Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Coforge Ltd

Organic Business on strong footing, Upgrade to Buy

IT & ITeS	Sharekhan code: COFORGE
Reco/View: Buy ↑	CMP: Rs. 7,013
	Price Target: Rs. 8,480 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We upgrade Coforge to Buy with revised price target (PT) of Rs. 8,480 (valued at 40x Sept26E EPS). At CMP, the stock trades at 48.2/36.5/30.2x its FY25/26/27E EPS.
- Post moderation in revenue growth in FY25, the Company's organic business is expected to regain strong growth trajectory in FY26.
- Margin uptick to be supported by lower ESOP costs, higher offshoring and lower SG&A costs.
- Clarity on disruption from Gen AI on Cigniti's testing business post transition to be vital.

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

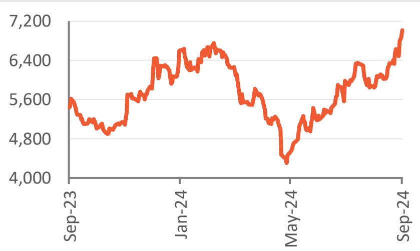
Company details

Market cap:	Rs. 46,769 cr
52-week high/low:	Rs. 7,043 / 4,291
NSE volume: (No of shares)	5.9 lakh
BSE code:	532541
NSE code:	COFORGE
Free float: (No of shares)	6.7 cr

Shareholding (%)

Promoters	0
FII	41.4
DII	47.3
Others	11.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.5	34.9	14.6	28.9
Relative to Sensex	14.7	27.3	0.5	6.0

Sharekhan Research, Bloomberg

Despite an uncertain macro-economic environment, Coforge delivered top quartile revenue growth in FY24. We believe the company's revenue growth is likely to show moderation in revenue growth in FY25 owing to the moderation in fresh order intake and high base of FY24. However, we expect the company's return to growth strong trajectory for its organic business in FY26 aided by increased traction in core verticals supported by better macro environment. Macro factors are expected to improve going forward given potential rate cuts in the US which is likely to spur the pent-up demand and aid recovery of its key verticals especially BFS. The management is confident of expansion in adjusted EBITDA margin by 50 bps in FY25. Organic business margins are expected to show further improvement in FY26 aided by lower ESOP costs, higher offshoring and lower SG&A expenses. While CIgniti's acquisition is expected to improve the Coforge's presence across US, add new logos and create cross-selling opportunities, we believe the clarity on disruption from Gen AI on Cigniti's testing business post transition will be vital. We have introduced FY27 estimates and rolled forward to Sep26E EPS. We upgrade Coforge to Buy with revised PT of Rs 8,480 (valued at 40x Sep26E EPS). At CMP, the stock trades at 48.2/36.5/30.2x its FY25/26/27E EPS.

- **Strong growth trajectory to return in FY26:** Coforge delivered top quartile revenue growth in FY24 within the guided range despite multiple headwinds. Revenue growth is likely to see moderation in FY25 owing to moderation in fresh order intake and high base of FY24. However, the executable order book over 12 months remains robust at $1070 and provides decent revenue visibility. Further recovery in BFS vertical is likely to be supported by improving macro environment led by potential rate cuts and better discretionary spending. Management expects Insurance vertical's y-o-y growth to increase materially by the end of Q2FY25. We believe travel & transportation vertical which had been marred by client specific issues to rebound and supplement the growth trajectory.
- **Multiple margin drivers:** The company believes at the end of the H1FY25, they shall be operating at a 50 bps higher margin as compared to H1FY24 which shall set them up firmly on the path to meeting their guidance of a 50-bps adjusted EBITDA expansion in FY25. We believe lower SG&A costs and higher offshoring is likely to support margin uptick in FY25 while lower ESOP costs post FY25 will aid in margin improvement in FY26.
- **Cigniti Technologies acquisition:** Cigniti's acquisition is expected to aid in scaling up Coforge's presence across South-West, Mid-West and Western US, add new logos and provide more cross-selling opportunities. However, Cigniti's testing business is likely to remain vulnerable to disruption from Gen AI standpoint. We believe the clarity on disruption from Gen AI on Cigniti's testing business after the transition will be vital in determining the course of revenue and margin trajectory trend.

