

Strong revenue growth; one-off items led to profit miss

Information Technology ▶ Result Update ▶ **October 23, 2024**

TARGET PRICE (Rs): 6,750

Coforge reported strong revenue performance in Q2, whereas margin was a slight miss. Revenue grew 26.8% QoQ to USD369.4mn (26.3% CC; organic CC 5.5%). Adj. EBITDAM fell by 140bps to 16.5%, a slight miss. Revenue growth was broad-based, led by Insurance (8.9% QoQ), Travel (6.2%), Government vertical outside India (6.7%), and BFS (5.2%). Management highlighted that Cigniti's revenue growth, margins, and synergy benefits progress were ahead of expectations; it upped EBITDAM guidance for Cigniti to ~18% by Q4 from 16.5% earlier. Management is confident of sustaining growth momentum on the back of broad-based growth, healthy NTM executable order book (up 40% YoY), and strong headcount addition (organic 5.4% QoQ); it also retained 50bps expansion in adj. EBITDAM in FY25. Management remain confident of achieving USD2bn revenue target by FY27 with better profitability. We tweak FY25-27E adj. EPS -1.7% to 6.4%, factoring in Q2 performance and higher growth assumptions. Retain REDUCE with TP of Rs6,750 at 30x Sept-26E EPS.

Coforge: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,146	91,790	120,963	148,322	172,597
EBITDA	12,807	14,277	19,710	24,737	29,332
Adj. PAT	7,314	8,080	10,108	13,482	16,381
Adj. EPS (Rs)	119.7	130.7	151.6	202.1	245.6
EBITDA margin (%)	16.0	15.6	16.3	16.7	17.0
EBITDA growth (%)	16.2	11.5	38.1	25.5	18.6
Adj. EPS growth (%)	10.2	9.2	16.0	33.4	21.5
RoE (%)	25.7	24.1	20.5	20.5	22.3
RoIC (%)	31.1	30.1	23.3	21.8	25.6
P/E (x)	63.1	57.8	49.9	37.4	30.8
EV/EBITDA (x)	35.9	32.8	25.5	20.0	16.6
P/B (x)	15.0	12.9	8.1	7.3	6.5
FCFF yield (%)	1.7	1.4	(2.8)	2.6	3.4

Source: Company, Emkay Research

Results Summary

Revenue grew 26.8% QoQ to USD369.4mn (26.3% CC), well above our expectations. Organic revenue growth was 6.3% (CC 5.5%) and Cigniti revenue grew 6.1%. Adj. EBITDAM (excluding ESOP costs and one-off costs) declined by ~140bps QoQ to 16.5%, a tad below our estimates. Margins were impacted by wage hike. Adj. net profit (adj. for one-off expenses) grew 1.2% QoQ to Rs2.3bn. Revenue growth was broad-based, led by Insurance (8.9% QoQ), Travel (6.2%), Government vertical outside India (6.7%), and BFS (5.2%). Total TCV of fresh-order intake was USD516mn (organic USD448mn). Executable order book over NTM is USD1,305mn (up 40% YoY; organic 18%). The quarter saw 13 new client additions. Headcount grew ~22% QoQ (5.4% organic) to 32,483. The company declared an interim dividend of Rs19 per share. **What we liked:** Broad-based growth, deal intake and NTL order book growth, headcount addition. **What we did not like:** Margin miss, reported profit miss.

