

## Coforge Limited

March 06, 2025 | CMP: INR 7,811 | Target Price: INR 11,260

Expected Share Price Return: 44.1% | Dividend Yield: 1.0% | Expected Total Return: 45.1%

BUY

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✓

Company Info	
BB Code	COFORGE IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	10,017/4,291
Mkt Cap (Bn)	INR 526.3/ \$6.0
Shares o/s (Mn)	66.8
3M Avg. Daily Volume	4,89,818

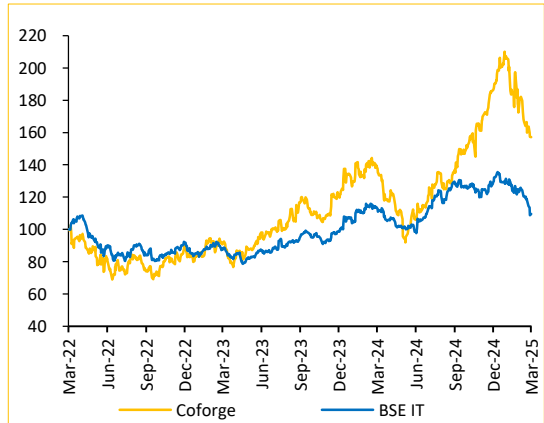
Change in CEBPL Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenues	158.4	143.0	10.7	188.8	166.3	13.5
GPM (%)	33.3	33.6	(31) Bps	33.9	33.6	26 bps
EBIT	21.2	20.8	2.0	27.4	25.5	7.3
EBITM %	13.4	14.5	(115) bps	14.5	15.3	(84) bps
EPS	225.0	222.7	1.0	281.5	264.0	6.6

Actual vs Consensus			
INR Bn	Q3FY25A	Consensus	Dev. %
Revenue	33.1	31.4	5.4
EBIT	3.9	3.8	2.6
EBITM %	11.8	12.1	30bps
PAT	2.1	2.6	(19.2)

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80.1	91.8	122.0	158.4	188.8
YoY (%)	24.6	14.5	32.9	29.8	19.2
EBIT	11.5	11.9	15.0	21.2	27.4
EBITM %	14.3	12.9	12.3	13.4	14.5
Adj PAT	6.9	8.1	8.5	15.1	18.8
EPS	113.8	131.6	128.7	225.0	281.5
ROE %	22.5	22.3	20.8	30.6	31.6
ROCE %	17.4	16.5	17.6	22.9	24.7
PE(x)	69.9	60.4	61.8	35.3	28.2

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	0.00	0.00	0.00
FIIIs	42.55	42.09	41.43
DIIIs	47.86	48.15	47.29
Public	9.58	9.75	11.28

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE IT	9.5	25.0	-3.6
Coforge	57.1	72.7	13.0



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## Assessing Q3 Results in Light of Recent Acquisitions &amp; Deal Wins

**Fresh order intake and \$1.56Bn Sabre collaboration to propel revenue towards \$2Bn milestone:** Coforge has secured its largest deal, a 13-year, \$1.56Bn partnership with Sabre, potentially boosting its revenue by \$100-\$120Mn annually along with on-going revenue growth, which is projected to add approximately 8-10% to the current revenue levels. This agreement makes Coforge a key player in Sabre's efforts to enhance product delivery and implement AI-driven solutions. In addition to this, Coforge demonstrated strong momentum in Q3FY25 with a fresh order intake of \$501Mn, including four major deals across North America and ASEAN, one within the Cigniti client portfolio. Management remains optimistic about future deal wins, citing a substantial deal pipeline. Considering this, we anticipate that Coforge medium-term revenue guidance of hitting \$2Bn mark remains on track and expected to achieve sooner this makes Coforge a serious contender against Tier – I companies to grab mega deals.