Our Call

Valuation – Upgrade to Buy with revised PT of Rs. 8,480: Coforge's organic business continues to be on strong footing after delivering top quartile revenue growth in FY24. While moderation in fresh order intake and high base of FY24 is likely to moderate the growth, we believe the organic business is robust and is likely to regain its strong growth trajectory post FY25 aided by recovery in key verticals especially BFS, ramp up of deal wins and recovery of pent-up demand triggered by better macro environment. We expect Sales/PAT CAGR of 14%/24% over FY24-27E. We believe clarity on disruption from Gen AI on Cigniti's testing business post transition to be vital in determining the course of revenue and margin trajectory trend. We have introduced FY27 estimates and rolled forward to Sep26E EPS. We upgrade Coforge to Buy with revised PT of Rs 8,480 (valued at 40x Sep26E EPS). At CMP, the stock trades at 48.2/36.5/30.2x its FY25/26/27E EPS.

Key Risks

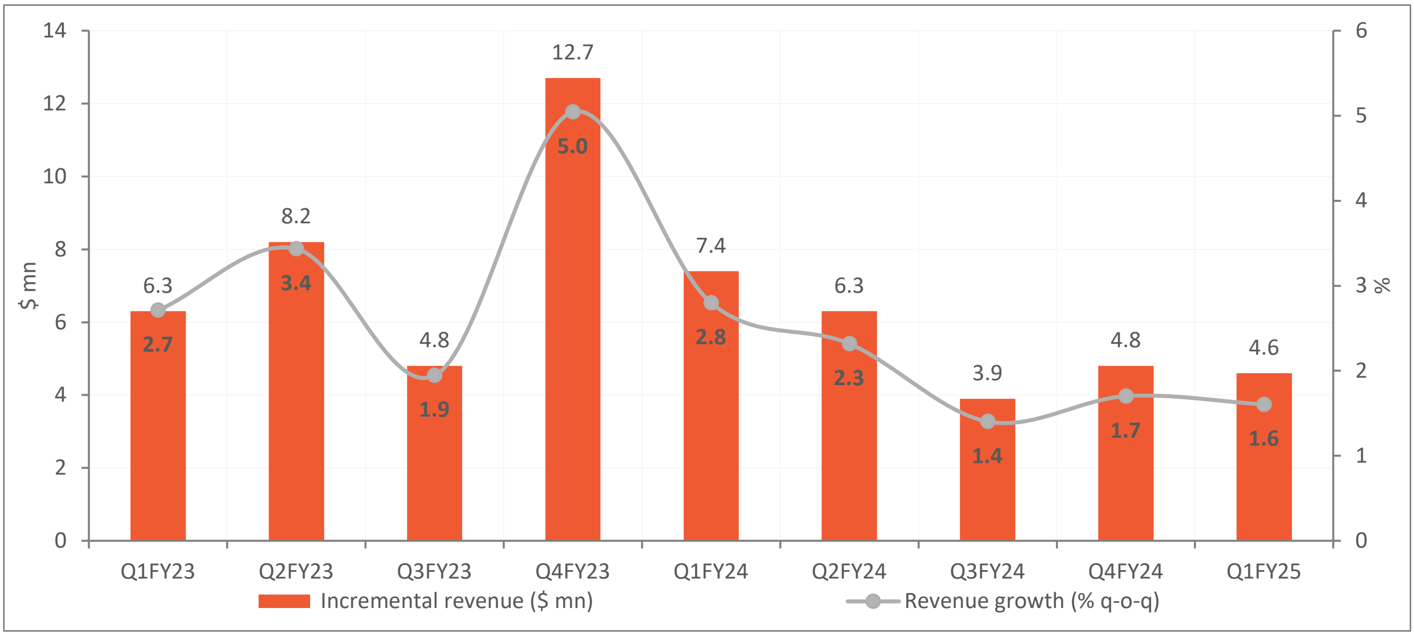
Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds, and recession in the U.S can moderate the pace of technology spends.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	9179	10223	11876	13681
OPM (%)	16.4	16.8	18.0	18.4
Adjusted PAT	809.2	971	1281	1548
% YoY growth	16.6	20.0	31.9	20.9
Adjusted EPS (Rs.)	129.6	145.6	192.0	232.2
P/E (x)	54.1	48.2	36.5	30.2
P/B (x)	12.9	11.0	9.2	7.7
EV/EBIDTA (x)	31.3	27.1	21.5	17.6
RoNW (%)	24.1	24.6	27.4	27.7
RoCE (%)	27.2	26.1	30.0	31.1