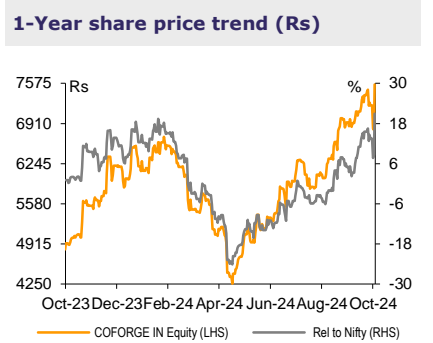
Earnings Call KTAs

i) Q2 performance exceeded the management's expectations and reflects on 3 key assertions it made at the start of FY24 – a) potential of Cigniti acquisition, b) strong organic growth, c) first to call definite signs of turnaround in demand environment. ii) Management is confident of clocking robust and sustained broad-based growth. They mentioned that cross-selling traction is above their expectations and its benefit will be visible from Q3. iii) BFS is on track to deliver double-digit growth in FY25. iv) Large deal pipeline for travel vertical remains strong with deals in IT modernization, GCC ramp ups, e-Commerce, and hospitality. Spends have considerably increased in travel tech domain. v) The acquisition and integration-related expense impacted profitability by 230bps in H1, which will get normalized going ahead. vi) Management expects incremental ~120bps impact in H2 from higher ESOP costs accruing from new ESOPs granted to the leadership team; it is expected to taper off by 60-70bps in FY26 as old ESOP expenses lapse. vii) Furlough impact in Q3 is likely to be in line with past trend. viii) Company does not expect past liabilities of Cigniti to be recurring in coming quarters (USD1.1mn in Q2). Merger-related expenses to taper down to below USD1mn (USD2.4mn in Q2) in next 1-2 quarters before getting lapsed. ix) Coforge received SEBI approval for the open offer which is likely to conclude by mid-November. x) OCF/EBITDA is likely to be 65%-70% for FY25. xi) It signed 3 large deals in Q2 – one each in Continental Europe (area with low presence currently), America, and UK. 2 of them are NN and 1 EN.

Target Price – 12M	Sep-25
Change in TP (%)	5.5
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(10.7)
CMP (23-Oct-24) (Rs)	7,557.8

Stock Data	Ticker
52-week High (Rs)	7,649
52-week Low (Rs)	4,287
Shares outstanding (mn)	66.7
Market-cap (Rs bn)	504
Market-cap (USD mn)	5,995
Net-debt, FY25E (Rs mn)	-1,944
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	3,015.6
ADTV-3M (USD mn)	35.9
Free float (%)	59.0
Nifty-50	24,436
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	-
FPIs/MFs (%)	41.4/47.3

Price Performance			
(%)	1M	3M	12M
Absolute	9.8	22.3	53.8
Rel. to Nifty	16.5	22.5	21.3



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Revenue (USD mn)	369.4	291.4	26.8	278.1	32.8
Revenue	30,623	24,008	27.6	22,762	34.5
Operating expenses	25,782	19,921		19,289	
EBITDA	4,841	4,087	18.4	3,473	39.4
Margins (%)	15.8	17.0	(120)	15.3	60
Depreciation	1,243	815		772	
EBIT	3,598	3,272	10.0	2,701	33.2
Margins (%)	11.7	13.6	(190)	11.9	(10)
Other income	-463	-1,225		-295	
Pre-tax profit	3,135	2,047	53.1	2,406	30.3
Tax provided	799	654		528	
Minority Interest	314	61		69	
Profit after tax	2,022	1,332		1,809	
Emkay Net profit	2,312	2,285	1.2	1,809	27.8
EPS (Rs)	34.7	34.3	1.2	29.4	17.9

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

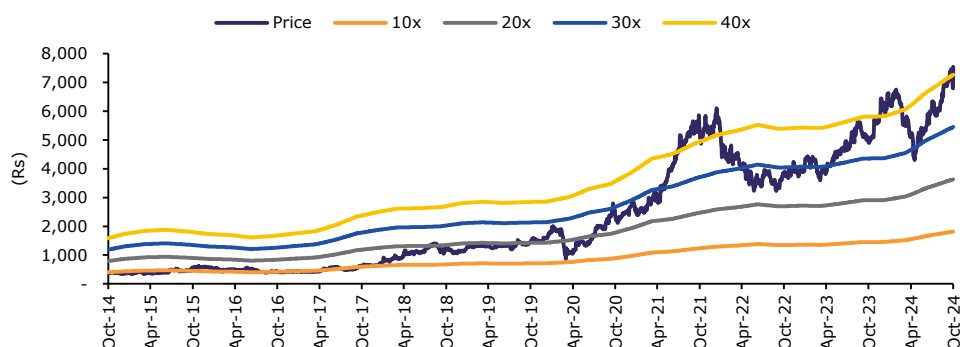
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net revenues (USD mn)	369.4	361	322	2.4%	14.8%	Revenue growth was better than estimates.
Sales	30,623	30,227	26,971	1.3%	13.5%	
EBIT	3,598	3,576	3,386	0.6%	6.3%	EBITM was tad below estimates.
EBIT margin	11.7%	11.8%	12.6%	-10 bps	-80 bps	
Adj. PAT	2,312	2,328	2,497	-0.7%	-7.4%	Reported PAT missed expectations due to one-off transaction-related expenses of Rs201mn and one-time expenses pertain to past liability in Cigniti of Rs89mn. Adj. PAT was broadly in line with estimates.