**Acquisition of Rythmos Inc. and TMLabs Pty Ltd to boost cloud and ServiceNow expertise:** Coforge is expanding its portfolio through the acquisition of two IT/ITeS companies: Rythmos Inc. and TMLabs Pty Ltd. Coforge will acquire 100% stakes in both firms. Rythmos, operating in the US and India, will be acquired for \$30Mn upfront, with an additional \$18.7Mn possible based on specific performance conditions. Rythmos is expected to generate \$ 25.3Mn in turnover for the year 2024 and maintain a similar growth trajectory. With a favorable valuation of 1.9x of its revenue, this acquisition will enhance Coforge's data, cloud, and airline industry expertise. TMLabs, based in Australia, will be acquired for \$20Mn to boost Coforge's ServiceNow capabilities, generating a turnover of \$ 11Mn for the FY ending June2024. TMLabs has demonstrated strong growth, with 25% CAGR from FY22 to FY24 and is expected to contribute at similar lines going forward. Both deals are expected to close by Q4FY25.

**Q3FY25 Performance:** Coforge's Q3FY25 revenue exceeded estimates, while EBIT met expectations, but PAT missed expectations. Revenue was INR 33.1Bn, up 42.8% YoY and 8.4% QoQ, surpassing the INR 31.4Bn consensus estimates. EBIT stood at INR 3.9Bn, up 22.5% YoY and 9.0% QoQ, in line with expectations. However, the EBIT margin declined by 196bps YoY but rose by 7bps QoQ to 11.8%, slightly below the 12.1% consensus estimates. PAT was INR 2.1Bn, down 9.5% YoY but up 6.6% QoQ, missing the INR 2.6Bn consensus estimates.

**View and valuation:** With recent acquisitions and significant deal wins, the company remains focused on driving strong growth across its various business segments, both in the short and long term. We project Revenue/EBIT/PAT to grow at a CAGR of 24.4%/ 35.1%/ 48.6% respectively over FY25E-FY27E. As a result, we upgrade our rating to BUY to arrive at a revised target price of INR11,260 implying a P/E of 40 on FY27E EPS of INR281.5.

Coforge Ltd.	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)
Revenues (\$ Mn)	397	282	40.8	369	7.5
Revenues (INR Mn)	33,182	23,233	42.8	30,623	8.4
Employee Cost	22,166	15,543	42.6	20,701	7.1
Gross Profit (INR Mn)	11,016	7,690	43.3	9,922	11.0
Gross Margin (%)	33.2	33.1	10 bps	32.4	80 bps
Other costs	5,826	3,612	61.3	5,081	14.7
Depreciation	1,268	811	56.4	1,243	2.0
EBIT (INR Mn)	3,922	3,201	22.5	3,598	9.0
EBIT Margin (%)	11.8	13.8	(196) bps	11.7	7 bps
Other income (net)	-489	-257	90.3	-173	182.7
PBT	3,433	2,944	16.6	3,135	9.5
Tax	874	516	69.4	799	9.4
Adj. PAT (INR Mn)	2,155	2,380	(9.5)	2,022	6.6
Basic EPS (INR)	32.3	38.6	(16.4)	30.3	6.4