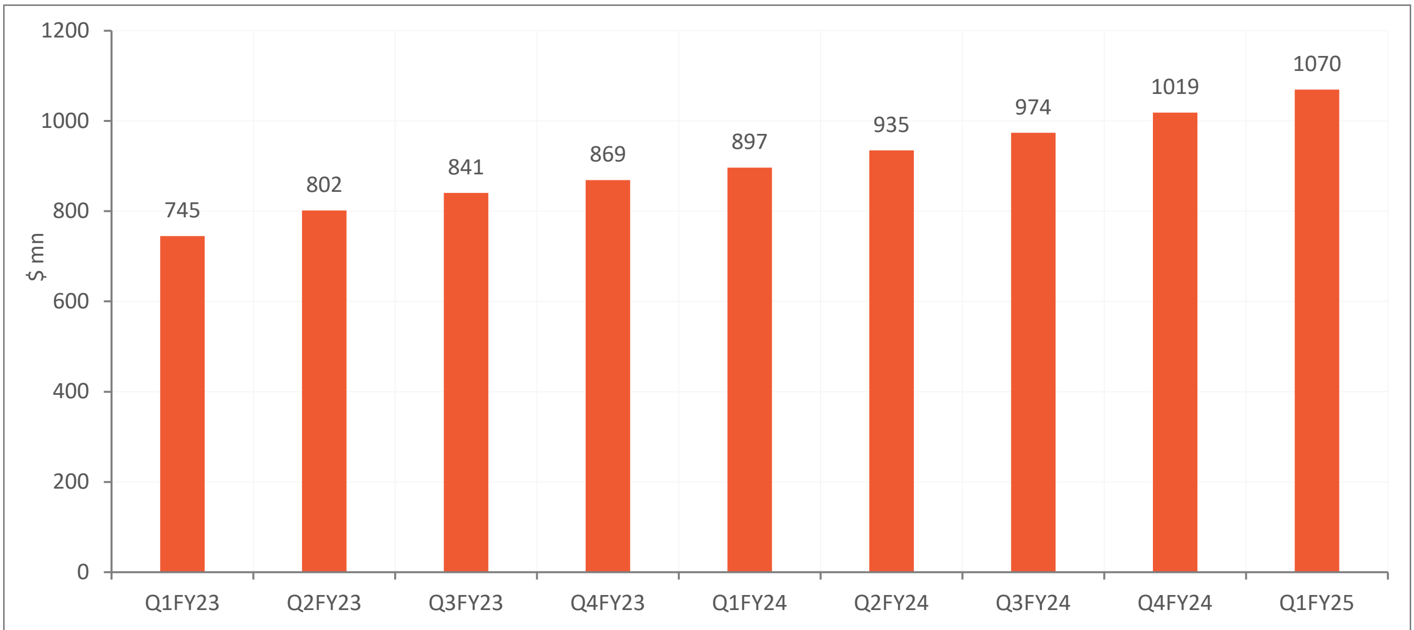
Source: Company; Sharekhan estimates

Revenue growth trend



Source: Company; Sharekhan Research

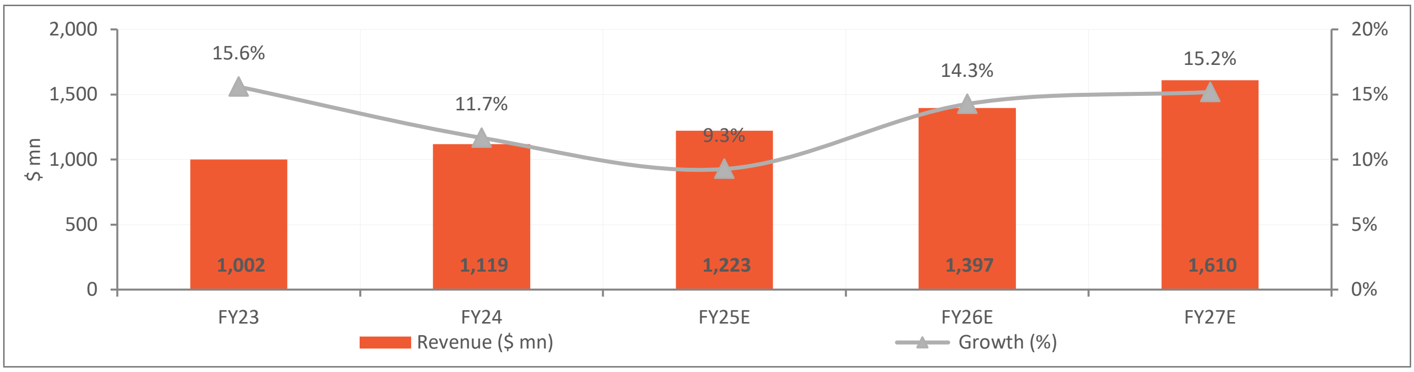
