

Steady performance; one-off causes profit miss

Information Technology ▶ Result Update ▶ July 23, 2024

TARGET PRICE (Rs): 6,200

Coforge reported an in-line set of results in Q1; revenue grew 1.6% QoQ (similar in cc terms), whereas adj. EBITDAM declined by 100bps to 17.9%. Growth ex-India was healthy at 3.7% QoQ cc. BFS declined 3.9% QoQ, which the management attributed to a blip after 12 straight quarters of sequential growth, and should grow Q2 onward. The mgmt expects robust growth ahead, aided by a healthy NTM executable order book (up 19.3% YoY), some rebound in demand, and strong headcount addition (billable headcount grew 7.7% QoQ). It also expects adj. EBITDAM to improve by 50bps in FY25 versus FY24. The management not only sees demand bottoming out, but picking up too, albeit recovery being slightly tepid. Coforge will consolidate Cigniti financials from Q2FY25. We hike our target multiple to 30x (from 28x) to capture increased probability of demand uptick. We tweak FY25-27E adj. EPS by 0.4-3.1%, factoring in the Q1 performance and M&A. We maintain **REDUCE** on Coforge, upping our TP to Rs6,200/share at 30x Jun-26E EPS.

Coforge: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	118,325	142,772	163,919
EBITDA	12,807	15,052	19,204	23,780	27,940
Adj. PAT	7,314	8,341	9,927	12,879	15,547
Adj. EPS (Rs)	119.7	134.9	148.8	193.1	233.1
EBITDA margin (%)	16.0	16.4	16.2	16.7	17.0
EBITDA growth (%)	16.2	17.5	27.6	23.8	17.5
Adj. EPS growth (%)	10.2	12.7	10.3	29.7	20.7
RoE (%)	25.7	24.9	20.2	19.8	21.7
RoIC (%)	31.1	32.4	25.1	24.0	28.1
P/E (x)	51.6	45.8	41.5	32.0	26.5
EV/EBITDA (x)	29.3	25.4	21.4	17.1	14.2
P/B (x)	12.2	10.5	6.6	6.1	5.5
FCFF yield (%)	2.1	1.7	(3.8)	3.0	4.2

Source: Company, Emkay Research

Results Summary

Revenue grew 1.6% QoQ (1.6% in cc) to US\$291.4mn, broadly in line with estimates. Adj. EBITDAM (excluding ESOP costs) declined by ~100bps QoQ to 17.9%, also in line with estimates. Margins were impacted by visa costs and Microsoft licenses renewals. Adj. net profit (adj. for one-off transaction-related expenses) declined 2.1% QoQ to Rs2.29bn. Among verticals, BFS fell 3.9% QoQ – a decline after 12 quarters of sequential growth. Weakness in BFS also impacted performance of both, the top-5 clients and Europe. Insurance saw an uptick of 0.9% QoQ, while TTH and Others grew 4.7% and 9.6% QoQ, respectively. Americas grew 6.5% QoQ, whereas EMEA and ROW declined 1.8% and 4.9% QoQ. Total TCv of fresh-order intake was US\$314mn vs US\$774mn in Q4. Executable order book over NTM is US\$1,070mn (up 19.3% YoY). The quarter saw 10 new client additions. Headcount grew 7.6% QoQ to 26,612. The company declared an interim dividend of Rs19 per share. **What we liked:** Deal intake and NTL order book growth, headcount addition. **What we did not like:** Weakness in BFSI and EMEA.