Source: Company, CEBPL

## Management Call - Highlights

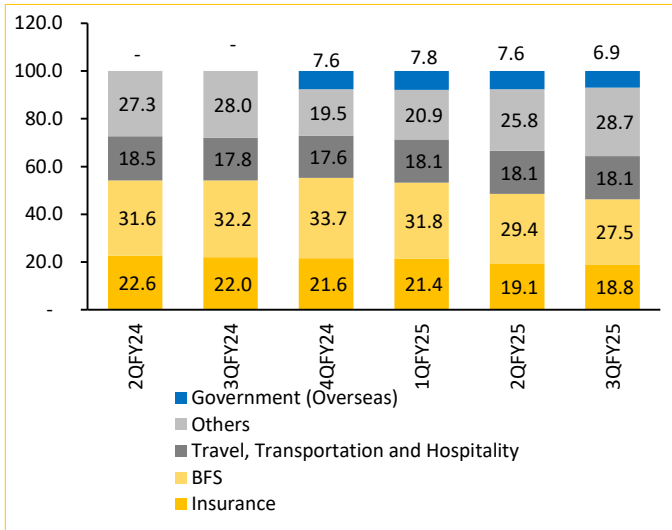
- In Q3FY25, Americas led geographical growth at 9.2% QoQ, contributing 56% to revenue. Among verticals, Travel grew strongly at 43.4% YoY, with BFSI being the largest. Cigniti grew 3.5% CC QoQ.
- Q3FY25 EBIT margin was 11.8%, and further margin expansion is expected, driven by strong Cigniti performance and reduced ESOP costs. The EBIT margin is projected to reach 13.5% by Q3FY26.
- The company's global headcount reached 33,094, with a net addition of 611 employees in the quarter.
- Utilization stood at 81.3%, with a target of 83-84% for lateral hires.
- Coforge's IT services attrition rate was 11.9% in Q3 FY25, among the lowest in the industry. The company's global headcount grew to 33,094, with a net addition of 611 employees, reflecting a 16% organic increase.
- Operating cash flow (OCF) for Q3FY25 stood at \$47Mn against \$33.5Mn in Q3FY24. Q3FY25 YTD basis OCF stood at \$86.5Mn as compared to \$33Mn last year.
- DSO for the Q3FY25 stood at 60 days as compared to 64 days from Q2FY24, showing an improvement.
- As of Q3 FY25, the strong executable order book stands at \$1,365Mn, reflecting a 40.1% YoY growth, and is projected to remain robust for the next 12 months.
- The company's evolving partnerships with Microsoft and ServiceNow, investments in QuasarAI, and functional expertise are expected to drive continued growth.
- Repeat business accounted for 94.5%, and demand is improving across sectors.

## Sequential Operating Performance

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Income Statement</b>						
Revenues (INR Mn)	22,762	23,233	23,585	24,008	30,623	33,182
Gross Profit (INR Mn)	7,388	7,690	8,042	7,911	9,922	11,016
Gross Margin (%)	32.5	33.1	34.1	33.0	32.4	33.2
EBIT (INR Mn)	2,701	3,201	3,405	3,272	3,598	3,922
EBIT Margin (%)	11.9	13.8	14.4	13.6	11.7	11.8
PAT (INR Mn)	1,809	2,380	2,238	1,332	2,022	2,155
Basic EPS (INR)	29.6	38.6	36.2	20.9	30.3	32.3
<b>Operating Metrics</b>						
<b>Revenue - Geography (%)</b>						
North America	49.4	46.6	47.7	49.9	55.1	56.0
EMEA	38.8	40.0	40.1	38.7	33.8	34.2
Rest of the world	11.8	13.4	12.2	11.4	11.1	9.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue - Verticals (%)</b>						
Insurance	22.6	22.0	21.6	21.4	19.1	18.8
BFS	31.6	32.2	33.7	31.8	29.4	27.5
Travel, Transportation and Hospitality	18.5	17.8	17.6	18.1	18.1	18.1
Government (Overseas)	-	-	7.6	7.8	7.6	6.9
Others	27.3	28.0	19.5	20.9	25.8	28.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue - Service Category (%)</b>						
Product Engineering	8.9	7.8	35.1	32.1	42.4	41.9
Intelligent Automation	12.1	11.3	11.2	11.7	9.1	8.9
Data and Integration	24.5	25.7	25.2	27.4	23.2	22.4
Cloud and Infrastructure Management	18.5	18.9	19.1	19.2	17.2	19.1
Application Development and Maintenance	26.6	27.1	0.0	0.0	0.0	0.0
Business Process Management	9.5	9.2	9.4	9.4	8.1	7.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue - Delivery Mix (%)</b>						
Onsite	48.0	47.8	47.5	48.0	46.2	46.9
Offshore	52.0	52.2	52.5	52.0	53.8	53.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue - Project Type (%)</b>						
Fixed Price	49.3	51.0	51.5	50.4	42.5	45.4
Time & Materials	50.7	49.0	48.5	49.6	57.5	54.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Fresh Order Intake (\$ Mn)	313	354	774	314	516	501
USA	37.7	31.1	81.0	40.1	47.5	58.7
EMEA	44.1	48.6	13.2	30.6	35.7	18.6
Rest of the world	18.2	20.3	5.9	29.3	16.7	22.8
Executable Order Book over Next 12 Months (\$ Mn)	935	974	1,019	1,070	1,305	1,365
Repeat Business (%)	95	94	93	97	96	95
<b>Employee Metrics</b>						
Total Headcount	24,638	24,607	24,726	26,612	32,483	33,094
Utilization (%)	80.0	79.4	81.7	81.6	82.2	81.3
Attrition Rate LTM (%)	13.0	12.1	11.5	11.4	11.7	11.9

