

Stellar revenue growth; another quarter of profit miss

Information Technology ▶ Result Update ▶ January 24, 2025

TARGET PRICE (Rs): 8,600

Coforge reported strong topline growth of 8.4% QoQ (CC), well ahead of our estimate of 4.7%. Growth was healthy across most horizontals, verticals, and geographies. Adjusted EBITDAM expanded by 130bps QoQ to 17.8% despite the impact of furloughs, while reported EBITM of 11.8% was slightly short of our estimate. Deal wins were steady at USD501mn, with the next 12M executable order book at USD1.4bn, up ~40% YoY. The management has highlighted that synergies with Cigniti have been better than their initial expectations, and Cigniti's adjusted EBITDAM has already reached 17.3%, up by more than 600bps since the merger. There has been a definite yet gradual improvement in the demand environment across all sectors which, coupled with the strong executable order book and robust pipeline, should support growth momentum in FY26. We tweak FY27-27E EPS by -3% to 2%, factoring in the Q3 performance and higher ETR. Valuations remain rich; we maintain REDUCE with an unchanged TP of Rs8,600 at 36x Dec-26E EPS.

Coforge: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	123,236	153,533	180,612
EBITDA	12,807	14,277	19,963	25,375	30,514
Adj. PAT	7,314	8,080	9,821	13,387	16,945
Adj. EPS (Rs)	119.7	130.7	146.9	200.2	253.4
EBITDA margin (%)	16.0	15.6	16.2	16.5	16.9
EBITDA growth (%)	16.2	11.5	39.8	27.1	20.3
Adj. EPS growth (%)	10.2	9.2	12.4	36.3	26.6
RoE (%)	25.7	24.1	20.0	20.2	22.4
RoIC (%)	31.1	30.1	23.3	21.8	25.9
P/E (x)	76.8	70.4	62.6	45.9	36.3
EV/EBITDA (x)	43.7	39.9	30.7	23.9	19.5
P/B (x)	18.2	15.7	9.9	8.7	7.6
FCFF yield (%)	1.4	1.1	(2.4)	2.1	2.8

Source: Company, Emkay Research

Results Summary

Revenue grew 7.5% QoQ (8.4% CC) to USD397.1mn, well above our estimate of USD384mn. Revenue growth was led by Travel (7.5% QoQ), Insurance (5.8%), and BFS (0.6%), whereas the Government vertical outside India declined 2.4% QoQ. Growth was broad-based across the service verticals of Cloud (19.4% QoQ), Engineering (6.2%), BPM (0.9%), Data (3.8%), and Intelligent Automation (5.1%). Adjusted EBITDAM (excluding ESOP costs) expanded by 130bps QoQ to 17.8%, in line with our estimate. Margins improved despite the 50bps impact of furloughs. Adjusted net profit (for one-off items) inched up 0.2% to Rs2.3bn, lower than our estimate. Q3FY25 deal intake was USD510mn, which included 4 large deals (1 with Cigniti client). Executable order book for NTM was USD1.37bn, up 40.1% YoY. Headcount grew 1.9% QoQ to 33,094. LTM attrition inched up to 11.9% from 11.7% in Q2FY25. The company has declared an interim dividend of Rs19/share. **What we liked:** Strong revenue beat, deal intake, and NTL order book growth. **What we did not like:** Reported margin miss and profit miss.

Earnings Call KTAs

1) The management is seeing a definite albeit gradual increase in demand across all verticals. The travel vertical remains resilient despite inflationary pressure, with demand from airlines, airports (transforming themselves), and travel platform players focused on legacy modernization. In BFS, demand is visible across multiple micro areas, particularly operational resilience and regulatory compliance. 2) The company signed 4 large deals in Q3 – a deal with an asset and wealth management client for setting up a specialized GCC; a deal with a close partner of Nvidia to scale up data center operations; a deal with Cigniti's current leading airline client for AI-driven testing; a renewal deal with an insurance client in North America. 3) The management remains confident about delivering robust and sustained growth in FY26. It has indicated three key growth levers: i) maturing of partnerships with increase in scale (ServiceNow and Microsoft), ii) capabilities from investments in Quasar AI platform framework, iii) deep functional knowledge in hyperscaler partnership and AI-infused environment. 4) The new ESOP grants impacted margins by ~210bps in Q3. The management expects this cost to come down marginally over the next 2 quarters (~20-25bps each quarter due to vesting of the 2019 ESOP scheme) and to further taper to 100bps by Q3FY26. 5) Cross-selling synergies are expected to kick in from Q4/Q1. 6) ETR is expected to be ~25%. 7) Cigniti merger process will take ~12 months, and the effective date of the merger would be 1-Apr-25.