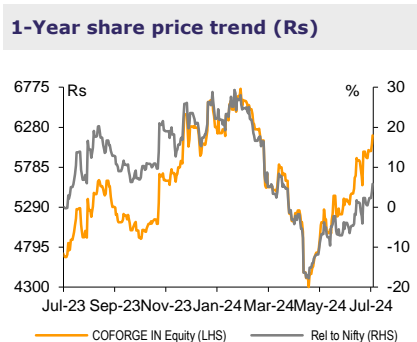
Earnings Call KTAs

i) Coforge has acquired ~28% stake in Cigniti so far, and will increase it to 51-54% in Q2. It took Board control and thereby operational control of Cigniti wef 5-Jul-24. ii) It is on track to close the Cigniti acquisition, and awaits SEBI approval for the open offer (expected in Q2). Following that, Coforge will initiate the merger process after getting approval from the Board of both companies which would take 9-12 months from the initiation of the merger; the effective date is being contemplated as 1-Apr-2025. iii) Cigniti's Q1 revenue grew 2.4% QoQ with a ~160bps expansion in adj. EBITDAM to 12.6%. The mgmt expects Cigniti to show better revenue growth momentum with an EBITDAM of 16% by Q4FY25. iv) Coforge signed 2 large deals in Q1 (with one of the largest banks and leading airlines in Asia Pacific). v) To support the AI agenda, it has added 50 AI specialists to the team in Q1, and accelerated the upskilling of its 25,000 employees through the AI Spark training program. vi) It repaid the non-convertible bonds of US\$41mn, which will reduce interest cost from Q2. vii) Focus on controlling ARC (up 40% in ~2.5 years) led the company to defer a wage hike, which is now effective Jul-24. viii) The mgmt expects double-digit growth in FY25 for BFS. Further, a significant part of the headcount addition is aligned to Banking clients for planned ramp up. ix) The mgmt expects FY25 ESOP costs of 160-170bps. x) Coforge entered into an asset purchase agreement with OptML Inc, with initial payout of US\$6.6mn for 51% stake and with the rest to be paid based on achievement of financial performance.

Target Price – 12M	Jun-25
Change in TP (%)	12.7
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	0.3
CMP (23-Jul-24) (Rs)	6,179.4

Stock Data	Ticker
52-week High (Rs)	6,847
52-week Low (Rs)	4,287
Shares outstanding (mn)	66.7
Market-cap (Rs bn)	412
Market-cap (US\$ mn)	4,924
Net-debt, FY25E (Rs mn)	-303
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	3,880.6
ADTV-3M (US\$ mn)	46.4
Free float (%)	59.0
Nifty-50	24,479
INR/US\$	83.7
Shareholding, Jun-24	
Promoters (%)	-
FPIs/MFs (%)	41.4/47.3

Price Performance			
(%)	1M	3M	12M
Absolute	14.8	18.4	33.2
Rel. to Nifty	10.2	8.2	7.4



Dipesh Mehta
dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Ayush Bansal
ayush.bansal@emkayglobal.com
+91 22 6612 1344

Pulkit Chawla
pulkit.chawla@emkayglobal.com
+91 22 6642 4258

Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Revenue (US\$ mn)	291.4	286.8	1.6	271.8	7.2
Revenue	24,008	23,585	1.8	22,210	8.1
Operating expenses	19,921	19,334		18,894	
EBITDA	4,087	4,251	-3.9	3,316	23.3
Margins (%)	17.0	18.0	(100)	14.9	210
Depreciation	815	846		757	
EBIT	3,272	3,405	-3.9	2,559	27.9
Margins (%)	13.6	14.4	(80)	11.5	210
Other income	-1,225	-548		-317	
Pre-tax profit	2,047	2,857	-28.4	2,242	-8.7
Tax provided	654	564		485	
Minority Interest	61	55		104	
Profit after tax	1,332	2,238		1,653	
Emkay Net profit	2,285	2,238	2.1	1,653	38.2
EPS (Rs)	34.3	37.8	-9.3	29.8	15.1

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

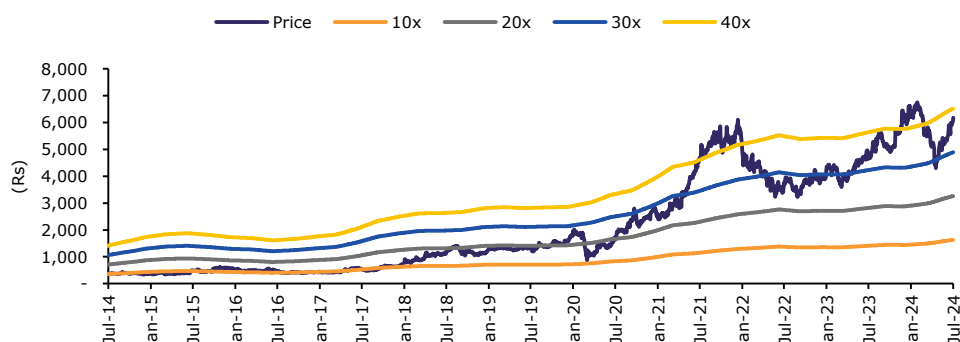
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net revenues (US\$ mn)	291.4	292	290	-0.1%	0.5%	Revenue growth was in line with estimates.
Sales	24,008	24,320	24,186	-1.3%	-0.7%	
EBIT	3,272	3,325	3,112	-1.6%	5.1%	EBITM was in line with estimates.
EBIT margin	13.6%	13.7%	12.9%	0 bps	80 bps	
Adj. PAT	2,285	2,314	2,261	-1.3%	1.1%	Reported PAT missed expectations due to one-off transaction-related expenses of Rs953mn.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (US\$ mn)	1,396	1,414	1.3%	1,646	1,680	2.0%	1,868	1,906	2.0%
YoY growth	24.8%	26.4%		17.9%	18.8%		13.5%	13.5%	
Revenue	117,095	118,325	1.1%	139,923	142,772	2.0%	160,648	163,919	2.0%
EBIT	14,544	14,869	2.2%	18,501	18,543	0.2%	21,879	22,069	0.9%
EBIT margin (%)	12.4	12.6		13.2	13.0		13.6	13.5	
Adj. Net Profit	9,889	9,927	0.4%	12,495	12,879	3.1%	15,300	15,547	1.6%
Adj. EPS (Rs)	148.3	148.8	0.4%	187.4	193.1	3.1%	229.4	233.1	1.6%