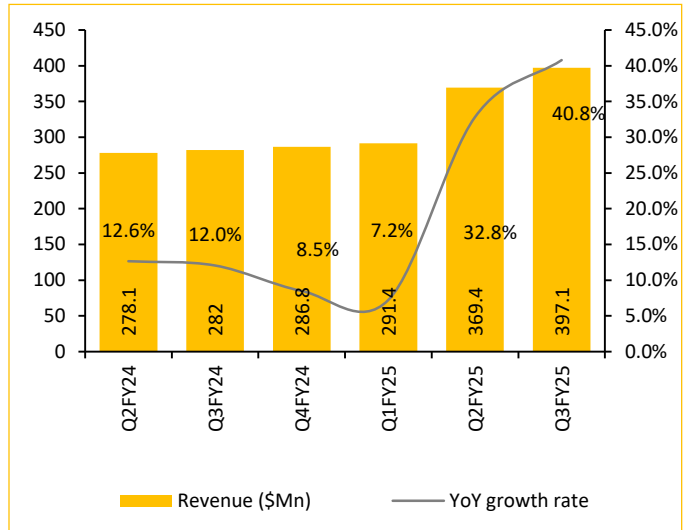
Source: Company, CEBPL

Insurance & BFS vertical remain under pressure



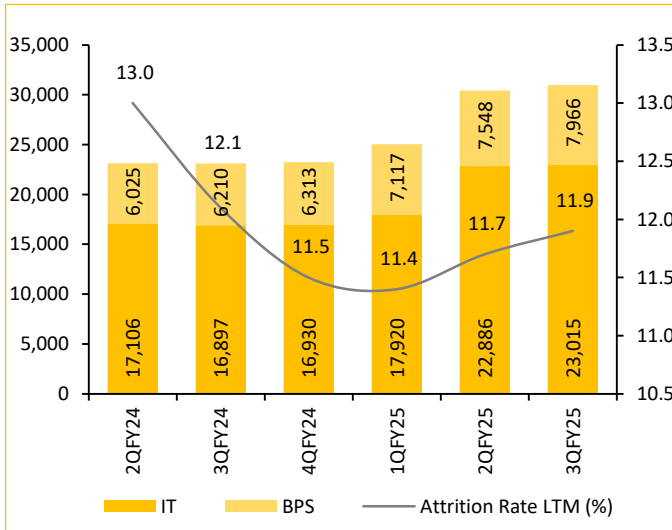
Source: Company, CEBPL

Exceptional revenue growth (after merging Cigniti)



