

CMP: INR 9,176

Rating: Accumulate

Target Price: INR 10,529

Stock Info

BSE	532541
NSE	COFORGE
Bloomberg	COFORGE:IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	620
Mkt Cap (INR mn)	616,099
52w H/L (INR)	10,018 / 4,291
Avg Yearly Vol (in 000')	490

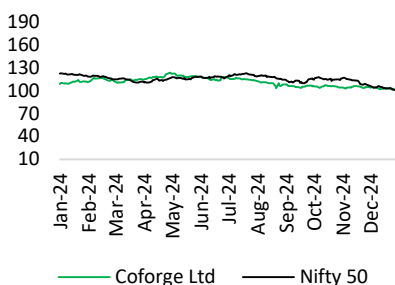
Shareholding Pattern %

(As on Dec , 2024)

Promoters	0.0
FII	42.55
DII	47.86
Public & Others	9.59

	1m	3m	12m
Coforge	-2.0	21.8	48.5
Nifty 50	-2.2	-4.9	9.3

Coforge Vs Nifty 50



Coforge reported Revenue above estimates; Margin slightly below expectations but strong repeat business rate of 94.5% in Q3 FY25. Revenue for the quarter was INR 33,182 Mn grew by 8.4% QoQ/7.5% QoQ in USD terms and 42.8% YoY/40.8% in USD terms. (Above our estimates) The adjusted EBITDA margin was 17.8%, while the reported EBITDA margin came in at 15.6%, down 17 bps QoQ and 163 bps YoY, against our expectation of 15.9. Reported EBIT margin stood at 11.8% (slightly below our estimates of 11.9%), up 7 bps QoQ but down 196 bps YoY. Reported PAT, including Cigniti, was INR 2,155 Mn, an increase of 6.6% QoQ but a decline of 9.5% YoY. With the inclusion of Cigniti's Fresh order intake of US\$ 501 Mn and US\$ 1,365 Mn in confirmed business to be executed over the next 12 months, this represents a 40% YoY growth. TCV of the deal was \$501 Mn, compared to \$516 Mn in Q2 FY25. The 12-month executable order book reached \$1.36 Bn, reflecting a 40.2% YoY increase, with a strong repeat business rate of 94.5% in Q3 FY25. Headcount at 33,094; net addition of 611 sequentially. LTM attrition stood at 11.9%. Continues to be amongst the lowest in the IT services industry. Order book executable over next 12 months stood at \$1,365Mn at the end of the quarter, a 40.1% YoY growth. Total order intake of \$501 Mn in Q3FY25. 14 new logos opened during the quarter. 4 large deals signed during Q3. Coforge Inc. is acquiring Xceltrait Inc. for \$17.85 Mn to boost its ServiceNow capabilities in financial services and customer service management. The deal includes \$7 Mn upfront and up to \$10.85 Mn in earn outs.

Promising outlook for travel segments: The travel sector has launched a large program to develop a scalable low-code/no-code SaaS platform aimed at improving customer care processes for a major transport company. The sector continues to show impressive resilience and growth despite ongoing inflationary pressures. The forecast for next year predicts a robust 7% growth in revenue passenger kilometers. Despite the inflationary situation and the pressures at play, the travel sector has already demonstrated exceptional resilience and growth. Travel tech players, particularly those focused on loyalty, legacy modernization, and network and capacity expansion by airlines, are driving demand. This demand remains strong from airlines and airports, which are reinventing themselves as digital hubs or real-life malls

Valuations and outlook

Q3FY25 results show promising signs of revenue growth and an uptick in the Order inclusion of Cigniti's Fresh order intake of US\$ 501 Mn and US\$ 1,365 Mn in confirmed business to be executed over the next 12 months, this represents a 40% YoY growth. 1 equity share of Coforge (INR 10 each) for every 5 equity shares of Cigniti (INR 10 each). Subject to regulatory approvals, effective from April 1, 2025. Merger process to take ~12 months post-approval; minority interest to be removed from financials from April 1, 2025. The cross-sell pipeline typically stabilizes in about three quarters, with synergies expected to reflect in Cigniti's Q4 or Q1 revenue data. The large deal involved displacing the incumbent, securing a significant portion of the \$20+ mn TCV contract. Hence, we expect PAT & EPS to grow at a CAGR of 37% & 33% over FY24-FY27E. We value, Coforge at a PE of 39x its FY27E EPS of 270, which yields a target price of INR 10,529 per share (Earlier target price of INR 8,682 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%	70.2
FY25E	1471	122,091	19,845	10,023	152.1	16.3%	25.0%	60.3
FY26E	1788	149,190	24,892	15,189	217.9	16.7%	25.6%	60.3
FY27E	2063	172,236	29,797	18,818	270.0	17.3%	24.4%	34.0