Executable orders to be executed over next 12 months



Source: Company; Sharekhan Research

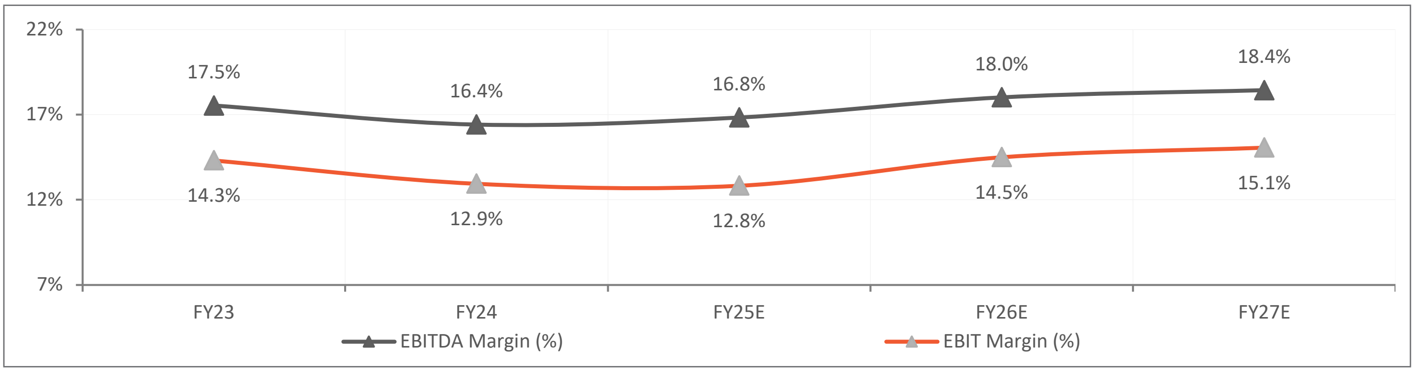
Financials in charts

Revenue (USD mn)