Source: Company, Emkay Research

Exhibit 4: Coforge – One-year forward PER

Source: Company, Emkay Research

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Coforge: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	118,325	142,772	163,919
Revenue growth (%)	24.6	14.5	28.9	20.7	14.8
EBITDA	12,807	15,052	19,204	23,780	27,940
EBITDA growth (%)	16.2	17.5	27.6	23.8	17.5
Depreciation & Amortization	2,585	3,186	4,335	5,237	5,870
EBIT	10,222	11,866	14,869	18,543	22,069
EBIT growth (%)	16.9	16.1	25.3	24.7	19.0
Other operating income	0	0	0	0	0
Other income	619	100	244	331	597
Financial expense	806	1,256	1,029	352	404
PBT	10,035	10,710	14,083	18,522	22,262
Extraordinary items	(670)	(261)	(953)	0	0
Taxes	2,061	2,093	3,203	4,260	5,120
Minority interest	(513)	(276)	(953)	(1,382)	(1,595)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,791	8,080	8,974	12,879	15,547
PAT growth (%)	2.6	19.0	11.1	43.5	20.7
Adjusted PAT	7,314	8,341	9,927	12,879	15,547
Diluted EPS (Rs)	119.7	134.9	148.8	193.1	233.1
Diluted EPS growth (%)	10.2	12.7	10.3	29.7	20.7
DPS (Rs)	57.9	75.7	82.0	106.0	128.0
Dividend payout (%)	48.4	56.1	55.1	54.9	54.9
EBITDA margin (%)	16.0	16.4	16.2	16.7	17.0
EBIT margin (%)	12.8	12.9	12.6	13.0	13.5
Effective tax rate (%)	22.0	19.5	22.7	23.0	23.0
NOPLAT (pre-IndAS)	7,972	9,547	11,487	14,278	16,993
Shares outstanding (mn)	61.1	61.8	66.7	66.7	66.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	10,035	10,710	14,083	18,522	22,262
Others (non-cash items)	3,150	4,785	3,382	5,237	5,870
Taxes paid	(2,800)	(3,661)	(3,203)	(4,260)	(5,120)
Change in NWC	(1,027)	(2,800)	(1,615)	(3,244)	(2,250)
Operating cash flow	9,505	9,034	12,647	16,255	20,762
Capital expenditure	(1,537)	(2,598)	(28,261)	(3,973)	(3,510)
Acquisition of business	(1,222)	0	0	0	0
Interest & dividend income	43	120	0	0	0
Investing cash flow	(2,716)	(2,478)	(28,261)	(3,973)	(3,510)
Equity raised/(repaid)	18	7	22,400	0	0
Debt raised/(repaid)	(180)	(2,556)	(866)	(3,500)	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,135)	(1,540)	0	0	0
Dividend paid (incl tax)	(4,285)	(4,781)	(5,469)	(7,070)	(8,537)
Others	0	0	0	0	0
Financing cash flow	(5,582)	(8,870)	16,065	(10,570)	(8,537)
Net chg in Cash	1,207	(2,314)	451	1,712	8,715
OCF	9,505	9,034	12,647	16,255	20,762
Adj. OCF (w/o NWC chg.)	10,532	11,834	14,262	19,499	23,012
FCFF	7,968	6,436	(15,614)	12,281	17,252
FCFE	7,205	5,300	(16,643)	11,929	16,848
OCF/EBITDA (%)	74.2	60.0	65.9	68.4	74.3
FCFE/PAT (%)	106.1	65.6	(185.5)	92.6	108.4
FCFF/NOPLAT (%)	99.9	67.4	(135.9)	86.0	101.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	611	618	667	667	667