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Source: Arihant Research, Company Filings

Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q%	Y-o-Y
Revenue (Mn USD)	397.1	369.4	282.0	7.5%	40.8%
Gross Revenue (INR Mn)	33,182	30,623	23,233	8.4%	42.8%
Direct Cost (INR Mn)	22,166	20,688	15,555	7.1%	42.5%
Gross Profit	11,016	9,935	7,678	10.9%	43.5%
GM %	33.2%	32.4%	33.0%	76bps	15bps
Selling / General And Administration	5,126	4,872	3,508	5.2%	46.1%
SG&A to Revenue %	15.4%	15.9%	15.1%	-46bps	35bps
Adj. EBITDA	5,890	5,063	4,170	16.3%	41.2%
Adj.EBITDA margin %	17.8%	16.5%	17.9%	122bps	-20bps
Cost of ESOPS	700	222	158	215.3%	343.0%
EBITDA (INR Mn)	5,190	4,841	4,012	7.2%	29.4%
EBITDA margin %	15.6%	15.8%	17.3%	-17bps	-163bps
Depreciation and Amortization	1,268	1226	811	3.4%	56.4%
EBIT	3,922	3,615	3,201	8.5%	22.5%
EBIT margin %	11.8%	11.8%	13.78%	1bps	-196bps
Other Income (net)	-327	-190	-257	-	-
Profit Before Tax	3,595	3,425	2,944	5.0%	22.1%
PBT % (Before exceptional items)	10.8%	11.2%	12.7%	-35bps	-184bps
Transaction Related expenses	162	201	-	-19%	-
One-time expenses	-	89	-	-	-
Profit Before Tax	3,433	3,135	2,944	10%	16.6%
PBT %	10.3%	10.2%	12.7%	11bps	-233bps
Provision for Tax	874	799	516	9%	69.4%
PAT (INR Mn)	2,559	2,336	2,380	10%	7.5%
PAT margin %	8.2%	8.3%	10.2%	-8bps	-204bps
Minority Interest	404	314	48	29%	741.7%
PAT After Minority Interest	2,155	2,022	2,332	7%	-7.6%
EPS (INR)	32	30.3	38.6	7%	-16.3%

Q3FY25 Conference call Highlights

- Travel sector showing strong demand with 7% revenue passenger growth; macro conditions remain positive. Margin will improve 130bps led by furlough impact of 50bps in Banking & Insurance, expected to recover in Q4 and other margin levers.
- ESOP costs at 2.1% of revenue expected to decline to 150 by Q1/Q2FY26 and 100bps in Q3FY26e.
- Signed 4 large deals (3 in North America, 1 in ASEAN). The pipeline is shaping up extremely well, and the function specialty and AI-infused large deals are approaching disproportionately higher.
- Proposed merger: 1 equity share of Coforge (INR 10 each) for every 5 equity shares of Cigniti (INR 10 each). Subject to regulatory approvals, effective from April 1, 2025. Merger process to take ~12 months post-approval; minority interest to be removed from financials from April 1, 2025.
- 17.3-17.1% esop cost and went ahead \$1.9mn (Cigniti 3k). Exclu. Cigniti, Adj. EBITDA margin stood at 17.9%
- Insurance sector seeing growth in SMB market, increasing low-code/no-code adoption, underwriting & AI-driven automation.
- Cigniti has limited cross-sell in top 5 customers; cross-sell cycle ~3 quarters; 20+ government contracts signed.
- Maturing and strengthening partnerships driving growth.
- AI-infused digital transformation initiatives, engaging hyperscalers. 30+ AI capabilities, including GenAI-driven of which 10 are live.
- Signed 4 large deals (3 in North America, 1 in ASEAN). Pipeline shaping up extremely well and function specialty and AI infuse large deal approaching disproportionally higher
- Travel continues to show resilient growth despite inflationary pressures, and as a result, the company is very bullish about the travel vertical. Passenger miles are expected to increase, as indicated by IATA data. Immediate demand is coming from travel tech players, and demand remains strong from airlines and airports.
- GCC expansion with a US wealth management firm managing \$1.5T in assets. Amortization impact of \$10.7M per year.
- Cash & bank balance at \$110M; working capital loan at \$80M; net cash position at \$30M.
- Utilization at 81% overall (As per the pipeline 83-84% for lateral is good, 3% in training).
- Increased focus on personalization, real-time demand, and digital transformation in travel platforms.
- Tax rate: Inching up 25% for the company
- Strong quarter Q3FY25 and building up as available resources and realization and confirmation.