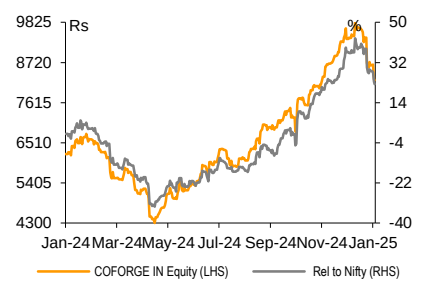
Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(6.5)
CMP (23-Jan-25) (Rs)	9,196.5

Stock Data	Ticker
52-week High (Rs)	10,027
52-week Low (Rs)	4,287
Shares outstanding (mn)	66.9
Market-cap (Rs bn)	615
Market-cap (USD mn)	7,111
Net-debt, FY25E (Rs mn)	-1,404
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	4,267.0
ADTV-3M (USD mn)	49.3
Free float (%)	59.0
Nifty-50	23,205
INR/USD	86.5
Shareholding, Dec-24	
Promoters (%)	-
FPIs/MFs (%)	42.6/47.9

Price Performance

(%)	1M	3M	12M
Absolute	(2.2)	21.7	48.3
Rel. to Nifty	0.1	28.1	35.7

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Revenue (USD mn)	397.1	369.4	7.5	282.0	40.8
Revenue	33,182	30,623	8.4	23,233	42.8
Operating expenses	27,992	25,782		19,221	
EBITDA	5,190	4,841	7.2	4,012	29.4
Margins (%)	15.6	15.8	(20)	17.3	(160)
Depreciation	1,268	1,243		811	
EBIT	3,922	3,598	9.0	3,201	22.5
Margins (%)	11.8	11.7	10	13.8	(200)
Other income	-489	-463		-257	
Pre-tax profit	3,433	3,135	9.5	2,944	16.6
Tax provided	874	799		516	
Minority Interest	404	314		48	
Profit after tax	2,155	2,022		2,380	
Emkay Net profit	2,317	2,312	0.2	2,380	-2.7
EPS (Rs)	34.7	34.7	0.0	38.5	-10.1

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net revenues (USD mn)	397	384	383	3.4%	3.7%	Revenue growth was better than estimates.
Sales	33,182	32,484	32,360	2.1%	2.5%	
EBIT	3,922	3,936	3,980	-0.4%	-1.5%	EBITM was a tad below estimates.
EBIT margin	11.8%	12.1%	12.3%	-30 bps	-50 bps	
Adj PAT	2,317	2,583	2,704	-10.3%	-14.3%	Reported PAT missed expectations due to operating performance miss, lower other income, and higher ETR.

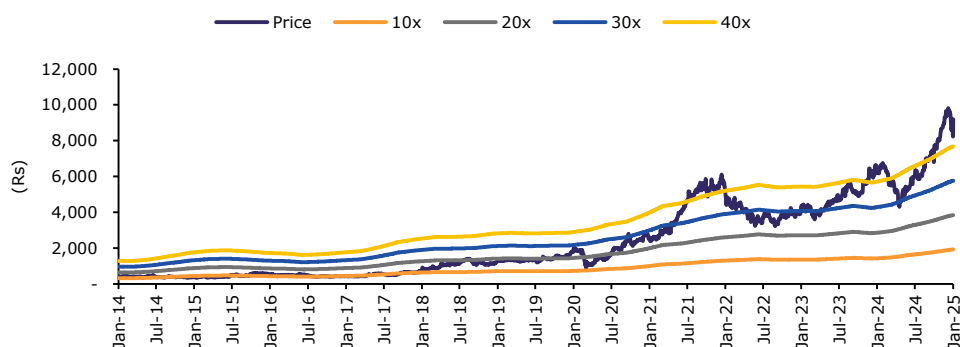
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	1,444	1,470	1.8%	1,732	1,796	3.7%	1,993	2,076	4.2%
YoY growth	29.0%	31.4%		20.0%	22.2%		15.1%	15.6%	
Revenue	121,209	123,236	1.7%	148,101	153,533	3.7%	173,382	180,612	4.2%
EBIT	15,144	15,356	1.4%	19,231	19,906	3.5%	23,286	24,335	4.5%
EBIT margin (%)	12.5	12.5		13.0	13.0		13.4	13.5	
Net Profit	8,881	8,416	-5.2%	13,497	13,387	-0.8%	16,602	16,945	2.1%
Adj EPS (Rs)	151.8	146.9	-3.2%	202.4	200.2	-1.1%	248.9	253.4	1.8%

