

**CMP: INR 7,555**

**Rating: Accumulate**

**Target Price: INR 8,682**

**Stock Info**

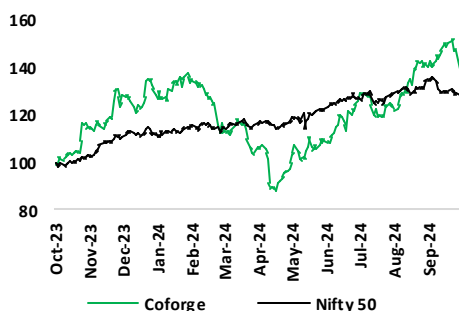
BSE	532541
NSE	COFORGE
Bloomberg	COFORGE:IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (as of March'24)(INR mn)	620
Mkt Cap (INR mn)	456,910
52w H/L (INR)	7,585 / 4,287
Avg Yearly Vol (in 000')	490

**Shareholding Pattern %**  
(As on Sept, 2024)

Promoters	0.0
FII	42.09
DII	48.15
Public & Others	9.75

	1m	3m	12m
Coforge	-0.6	12.5	39.0
Nifty 50	-4.7	0.8	28.1

**Coforge Vs Nifty 50**



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Coforge reported strong Set of Nos in Q2FY25 revenues were up 26.3% QoQ and 33.0% YoY on a constant currency basis. strong order intake of \$516 Mn in Q2FY25 against \$314Mn Revenue for the quarter was INR 30,623 Mn (organic INR 25,631Mn) grew by 27.5% on reported/6.8% organic/ Reported 34.5% YoY & USD reported 369.4 Mn ( organic USD 309.8 Mn), grew by 26.8% on reported/6.3% organic/ Reported 32.8% YoY.( Above our estimates)EBIT margin came in at 11.8% (organic 12.1%); down by 189bps QoQ on reported /organic down148bps / down 12bps YoY. Adjusted EBITDA margin at 16.5%, down by 132bps QoQ on reported /organic down126bps / down 102bps YoY (Slightly below estimates)Adj. PAT came in at INR 2,552 Mn ( Organic INR 2,057 Mn) grew by 8.8% on reported/down 12.3% organic/ Reported +35.6% YoY.( Adjusted for Transaction Related expenses) Headcount at 32,483; net addition of 5,871 sequentially. This includes 4,430 Cigniti headcounts. LTM attrition including Cigniti is 11.7%, down 130 bps YoY. Order intake at US\$ 516 mn - eleventh consecutive quarter of US\$ 300+ mn order intake. 13 new clients were added in Q2FY25.DSO stands at 60/61 improved by 1 days. Utilization improved to 60 bps on reported/10bps on organic to 82.2% reported /81.7% organic. The Board has recommended an interim dividend of INR 19/- per share on 4th Oct 2024.

**Promising outlook for travel segments:** In the travel sector, a three-year renewal with a major Australian airline will enhance managed services. A significant deal has been secured with a top Australian supermarket chain to automate quality engineering for e-commerce. In insurance, a global insurer has signed a three-year deal for a generative AI solution, while a leading U.S. product provider has established a 500-strong GCC. The mortgage sector is expected to gradually revive, boosting loan origination and technology spending.

**Synergy playing out well with Cigniti:** Cigniti is experiencing strong cross-sell effectiveness, driven not by market recovery but by a well-prepared and motivated sales team. The synergy between horizontal business units and Cigniti's integrated unit has been key to this success. The organic business remains strong reinforcing confidence in the ongoing partnership and growth potential. Expect Cigniti to achieve around 18% EBITDA margin by Q4FY25. Cigniti's EBITDA margin improved by 360 bps QoQ to ~16%.

**Valuations and outlook**

Q2FY25 results show promising signs of revenue growth and an uptick in the. Order intake at US\$ 516 mn - eleventh consecutive quarter of US\$ 300+ mn order intake. Re-affirmed medium-term guidance of hitting \$2 bn mark, and delivering material EBITDA expansion. Coforge is now operating at a run rate of almost USD1.5 bn. The company is also focused on improving margins in both its core business and its Cigniti operations. Expect Cigniti to achieve around 18% EBITDA margin by Q4FY25. Cigniti's EBITDA margin improved by 360 bps QoQ to ~16%. With the advantages of synergy, effective cross-selling, and rigorous execution, strong growth is anticipated for the company in the upcoming quarters. However, furloughs are expected to affect growth in Q3. Hence, we expect PAT & EPS to grow at a CAGR of 28% & 24% over FY24-FY27E. **We value, Coforge at a PE of 35x its FY27E EPS of ~248.1, which yields a target price of INR 8,682 per share (Earlier target price of INR 7,006 per share). We maintain our rating to an Accumulate on the stock.**