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)	1,411	1,450	2.8%	1,675	1,745	4.2%	1,900	2,007	5.6%
YoY growth	26.1%	29.7%		18.7%	20.3%		13.5%	15.0%	
Revenue	117,978	120,963	2.5%	142,339	148,322	4.2%	163,419	172,597	5.6%
EBIT	14,963	15,126	1.1%	18,460	19,268	4.4%	21,944	23,153	5.5%
EBIT margin (%)	12.7	12.5		13.0	13.0		13.4	13.4	
Net Profit	9,021	8,865	-1.7%	12,755	13,482	5.7%	15,396	16,381	6.4%
EPS (Rs)	135.3	132.9	-1.7%	191.3	202.1	5.7%	230.8	245.6	6.4%

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	120,963	148,322	172,597
Revenue growth (%)	24.6	14.5	31.8	22.6	16.4
EBITDA	12,807	14,277	19,710	24,737	29,332
EBITDA growth (%)	16.2	11.5	38.1	25.5	18.6
Depreciation & Amortization	2,585	3,186	4,584	5,469	6,179
EBIT	10,222	11,091	15,126	19,268	23,153
EBIT growth (%)	16.9	8.5	36.4	27.4	20.2
Other operating income	0	0	0	0	0
Other income	619	614	339	481	768
Financial expense	806	1,256	1,044	366	426
PBT	10,035	10,449	14,421	19,383	23,495
Extraordinary items	(670)	0	(1,243)	0	0
Taxes	2,061	2,093	3,292	4,458	5,404
Minority interest	(513)	(276)	(1,021)	(1,443)	(1,710)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,791	8,080	8,865	13,482	16,381
PAT growth (%)	2.6	19.0	9.7	52.1	21.5
Adjusted PAT	7,314	8,080	10,108	13,482	16,381
Diluted EPS (Rs)	119.7	130.7	151.6	202.1	245.6
Diluted EPS growth (%)	10.2	9.2	16.0	33.4	21.5
DPS (Rs)	57.9	75.5	76.0	100.0	120.0
Dividend payout (%)	48.4	57.7	50.1	49.5	48.9
EBITDA margin (%)	16.0	15.6	16.3	16.7	17.0
EBIT margin (%)	12.8	12.1	12.5	13.0	13.4
Effective tax rate (%)	22.0	20.0	22.8	23.0	23.0
NOPLAT (pre-IndAS)	7,972	8,869	11,673	14,836	17,828
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	10,449	14,421	19,383	23,495
Others (non-cash items)	3,150	5,046	3,341	5,469	6,179
Taxes paid	(2,800)	(3,661)	(3,292)	(4,458)	(5,404)
Change in NWC	(1,027)	(2,800)	(2,183)	(3,934)	(3,085)
Operating cash flow	9,505	9,034	12,287	16,460	21,186
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	22,400	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)	(5,069)	(6,669)	(8,003)
Others	0	0	0	0	0
Financing cash flow	(5,582)	(8,870)	16,466	(10,169)	(8,003)
Net chg in Cash	1,207	(2,314)	2,092	2,721	9,113
OCF	9,505	9,034	12,287	16,460	21,186
Adj. OCF (w/o NWC chg.)	10,532	11,834	14,470	20,394	24,271
FCFF	7,968	6,436	(14,198)	12,890	17,116
FCFE	7,205	5,300	(15,242)	12,524	16,690
OCF/EBITDA (%)	74.2	63.3	62.3	66.5	72.2
FCFE/PAT (%)	106.1	65.6	(171.9)	92.9	101.9
FCFF/NOPLAT (%)	99.9	72.6	(121.6)	86.9	96.0

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	61,795	68,608	76,986
Net worth	30,825	36,266	62,462	69,275	77,653
Minority interests	874	1,003	12,024	13,467	15,177
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	72,869	77,625	87,713
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	3,147	3,327	3,178
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	5,444	8,164	17,277
Current assets (ex-cash)	24,125	28,380	37,026	45,790	53,272
Current Liab. & Prov.	21,170	18,976	25,263	30,093	34,490
NWC (ex-cash)	2,955	9,404	11,763	15,697	18,782
Total assets	31,907	36,518	72,869	77,625	87,713
Net debt	(2,405)	1,014	(1,944)	(8,164)	(17,277)
Capital employed	31,907	36,518	72,869	77,625	87,713
Invested capital	26,074	32,934	67,193	69,228	70,204
BVPS (Rs)	504.6	586.6	936.6	1,038.7	1,164.3
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.2)	0.1	(0.1)	(0.3)	(0.6)
Interest coverage (x)	0.1	0.1	0.1	0.0	0.0
RoCE (%)	35.1	34.2	28.3	26.2	28.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	63.1	57.8	49.9	37.4	30.8
P/CE(x)	46.0	41.5	34.3	26.6	22.3
P/B (x)	15.0	12.9	8.1	7.3	6.5
EV/Sales (x)	5.7	5.1	4.2	3.3	2.8
EV/EBITDA (x)	35.9	32.8	25.5	20.0	16.6
EV/EBIT(x)	45.2	42.1	33.3	26.2	21.8
EV/IC (x)	17.7	14.2	7.5	7.3	7.2
FCFF yield (%)	1.7	1.4	(2.8)	2.6	3.4
FCFE yield (%)	1.6	1.1	(3.0)	2.5	3.3
Dividend yield (%)	0.8	1.0	1.0	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	9.3	8.8	8.4	9.1	9.5
Total asset turnover (x)	2.6	2.7	2.2	2.0	2.1
Assets/Equity (x)	1.1	1.0	1.1	1.1	1.1
RoE (%)	25.7	24.1	20.5	20.5	22.3
DuPont-RoIC					
NOPLAT margin (%)	9.9	9.7	9.7	10.0	10.3
IC turnover (x)	3.1	3.1	2.4	2.2	2.5
RoIC (%)	31.1	30.1	23.3	21.8	25.6
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	2.0	2.3
Opex-to-revenue (%)	83.3	84.3	83.7	83.3	83.0

