3.2
Dividend yield (%)	1.0	1.2	1.5	1.8	2.1
DuPont-RoE split					
Net profit margin (%)	10.3	9.3	9.1	9.1	9.9
Total asset turnover (x)	2.4	2.6	2.7	2.7	2.7
Assets/Equity (x)	1.0	1.1	1.0	1.0	1.0
RoE (%)	25.5	25.7	24.9	24.4	27.1
DuPont-RoIC					
NOPLAT margin (%)	11.3	9.9	10.4	10.1	10.7
IC turnover (x)	3.2	3.1	3.1	3.1	3.4
RoIC (%)	35.9	31.1	32.4	31.0	36.4
Operating metrics					
Core NWC days	25.6	13.5	37.4	38.7	38.5
Total NWC days	25.6	13.5	37.4	38.7	38.5
Fixed asset turnover	2.8	2.7	2.8	2.8	2.9
Opex-to-revenue (%)	80.2	83.3	83.6	83.6	82.7

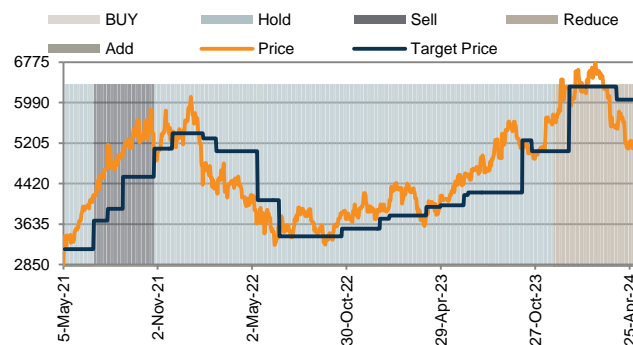
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	5,502	6,050	Reduce	Dipeshkumar Mehta
01-Mar-24	6,505	6,300	Reduce	Dipeshkumar Mehta
23-Jan-24	6,202	6,300	Reduce	Dipeshkumar Mehta
31-Dec-23	6,274	6,300	Reduce	Dipeshkumar Mehta
30-Nov-23	5,761	5,050	Reduce	Dipeshkumar Mehta
20-Oct-23	5,000	5,050	Hold	Dipeshkumar Mehta
02-Oct-23	5,104	5,260	Hold	Dipeshkumar Mehta
21-Jul-23	4,640	4,250	Hold	Dipeshkumar Mehta
02-Jul-23	4,711	4,250	Hold	Dipeshkumar Mehta
20-Jun-23	4,559	4,250	Hold	Dipeshkumar Mehta
12-Jun-23	4,506	4,200	Hold	Dipeshkumar Mehta
28-Apr-23	4,185	4,000	Hold	Dipeshkumar Mehta
01-Apr-23	3,814	3,970	Hold	Dipeshkumar Mehta
20-Jan-23	4,102	3,800	Hold	Dipeshkumar Mehta
02-Jan-23	3,951	3,740	Hold	Dipeshkumar Mehta
21-Oct-22	3,862	3,550	Hold	Dipeshkumar Mehta
03-Oct-22	3,329	3,400	Hold	Dipeshkumar Mehta
22-Jul-22	3,726	3,400	Hold	Dipeshkumar Mehta
23-Jun-22	3,679	3,400	Hold	Dipeshkumar Mehta
12-May-22	3,654	4,100	Hold	Dipeshkumar Mehta
01-Apr-22	4,415	5,050	Hold	Dipeshkumar Mehta
22-Feb-22	4,418	5,050	Hold	Dipeshkumar Mehta
28-Jan-22	4,713	5,300	Hold	Dipeshkumar Mehta
01-Jan-22	5,890	5,400	Hold	Dipeshkumar Mehta
30-Nov-21	5,432	5,400	Hold	Dipeshkumar Mehta
26-Oct-21	5,088	5,100	Hold	Dipeshkumar Mehta
02-Oct-21	5,280	4,550	Sell	Dipeshkumar Mehta
27-Aug-21	5,077	4,550	Sell	Dipeshkumar Mehta
29-Jul-21	5,172	3,930	Sell	Dipeshkumar Mehta
02-Jul-21	4,197	3,700	Sell	Dipeshkumar Mehta
07-May-21	3,381	3,150	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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