Reserves & Surplus	30,214	35,648	61,504	67,314	74,325
Net worth	30,825	36,266	62,171	67,981	74,992
Minority interests	874	1,003	1,956	3,339	4,933
Deferred tax liability (net)	(3,174)	(5,117)	(5,117)	(5,117)	(5,117)
Total debt	3,382	4,366	3,500	0	0
Total liabilities & equity	31,907	36,518	62,511	66,203	74,808
Net tangible fixed assets	4,751	4,734	4,640	4,279	3,992
Net intangible assets	4,634	4,474	10,514	9,537	7,766
Net ROU assets	2,069	2,657	2,637	2,388	2,085
Capital WIP	46	232	232	232	232
Goodwill	11,665	11,665	29,665	29,989	29,989
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	5,787	3,352	3,803	5,515	14,230
Current assets (ex-cash)	24,125	28,380	35,409	42,710	49,025
Current Liab. & Prov.	21,170	18,976	24,390	28,447	32,511
NWC (ex-cash)	2,955	9,404	11,019	14,263	16,514
Total assets	31,907	36,518	62,511	66,203	74,808
Net debt	(2,405)	1,014	(303)	(5,515)	(14,230)
Capital employed	31,907	36,518	62,511	66,203	74,808
Invested capital	26,074	32,934	58,475	60,456	60,346
BVPS (Rs)	504.6	586.6	932.2	1,019.3	1,124.4
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.2)	0.1	0.0	(0.2)	(0.5)
Interest coverage (x)	0.1	0.1	0.1	0.0	0.0
RoCE (%)	35.1	35.0	30.5	29.3	32.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	51.6	45.8	41.5	32.0	26.5
P/CE(x)	37.6	33.1	28.9	22.7	19.2
P/B (x)	12.2	10.5	6.6	6.1	5.5
EV/Sales (x)	4.7	4.2	3.5	2.8	2.4
EV/EBITDA (x)	29.3	25.4	21.4	17.1	14.2
EV/EBIT(x)	36.9	32.2	27.7	22.2	18.7
EV/IC (x)	14.5	11.6	7.0	6.8	6.8
FCFF yield (%)	2.1	1.7	(3.8)	3.0	4.2
FCFE yield (%)	1.9	1.4	(4.0)	2.9	4.1
Dividend yield (%)	0.9	1.2	1.3	1.7	2.1
DuPont-RoE split					
Net profit margin (%)	9.3	9.1	8.4	9.0	9.5
Total asset turnover (x)	2.6	2.7	2.4	2.2	2.3
Assets/Equity (x)	1.1	1.0	1.0	1.0	1.0
RoE (%)	25.7	24.9	20.2	19.8	21.7
DuPont-RoIC					
NOPLAT margin (%)	9.9	10.4	9.7	10.0	10.4
IC turnover (x)	3.1	3.1	2.6	2.4	2.7
RoIC (%)	31.1	32.4	25.1	24.0	28.1
Operating metrics					
Core NWC days	13.5	37.4	34.0	36.5	36.8
Total NWC days	13.5	37.4	34.0	36.5	36.8
Fixed asset turnover	2.7	2.8	2.4	2.2	2.4
Opex-to-revenue (%)	83.3	83.6	83.8	83.3	83.0

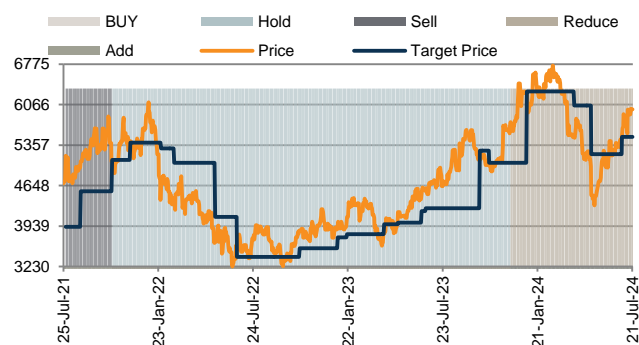
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	5,518	5,500	Reduce	Dipeshkumar Mehta
09-Jun-24	5,431	5,200	Reduce	Dipeshkumar Mehta
03-Jun-24	5,017	5,200	Reduce	Dipeshkumar Mehta
27-May-24	5,264	5,200	Reduce	Dipeshkumar Mehta
03-May-24	4,483	5,200	Reduce	Dipeshkumar Mehta
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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