Exhibit 3: Business Matrix

Business Mix	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Vertical Mix				
BFS	33.7%	31.8%	29.4%	27.5%
Insurance	21.6%	21.4%	19.1%	18.8%
Travel and Transport	17.6%	18.1%	18.1%	18.1%
Government (Overseas)	7.6%	7.8%	7.6%	6.9%
Others	19.5%	21.0%	25.9%	28.7%
Total	100.0%	100.1%	100.0%	100.0%
Service Line Mix				
Engineering	35.1%	32.1%	42.4%	41.9%
Intelligent Automation	11.2%	11.7%	9.1%	8.9%
Data and Integration	25.2%	27.4%	23.2%	22.4%
Cloud and Infrastructure Management (CIMS)	19.1%	20.0%	17.2%	19.1%
Business Process Management (BPM)	9.4%	9.4%	8.1%	7.6%
Geography Mix				
Americas	47.7%	49.9%	55.1%	56.0%
EMEA	40.1%	38.7%	33.8%	34.2%
ROW	12.2%	11.4%	11.1%	9.8%
Total	100%	100%	100%	100%
Billable People				
Onsite	47.7%	49.90%	46.20%	46.90%
Offshore	40.1%	38.70%	53.80%	53.10%
Client Data	Q4FY24	Q1FY25	Q2FY25	Q3FY25
New Clients Added				
Americas	5	7	7	7
EMEA	2	2	6	7
Rest of World	1	1	-	-
Total	8	10	13	14
Repeat Business %	93.0%	96.5%	95.5%	94.5%
Client Concentration (% of Revenue)	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Top 5	23%	21%	19%	20%
Top 10	34%	33%	28%	30%
No. of Clients (by Client Engagement Size)				
Above USD 10 Mn	24	23	29	31
USD 5-10 Mn	24	25	29	31
USD 1-5 Mn	112	118	173	176
People Data	Q4FY24	Q1FY25	Q2FY25	Q3FY25
By Role				
Billable Personnel				
IT	16,930	17,920	22,886	23,015
BPS	6,313	7,117	7,548	7,966
Total Billable	23,243	25,037	30,434	30,981
Sales and Marketing	388	442	575	583
Others	1,095	1,133	1,474	1,530
Total	24,726	26,612	32,483	33,094
Utilization/Attrition (Excl BPS)	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Utilization	81.70%	81.60%	82.20%	81.30%
Attrition Rate	11.50%	11.40%	11.70%	11.90%
Days Sales Outstanding (DSO)	57	59	60	60