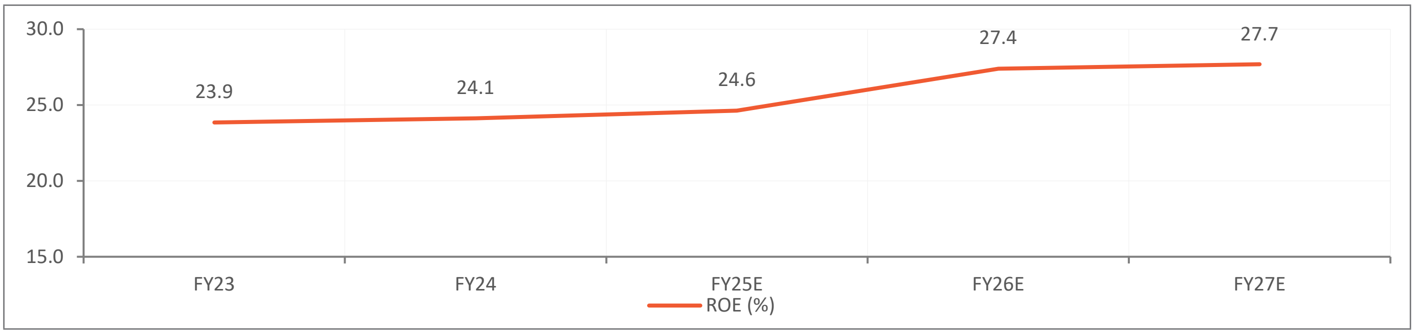
Source: Company; Sharekhan Research

EBITDA and EBIT Margin



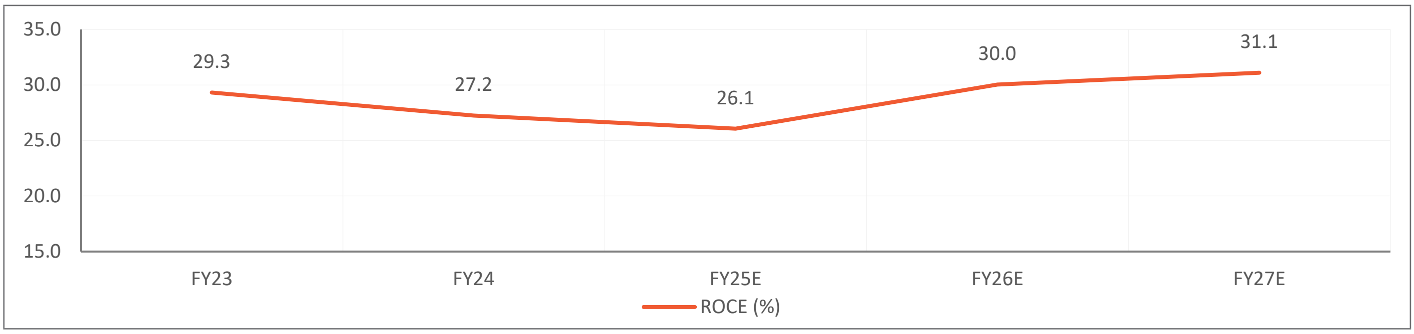
Source: Company; Sharekhan Research

RoE



Source: Company; Sharekhan Research

RoCE



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Macro headwinds bottoming out coupled with better earnings visibility.

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well driven by receding headwinds and better earnings visibility.

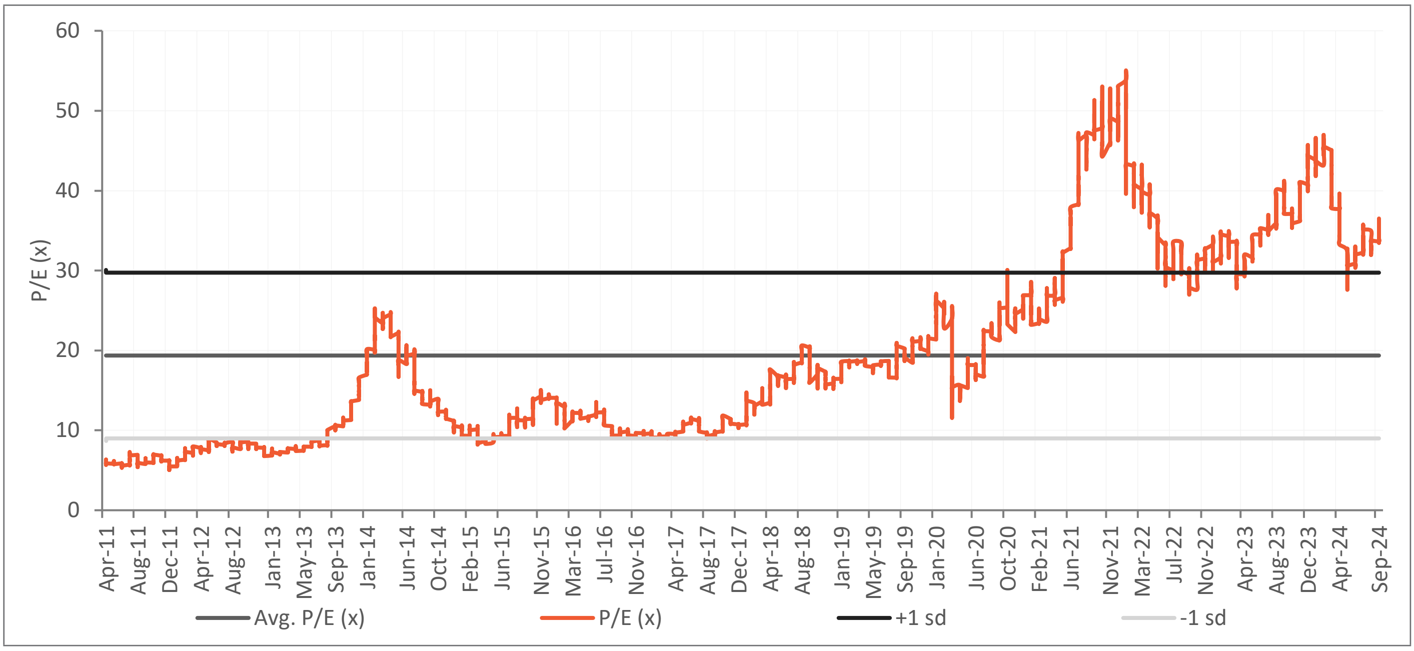
■ Company Outlook – Well-prepared for next leg of growth