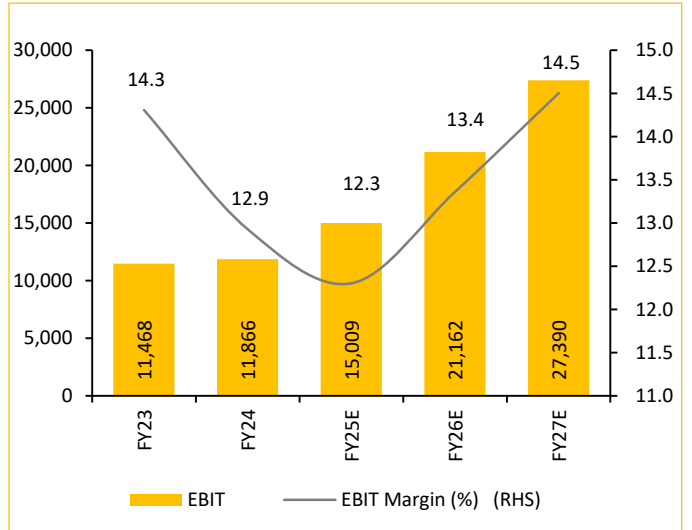
Source: Company, CEBPL

Positive net addition; Attrition remains flat



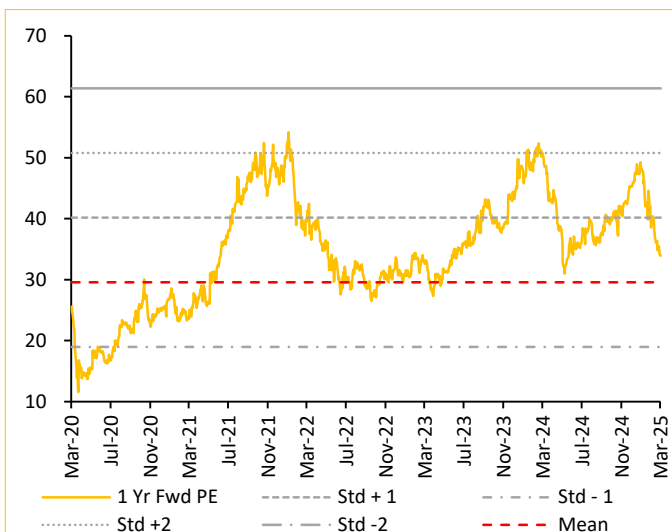
Source: Company, CEBPL

Improving EBIT margins



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

## Income Statement

Income Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	1,22,011	1,58,382	1,88,827
Gross Profit	26,087	29,930	40,203	52,689	64,023
EBITDA	14,649	16,205	21,292	28,615	35,321
Depreciation	2,585	3,186	4,591	5,702	6,609
EBIT	11,468	11,866	15,009	21,162	27,390
Other income (net)	(630)	(1,156)	(1,276)	(1,862)	(1,944)
Exceptional Item	1,326	261	1,243	-	-
PAT	6,938	8,080	8,531	15,054	18,831
EPS (Rs)	113.8	131.6	128.7	225.0	281.5

Source: Company, CEBPL

## Balance Sheet

Balance Sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Fixed Assets	6,866	7,629	9,284	12,023	14,990
Goodwill & Intangible assets	16,299	16,133	18,069	22,044	26,894
Cash & Cash equivalents	5,787	3,352	5,051	4,570	3,240
Receivables	17,903	19,503	21,843	24,465	27,400
Other Assets	6,222	8,877	9,942	11,135	12,472
Deferred Tax Assets	3,757	5,583	5,821	6,301	6,209
Total Assets	56,834	61,077	70,010	80,537	91,206
Net Worth	30,825	36,266	40,958	49,238	59,595
Bank Borrowings	3,382	4,366	3,929	3,536	3,183
Non Controlling Interest	874	1,003	937	937	937
Deferred Tax Liability	583	466	489	514	539
Other Liabilities	13,469	16,348	21,069	23,684	25,486
Future Acquisition Liability	7,701	2,628	2,628	2,628	1,466
Total Equity & Liabilities	56,834	61,077	70,010	80,537	91,206