Source: Company, Emkay Research

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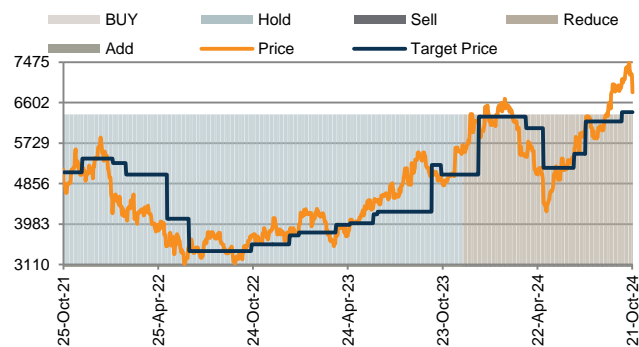
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Oct-24	7,108	6,400	Reduce	Dipeshkumar Mehta
23-Jul-24	6,145	6,200	Reduce	Dipeshkumar Mehta
01-Jul-24	5,487	5,500	Reduce	Dipeshkumar Mehta
09-Jun-24	5,401	5,200	Reduce	Dipeshkumar Mehta
03-Jun-24	4,988	5,200	Reduce	Dipeshkumar Mehta
27-May-24	5,234	5,200	Reduce	Dipeshkumar Mehta
03-May-24	4,439	5,200	Reduce	Dipeshkumar Mehta
31-Mar-24	5,449	6,050	Reduce	Dipeshkumar Mehta
01-Mar-24	6,441	6,300	Reduce	Dipeshkumar Mehta
23-Jan-24	6,123	6,300	Reduce	Dipeshkumar Mehta
31-Dec-23	6,195	6,300	Reduce	Dipeshkumar Mehta
30-Nov-23	5,688	5,050	Reduce	Dipeshkumar Mehta
20-Oct-23	4,918	5,050	Hold	Dipeshkumar Mehta
02-Oct-23	5,021	5,260	Hold	Dipeshkumar Mehta
21-Jul-23	4,546	4,250	Hold	Dipeshkumar Mehta
02-Jul-23	4,615	4,250	Hold	Dipeshkumar Mehta
20-Jun-23	4,466	4,250	Hold	Dipeshkumar Mehta
12-Jun-23	4,415	4,200	Hold	Dipeshkumar Mehta
28-Apr-23	4,080	4,000	Hold	Dipeshkumar Mehta
01-Apr-23	3,719	3,970	Hold	Dipeshkumar Mehta
20-Jan-23	3,983	3,800	Hold	Dipeshkumar Mehta
02-Jan-23	3,836	3,740	Hold	Dipeshkumar Mehta
21-Oct-22	3,737	3,550	Hold	Dipeshkumar Mehta
03-Oct-22	3,221	3,400	Hold	Dipeshkumar Mehta
22-Jul-22	3,594	3,400	Hold	Dipeshkumar Mehta
23-Jun-22	3,548	3,400	Hold	Dipeshkumar Mehta
12-May-22	3,512	4,100	Hold	Dipeshkumar Mehta
01-Apr-22	4,243	5,050	Hold	Dipeshkumar Mehta
22-Feb-22	4,246	5,050	Hold	Dipeshkumar Mehta
28-Jan-22	4,517	5,300	Hold	Dipeshkumar Mehta
01-Jan-22	5,645	5,400	Hold	Dipeshkumar Mehta
30-Nov-21	5,206	5,400	Hold	Dipeshkumar Mehta
26-Oct-21	4,864	5,100	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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