Source: Company, Emkay Research

Exhibit 4: Coforge – One-year forward PER



Source: Company, Emkay Research

Coforge: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	123,236	153,533	180,612
Revenue growth (%)	24.6	14.5	34.3	24.6	17.6
EBITDA	12,807	14,277	19,963	25,375	30,514
EBITDA growth (%)	16.2	11.5	39.8	27.1	20.3
Depreciation & Amortization	2,585	3,186	4,607	5,469	6,179
EBIT	10,222	11,091	15,356	19,906	24,335
EBIT growth (%)	16.9	8.5	38.5	29.6	22.2
Other operating income	0	0	0	0	0
Other income	619	614	317	482	1,024
Financial expense	806	1,256	1,304	421	495
PBT	10,035	10,449	14,369	19,967	24,864
Extraordinary items	(670)	0	(1,405)	0	0
Taxes	2,061	2,093	3,414	4,992	6,216
Minority interest	(513)	(276)	(1,134)	(1,588)	(1,703)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,791	8,080	8,416	13,387	16,945
PAT growth (%)	2.6	19.0	4.2	59.1	26.6
Adjusted PAT	7,314	8,080	9,821	13,387	16,945
Diluted EPS (Rs)	119.7	130.7	146.9	200.2	253.4
Diluted EPS growth (%)	10.2	9.2	12.4	36.3	26.6
DPS (Rs)	57.9	75.5	75.9	76.0	92.0
Dividend payout (%)	48.4	57.7	51.7	38.0	36.3
EBITDA margin (%)	16.0	15.6	16.2	16.5	16.9
EBIT margin (%)	12.8	12.1	12.5	13.0	13.5
Effective tax rate (%)	22.0	20.0	23.8	25.0	25.0
NOPLAT (pre-IndAS)	7,972	8,869	11,707	14,929	18,251
Shares outstanding (mn)	61.1	61.8	66.9	66.9	66.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	10,035	10,449	14,369	19,967	24,864
Others (non-cash items)	3,150	5,046	3,202	5,469	6,179
Taxes paid	(2,800)	(3,661)	(3,414)	(4,992)	(6,216)
Change in NWC	(1,027)	(2,800)	(2,404)	(4,265)	(3,409)
Operating cash flow	9,505	9,034	11,752	16,180	21,418
Capital expenditure	(1,537)	(2,598)	(26,485)	(3,570)	(4,070)
Acquisition of business	(1,222)	0	(176)	0	0
Interest & dividend income	43	120	0	0	0
Investing cash flow	(2,716)	(2,478)	(26,661)	(3,570)	(4,070)
Equity raised/(repaid)	18	7	22,402	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)	(5,075)	(5,081)	(6,151)
Others	0	0	0	0	0
Financing cash flow	(5,582)	(8,870)	16,461	(8,581)	(6,151)
Net chg in Cash	1,207	(2,314)	1,552	4,029	11,197
OCF	9,505	9,034	11,752	16,180	21,418
Adj. OCF (w/o NWC chg.)	10,532	11,834	14,157	20,445	24,827
FCFF	7,968	6,436	(14,732)	12,610	17,348
FCFE	7,205	5,300	(16,036)	12,189	16,853
OCF/EBITDA (%)	74.2	63.3	58.9	63.8	70.2
FCFE/PAT (%)	106.1	65.6	(190.6)	91.1	99.5
FCFF/NOPLAT (%)	99.9	72.6	(125.8)	84.5	95.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	611	618	669	669	669