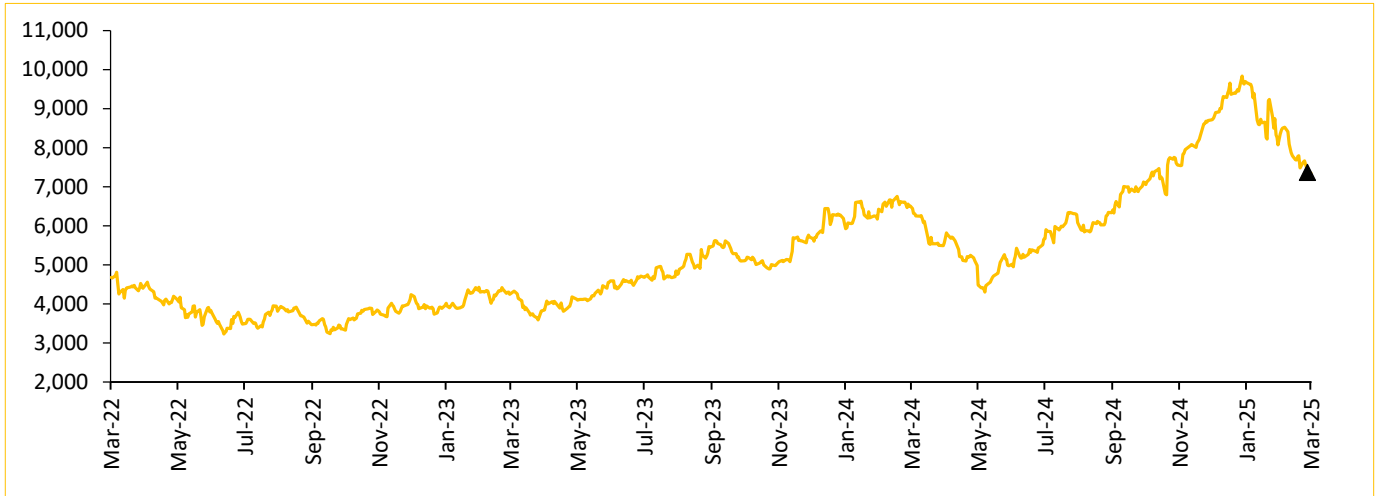
Source: Company, CEBPL

Cash Flows (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	9,505	9,034	7,327	15,844	20,358
Cash flows from Investing	(2,716)	(2,478)	(5,094)	(7,448)	(6,340)
Cash flows from financing	(5,582)	(8,870)	(4,304)	(6,774)	(8,474)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenues	24.6	14.5	32.9	29.8	19.2
Gross Profit	26.7	14.7	34.3	31.1	21.5
EBITDA	21.5	10.6	31.4	34.4	23.4
EBIT	29.1	3.5	26.5	41.0	29.4
<b>Margin Ratios (%)</b>					
Gross Profit Margin	32.5	32.6	33.0	33.3	33.9
EBITDA Margin	18.3	17.7	17.5	18.1	18.7
EBIT Margin	14.3	12.9	12.3	13.4	14.5
<b>Profitability (%)</b>					
Return on equity	22.5	22.3	20.8	30.6	31.6
Return on invested capital	17.9	16.6	17.4	22.2	23.5
Return on capital employed	17.4	16.5	17.6	22.9	24.7
<b>Valuation</b>					
OCF / Net profit (%)	137.0	111.8	85.9	105.2	108.1
Book Value per share (x)	524.9	614.8	672.1	786.2	930.7
Free Cash flow Yield (%)	6.6	7.0	8.2	8.2	8.2

Source: Company, CEBPL

## Historical Price Chart: Coforge Limited



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BUY	The security is expected to generate upside of 15% or more over the next 12 months
HOLD	The security is expected to show upside or downside returns by 14% to -5% over the next 12 months
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