**Exhibit 1: Financial Overview**

YE March (INR Mn)	Revenue (Mn USD)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY24	1118	91,790	14,277	8,080	130.7	15.6%	22.0%	57.8
FY25E	1313	108,808	17,953	10,617	161.1	16.5%	23.1%	46.9
FY26E	1617	134,886	22,775	13,993	200.8	16.9%	23.8%	46.9
FY27E	1911	159,542	27,441	17,290	248.1	17.2%	23.0%	30.5

Source: Arihant Research, Company Filings

## Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q2FY25 Reported	Q2FY25 Organic	Q1FY25	Q-o-Q% Reported	Q-o-Q% Organic	Y-o-Y
Revenue (Mn USD)	369.4	309.8	291.4	26.8%	6.3%	-21.1%
Gross Revenue (INR Mn)	30,623	25,631	24,008	27.6%	6.8%	-21.6%
Gross Profit	9,935	8,065	7,911	25.6%	1.9%	-20.4%
GM %	32.4%	31.5%	33.0%	-51bps	-149bps	-51bps
Selling / General And Administration	4,872	3,812	3,625	34.4%	5.2%	-25.6%
SG&A to Revenue %	15.9%	14.9%	15.1%	81bps	-23bps	81bps
Adj. EBITDA	5,063	4,253	4,286	18.1%	-0.8%	-15.3%
Adj. EBITDA margin %	16.5%	16.6%	17.9%	-132bps	-126bps	-132bps
Cost of ESOPS	222	210	199	11.6%	5.5%	-10.4%
EBITDA (INR Mn)	4,841	4,043	4,087	18.4%	-1.1%	-15.6%
EBITDA margin %	15.8%	15.8%	17.0%	-122bps	-125bps	-122bps
Depreciation and Amortization	1226	926	815	50.4%	13.6%	-33.5%
EBIT	3,615	3,117	3,272	10.5%	-4.7%	-9.5%
EBIT margin %	11.8%	12.2%	13.63%	-182bps	-147bps	-182bps
Other Income (net)	-190	-338	-272	-	24.3%	-
Profit Before Tax	3,425	2,779	3,000	14.2%	-7.4%	-12.4%
PBT % (Before exceptional items)	11.2%	10.8%	12.5%	-131bps	-165bps	-131bps
Transaction Related expenses	201	201	953	-	-78.9%	374.1%
One-time expenses#	89	-	-	-	-	-
Profit Before Tax	3,135	2,578	2,047	53.2%	25.9%	-34.7%
PBT %	10.2%	10.1%	8.5%	171bps	153bps	171bps
Provision for Tax	470	620	654	-28.1%	-5.2%	39.1%
Minority Interest	314	50	61	414.8%	-18.0%	-80.6%
PAT (INR Mn)	2,351	1,908	1,393	68.8%	37.0%	-40.7%
Adj. Profit After Tax*	2,552	2,109	2,346	8.8%	-10.1%	-8.1%
PAT margin %	8.3%	8.2%	9.8%	-144bps	-154bps	-144bps
EPS (INR)	30.3	30.3	20.9	45.0%	45.0%	-31.0%
Adj EPS (INR)	38.3	33.3	35.9	6.7%	-7.2%	-6.3%

**Q2FY25 Conference call Highlights**

**Re-affirmed medium-term guidance of hitting \$2 bn mark, and delivering material EBITDA expansion. Coforge is now operating at a run rate of almost USD1.5 bn.**

**Margin:** Expect Cigniti to achieve around 18% EBITDA margin by Q4FY25. Cigniti's EBITDA margin improved by 360 bps QoQ to ~16%.

**ESOP:** There will be incremental cost of 120 bps from Q3FY25 on new ESOP being granted to senior management.

**Furlough** in Q3 will be inline with normal years.

**Cigniti:** Cross-selling between Coforge and Cigniti is progressing as per expectation. Expenses in Cigniti were on back of repayment of INR 140 Mn debt and INR 80 Mn on consolidate basis. The company does not expect any past liability to come in going forward. Integration and merger costs will be in sub mn dollars in the next 1-2 qtrs which will come down post then. The company will hit EBITDA margin of 18%+ for standalone Cigniti business by Q4FY25E.

Integration related costs will reduce over next 2 quarters.

**Mortgage:** Its Mortgage sub-segment will also see gradual recovery with falling interest rates.

**OCF:** Aims to achieve EBITDA to OCF of around 70-80%.

**BFS Outlook:** BFS will deliver double-digit growth; growth will happen in tough macros given all verticals are firing.