Coforge has successfully transformed and re-organised itself into one of the fastest-growing mid-sized IT services provider under a revamped management in the past few years. Strong leadership, deep domain capability in select verticals, improved capability and marquee client base would help the company to sustain growth momentum. Further, strategic focus on diversifying the business into emerging verticals, improvement in client metrics, strong executable orders and sharp recovery in travel segment would further aid growth. Strong growth, better digital mix and operating efficiencies should drive margin expansion in the next two years.

■ Valuation – Upgrade to Buy with revised PT of Rs. 8,480

Coforge's organic business continues to be on strong footing after delivering top quartile revenue growth in FY24. While moderation in fresh order intake and high base of FY24 is likely to moderate the growth, we believe the organic business is robust and is likely to regain its strong growth trajectory post FY25 aided by recovery in key verticals especially BFS, ramp up of deal wins and recovery of pent-up demand triggered by better macro environment. We expect Sales/PAT CAGR of 14%/24% over FY24-27E. We believe clarity on disruption from Gen AI on Cigniti's testing business post transition to be vital in determining the course of revenue and margin trajectory trend. We have introduced FY27 estimates and rolled forward to Sep26E EPS. We upgrade Coforge to Buy with revised PT of Rs 8,480 (valued at 40x Sep26E EPS). At CMP, the stock trades at 48.2/36.5/30.2x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Established in 1981, Coforge is one of the leading mid-sized Indian IT services company, engaged in providing services in cloud, managed services, data & analytics, automation, application development & maintenance and Business Process Management. The company focuses on three key industries such as insurance, travel, transportation & hospitality and BFS. The company has started focusing on other industries such as manufacturing, healthcare, hi-tech, public sector to capture the opportunity. Digital technologies revenue, including product engineering, intelligent automation, data, integration and cloud, stood around 71% of total revenue. Coforge has over 22,000 professionals serving customers in North America, Europe, Asia and Australia.

Investment theme

Coforge's deep-domain expertise in select industry verticals and sub-verticals with heavy investments on technology, proprietary products and resources position it to participate in customers' transformation journey. Further, the company has reinvested its excess profitability in enhancing the technical capabilities by adding management/sales bandwidth. The company has also started scaling up the sub-segments such as healthcare within other verticals to drive its growth. We believe the company's differentiated positioning in select verticals, strong leadership, robust executable orders and mining of strategic accounts would position the company to deliver strong revenue growth going ahead.

Key Risks

- Rupee appreciation and/or adverse cross-currency movements
- Contagion effect of banking crisis, macro headwinds and possible recession in the US can moderate the pace of technology spends.

Additional Data

Key management personnel

Sudhir Singh	Chief Executive Officer & ED
Saurabh Goel	Chief Financial Officer
Madan Mohan	EVP & Global Head - TTH
Gautam Samanta	EVP & Global Head - BFS
Rajeev Batra	EVP & Global Head - Insurance

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	7.67
2	Axis Asset Management Co Ltd/India	5.95
3	Life Insurance Corp of India	5.88
4	HDFC Asset Management Co Ltd	5.82
5	Motilal Oswal Asset Management Co	5.18
6	DSP Investment Managers Pvt Ltd	4.20
7	SBI Funds Management Ltd	3.75
8	Vanguard Group Inc/The	3.69
9	UTI Asset Management Co Ltd	2.96
10	New World Fund Inc	2.81

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

DISCLAIMER

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.