Reserves & Surplus	30,214	35,648	61,340	69,646	80,439
Net worth	30,825	36,266	62,008	70,314	81,108
Minority interests	874	1,003	12,137	13,726	15,429
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	72,529	78,923	91,420
Net tangible fixed assets	4,751	4,760	4,767	4,611	4,446
Net intangible assets	4,634	4,395	10,454	8,531	6,737
Net ROU assets	2,069	2,637	3,125	3,305	3,155
Capital WIP	46	232	232	232	232
Goodwill	11,665	11,738	37,062	37,062	37,062
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	5,787	3,352	4,904	8,933	20,130
Current assets (ex-cash)	24,125	28,380	37,720	47,396	55,742
Current Liab. & Prov.	21,170	18,976	25,736	31,147	36,084
NWC (ex-cash)	2,955	9,404	11,984	16,249	19,658
Total assets	31,907	36,518	72,529	78,923	91,420
Net debt	(2,405)	1,014	(1,404)	(8,933)	(20,130)
Capital employed	31,907	36,518	72,529	78,923	91,420
Invested capital	26,074	32,934	67,392	69,758	71,058
BVPS (Rs)	504.6	586.6	927.4	1,051.7	1,213.1
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.2)	0.1	(0.1)	(0.4)	(0.7)
Interest coverage (x)	0.1	0.1	0.1	0.0	0.0
RoCE (%)	35.1	34.2	28.7	26.9	29.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	76.8	70.4	62.6	45.9	36.3
P/CE(x)	55.9	50.5	42.6	32.6	26.6
P/B (x)	18.2	15.7	9.9	8.7	7.6
EV/Sales (x)	7.0	6.2	5.0	3.9	3.3
EV/EBITDA (x)	43.7	39.9	30.7	23.9	19.5
EV/EBIT(x)	55.0	51.3	40.0	30.9	25.3
EV/IC (x)	21.5	17.3	9.1	8.8	8.7
FCFF yield (%)	1.4	1.1	(2.4)	2.1	2.8
FCFE yield (%)	1.3	0.9	(2.6)	2.0	2.7
Dividend yield (%)	0.6	0.8	0.8	0.8	1.0
DuPont-RoE split					
Net profit margin (%)	9.3	8.8	8.0	8.7	9.4
Total asset turnover (x)	2.6	2.7	2.3	2.0	2.1
Assets/Equity (x)	1.1	1.0	1.1	1.1	1.1
RoE (%)	25.7	24.1	20.0	20.2	22.4
DuPont-RoIC					
NOPLAT margin (%)	9.9	9.7	9.5	9.7	10.1
IC turnover (x)	3.1	3.1	2.5	2.2	2.6
RoIC (%)	31.1	30.1	23.3	21.8	25.9
Operating metrics					
Core NWC days	13.5	37.4	35.5	38.6	39.7
Total NWC days	13.5	37.4	35.5	38.6	39.7
Fixed asset turnover	2.7	2.8	2.3	2.1	2.4
Opex-to-revenue (%)	83.3	84.3	83.8	83.5	83.1

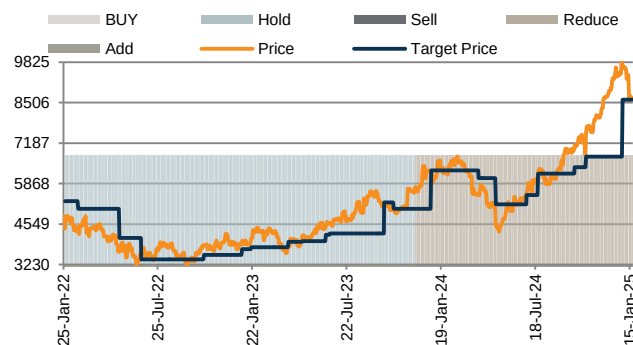
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jan-25	9,629	8,600	Reduce	Dipeshkumar Mehta
29-Dec-24	9,451	6,750	Reduce	Dipeshkumar Mehta
23-Oct-24	7,558	6,750	Reduce	Dipeshkumar Mehta
01-Oct-24	7,126	6,400	Reduce	Dipeshkumar Mehta
23-Jul-24	6,179	6,200	Reduce	Dipeshkumar Mehta
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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