**Signed 3 large deals in Q2;** one in continental Europe, one in North America, and one in UK.

**TTH:** deal pipeline is robust. Large deal pipeline for travel is looking very promising; significant ramp up in GCC led deals.

**Wage hike:** Full wage hikes were rolled out effective 1st July which had 252-270 bps impact on margins as seen in earlier years.

**Deal:** Signed 3 large deals in Q2; one in continental Europe, one in North America, and one in UK. Large deal velocity and signing continues and velocity is picking up.

**Utilization** stands at 82.2%, including trainees. The pipeline remains very strong, maintaining utilization levels and addressing demand effectively.

**IT modernization:** Seeing deals spanning spend areas of IT modernization and mainframe offload. Seeing significant India GCC ramp-up led deals in travel. E-commerce and NDC for airlines-led deals, which is a third area. And then we are seeing guest experience and personalization for hospitality is the fourth area. So, travel, the pipeline is robust. The large deal pipeline is very promising at this point in time.

Open offer and close in mid November

**Retail:** one of the large deals from the retail vertical. Expansion in the credibility that company built across newer verticals that company did not have credibility.

## Exhibit 3: Business Matrix

Business Mix	Q4FY24	Q1FY25	Q2FY25	Q2FY25 Organic
<b>Vertical Mix</b>				
BFS	33.7%	31.8%	29.4%	31.3%
Insurance	21.6%	21.4%	19.1%	21.8%
Travel and Transport	17.6%	18.1%	18.1%	18.0%
Government (Overseas)	7.6%	7.8%	7.6%	7.8%
Others	19.5%	21.0%	25.9%	21.1%
<b>Total</b>	<b>100.0%</b>	<b>100.1%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Service Line Mix</b>				
Engineering	35.1%	32.1%	42.4%	31.2%
Intelligent Automation	11.2%	11.7%	9.1%	10.9%
Data and Integration	25.2%	27.4%	23.2%	27.7%
Cloud and Infrastructure Management (CIMS)	19.1%	20.0%	17.2%	20.5%
Business Process Management (BPM)	9.4%	9.4%	8.1%	9.7%
<b>Geography Mix</b>				
Americas	47.7%	49.9%	55.1%	49.8%
EMEA	40.1%	38.7%	33.8%	37.8%
ROW	12.2%	11.4%	11.1%	12.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Billable People</b>				
Onsite	47.7%	49.90%	46.20%	46.60%
Offshore	40.1%	38.70%	53.80%	53.40%
<b>Client Data</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q2FY25 Organic</b>
New Clients Added				
Americas	5	7	7	5
EMEA	2	2	6	4
Rest of World	1	1	-	-
<b>Total</b>	<b>8</b>	<b>10</b>	<b>13</b>	<b>9</b>
Repeat Business %	93.0%	96.5%	95.5%	95.5%
<b>Client Concentration (% of Revenue)</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q2FY25 Organic</b>
<b>Top 5</b>	<b>23%</b>	<b>21%</b>	<b>23%</b>	<b>22%</b>
<b>Top 10</b>	<b>34%</b>	<b>33%</b>	<b>34%</b>	<b>33%</b>
<b>No. of Clients (by Client Engagement Size)</b>				
<b>Above USD 10 Mn</b>	<b>24</b>	<b>23</b>	<b>29</b>	<b>26</b>
<b>USD 5-10 Mn</b>	<b>24</b>	<b>25</b>	<b>29</b>	<b>23</b>
<b>USD 1-5 Mn</b>	<b>112</b>	<b>118</b>	<b>173</b>	<b>128</b>
<b>People Data</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q2FY25 Organic</b>
By Role				
Billable Personnel				
IT	16,930	17,920	22,886	18,912
BPS	6,313	7,117	7,548	7,548
<b>Total Billable</b>	<b>23,243</b>	<b>25,037</b>	<b>30,434</b>	<b>26,460</b>
Sales and Marketing	388	442	575	443
Others	1,095	1,133	1,474	1,150
<b>Total</b>	<b>24,726</b>	<b>26,612</b>	<b>32,483</b>	<b>28,053</b>
Utilization/Attrition (Excl BPS)	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q2FY25 Organic</b>
Utilization	81.70%	81.60%	82.20%	81.70%
Attrition Rate	11.50%	11.40%	11.70%	11.40%
Days Sales Outstanding (DSO)	57	59	60	61