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)					Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E	Year End-March	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	1118	1471	1788	2063	Sources of Funds				
Change (%)	11.6%	31.6%	21.6%	15.3%	Share Capital	611	611	611	611
Revenues	91,790	122,091	149,340	172,236	Reserves & Surplus	35,648	44,682	58,826	76,598
Change (%)	14.5%	33.0%	22.3%	15.3%	Net Worth	36,259	45,293	59,437	77,209
Operating Costs	94	125	149	172	Loan Funds	4,366	3,542	3,692	3,848
Gross Profit	91,696	121,966	149,190	172,064	MI, Deferred Tax & other Liabilities	1,801	1,801	1,801	1,801
Employee Costs	55,069	72,515	88,409	104,030	Capital Employed	42,426	50,636	64,930	82,858
Other Expenses	22,350	29,606	35,889	38,236	Application of Funds				
Total Expenses	77,513	102,246	124,448	142,439	Gross Block	11,792	12,489	13,185	13,880
Adj. EBITDA	14,277	19,845	24,892	29,797	Net Block	11,792	8,343	8,755	9,161
Adj. EBITDA Margin (%)	15.55%	16.25%	16.67%	17.30%	CWIP	232	232	232	232
Depreciation	3,186	4,146	4,430	4,719	Other Non-current Assets	3,368	3,368	3,368	3,368
EBIT	11,091	15,698	20,462	25,078	Deferred Tax Assets	5,583	5,583	5,583	5,583
EBIT Margin	12.08%	12.86%	13.70%	14.56%	Net Fixed Assets	20,975	17,526	17,938	18,344
Interest	1,256	1,507	1,658	1,658	Investments	-	-	-	-
PBT	10,333	14,679	20,252	25,090	Debtors	19,503	27,429	33,550	38,694
Extra-ordinary	(116.00)	1,316.00	-	-	Inventories	-	-	-	-
PBT after ext-ord.	10,449	13,363	20,252	25,090	Cash & Bank Balance	3,213	14,860	28,927	46,323
Tax	2,093	3,341	5,063	6,273	Loans & Advances & other CA	5,509	5,509	5,509	5,509
Rate (%)	23.0%	25.0%	25.0%	25.0%	Total Current Assets	28,225	47,798	67,986	90,526
PAT	8,356	10,023	15,189	18,818	Current Liabilities	18,512	26,425	32,732	37,750
MI & Associates	276.00	-	-	-	Provisions	-	-	-	-
Consolidated PAT	8,080	10,023	15,189	18,818	Net Current Assets	9,713	21,373	35,254	52,776
Change (%)	6.7%	42.4%	34.0%	23.9%	Total Assets	42,426	50,636	64,930	82,858

Cash Flow Statement (INR Mn)					Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E	Year End-March	FY24	FY25E	FY26E	FY27E
PBT	10,449	14,679	20,252	25,090	Per share (INR)				
Depreciation	3,186	4,146	4,430	4,719	EPS	130.7	152.1	217.9	270.0
Interest & others	1,034	1,019	209	(13)	CEPS	182.3	215.0	281.5	337.7
Cash flow before WC changes	14,669	19,845	24,892	29,797	BVPS	586.7	687.3	852.8	1107.7
(Inc)/dec in working capital	(3,691)	(12)	185	(125)	DPS	15.0	15.0	15.0	15.0
Operating CF after WC changes	10,978	19,832	25,077	29,671	Div. Payout (%)	0.1	0.1	0.1	0.1
Less: Taxes	(2,093)	(3,341)	(5,063)	(6,273)	P/E	70.2	60.3	42.1	34.0
Operating Cash Flow	8,885	16,491	20,014	23,399	P/CEPS	50.3	42.7	32.6	27.2
(Inc)/dec in F.A + CWIP	(4,601)	(697)	(696)	(695)	P/BV	15.6	13.4	10.8	8.3
Cash Flow from Investing	(4,601)	(697)	(696)	(695)	EV/EBITDA	5.2	3.4	2.3	1.4
Free Cash Flow (FCF)	8,187	15,794	19,318	22,704	Dividend Yield (%)	0.2%	0.2%	0.2%	0.2%
Loan raised/(repaid)	984	(824)	149	156	Return ratio (%)				
Equity raised	-	-	-	-	EBITDA Margin	15.6%	16.3%	16.7%	17.3%
Interest & others	(6,933)	(2,335)	(4,356)	(4,417)	EBIT Margin	12.1%	12.9%	13.7%	13.7%
Dividend	(927)	(989)	(1,046)	(1,046)	PAT Margin	8.7%	9.3%	10.2%	10.9%
Cash Flow from Financing Activities	(6,876)	(4,147)	(5,252)	(5,307)	ROE	22.0%	25.0%	25.6%	24.4%
Net inc/(dec) in cash	(2,592)	11,647	14,066	17,397	ROCE	26.1%	31.0%	31.5%	30.3%
Opening balance of cash	5,777	3,185	14,833	28,899	Leverage Ratio (%)				
Closing balance of cash	3,185	14,833	28,899	46,295	Total D/E	0.1	0.1	0.1	0.0
					Net D/E	0.0	-0.2	-0.4	-0.6
					Turnover Ratios				
					Asset Turnover (x)	2.2	2.4	2.3	2.1
					Receivable Days	82	82	82	82
					Payable days	80	79	80	80

Source: Arihant Research, Company Filings

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6 Lad Colony, Y.N. Road, Indore - 452003, (M.P.) Fax: (91-731) 4217101

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880