Source: Arihant Research, Company Filings

## Key Financials

Income Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	1118	1313	1617	1911
Change (%)	11.6%	17.5%	23.1%	18.2%
Revenues	91,790	108,808	135,021	159,542
Change (%)	14.5%	18.5%	24.1%	18.2%
Operating Costs	94	109	135	160
Gross Profit	91,696	108,699	134,886	159,383
Employee Costs	55,069	63,979	79,662	96,842
Other Expenses	22,350	26,767	32,448	35,099
Total Expenses	77,513	90,854	112,245	132,101
Adj. EBITDA	14,277	17,953	22,775	27,441
Adj. EBITDA Margin (%)	15.55%	16.50%	16.87%	17.20%
Depreciation	3,186	3,472	4,153	4,719
EBIT	11,091	14,481	18,622	22,722
EBIT Margin	12.08%	13.31%	13.79%	14.24%
Interest	1,256	1,382	1,520	1,520
PBT	10,333	13,970	18,412	22,750
Extra-ordinary	(116.00)	-	-	-
PBT after ext-ord.	10,449	13,970	18,412	22,750
Tax	2,093	3,353	4,419	5,460
Rate (%)	23.0%	24.0%	24.0%	24.0%
PAT	8,356	10,617	13,993	17,290
MI & Associates	276.00	-	-	-
Consolidated PAT	8,080	10,617	13,993	17,290
Change (%)	6.7%	33.3%	31.8%	23.6%

Cash Flow Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
PBT	10,449	13,970	18,412	22,750
Depreciation	3,186	3,472	4,153	4,719
Interest & others	1,034	511	210	(28)
Cash flow before WC changes	14,669	17,953	22,775	27,441
(Inc)/dec in working capital	(3,691)	395	(144)	(134)
Operating CF after WC changes	10,978	18,348	22,632	27,307
Less: Taxes	(2,093)	(3,353)	(4,419)	(5,460)
Operating Cash Flow	8,885	14,995	18,213	21,847
(Inc)/dec in F.A + CWIP	(4,601)	(697)	(696)	(695)
Cash Flow from Investing	(4,601)	(697)	(696)	(695)
Free Cash Flow (FCF)	8,187	14,298	17,517	21,152
Loan raised/(repaid)	984	(824)	149	156
Equity raised	-	-	-	-
Interest & others	(6,933)	(511)	(3,682)	(4,125)
Dividend	(927)	(989)	(1,046)	(1,046)
Cash Flow from Financing Activities	(6,876)	(2,323)	(4,578)	(5,015)
Net inc/(dec) in cash	(2,592)	11,975	12,939	16,137
Opening balance of cash	5,777	3,185	15,160	28,099
Closing balance of cash	3,185	15,160	28,099	44,236

Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	611	611	611	611
Reserves & Surplus	35,648	45,277	58,224	74,469
Net Worth	36,259	45,888	58,835	75,080
Loan Funds	4,366	3,542	3,692	3,848
MI, Deferred Tax & other Liabilities	1,801	1,801	1,801	1,801
Capital Employed	42,426	51,231	64,328	80,729
Application of Funds				
Gross Block	11,792	12,489	13,185	13,880
Net Block	11,792	9,017	9,032	9,161
CWIP	232	232	232	232
Other Non-current Assets	3,368	3,368	3,368	3,368
Deferred Tax Assets	5,583	5,583	5,583	5,583
Net Fixed Assets	20,975	18,200	18,215	18,344
Investments	-	-	-	-
Debtors	19,503	24,444	30,333	35,842
Inventories	-	-	-	-
Cash & Bank Balance	3,213	15,188	28,127	44,264
Loans & Advances & other CA	5,509	5,509	5,509	5,509
Total Current Assets	28,225	45,141	63,969	85,615
Current Liabilities	18,512	23,848	29,594	34,968
Provisions	-	-	-	-
Net Current Assets	9,713	21,293	34,376	50,647
Total Assets	42,426	51,231	64,328	80,729

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	130.7	161.1	200.8	248.1
CEPS	182.3	213.8	260.3	315.8
BVPS	586.7	696.3	844.1	1077.2
DPS	15.0	15.0	15.0	15.0
Div. Payout (%)	0.1	0.1	0.1	0.1
P/E	57.8	46.9	37.6	30.5
P/CEPS	41.4	35.3	29.0	23.9
P/BV	12.9	10.9	9.0	7.0
EV/EBITDA	5.2	3.7	2.6	1.5
Dividend Yield (%)	0.2%	0.2%	0.2%	0.2%
Return ratio (%)				
EBITDA Margin	15.6%	16.5%	16.9%	17.2%
EBIT Margin	12.1%	13.3%	13.8%	13.8%
PAT Margin	8.7%	9.8%	10.4%	10.8%
ROE	22.0%	23.1%	23.8%	23.0%
ROCE	26.1%	28.3%	28.9%	28.1%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.3	-0.4	-0.5
Turnover Ratios				
Asset Turnover (x)	2.2	2.1	2.1	2.0
Receivable Days	82	82	82	82
Payable days	80	80	80	80

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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