

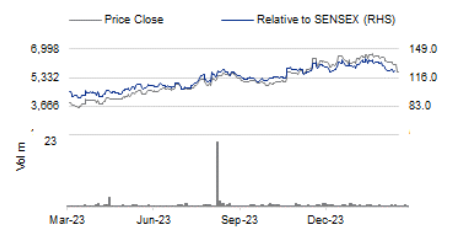
India

HOLD (no change)

Consensus ratings*:	Buy 20	Hold 7	Sell 8
Current price:	Rs5,697		
Target price:	Rs5,871		
Previous target:	Rs6,458		
Up/downside:	3.1%		
InCred Research / Consensus:	-10.8%		
Reuters:	NITT.NS		
Bloomberg:	COFORGE IN		
Market cap:	US\$4,246m		
	Rs352,083m		
Average daily turnover:	US\$28.5m		
	Rs2366.1m		
Current shares o/s:	62.4m		
Free float:	50.0%		
*Source: Bloomberg			

Key changes in this note

- Retain 13.2% revenue CAGR over FY24F-26F.
- Retain 22.6% EBIT CAGR over FY24F-26F.
- Retain 26.9% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(15.7)	(9.2)	46.0
Relative (%)	(15.7)	(10.8)	16.4

Major shareholders	% held
HDFC MID-CAP OPPORTUNITIES	7.0
LICT	6.2
AXIS MIDCAP FUND	4.4

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Coforge Limited

Trimming valuation multiple pending clarity

- Equity dilution from raising funds could outweigh the gains from acquisitions.
- Retain estimates pending clarity, but we estimate a flattish EPS at 5% dilution.
- Cut target PE/G multiple to 1x vs. 1.1x & the TP to Rs5,871 vs. Rs6,458 earlier.

Enabling resolution, ESOP issuance implies ~9.5% equity dilution

Coforge's recent enabling resolution for potential fund raising of up to Rs32bn through a qualified institutional placement (QIP) warrants a relook at our earnings estimates and valuation multiple. At CMP, the maximum funds raised could lead to ~9% equity dilution while the recently amended Employee Stock Option Plan 2005 could lead to a dilution of 0.6% in FY25F. Together with the funds raised, the event lowers our FY25F/26F EPS by a similar quantum with everything else remaining equal. However, the application of funds could be key to the quantum of EPS revision.

Application of funds is key to EPS revision

For our scenario analysis on earnings revision, we assume 1) the company will generate 65-70% OCF/EBITDA conversion in FY24F, which could help a) redeem the SLK acquisition payment (Rs~3.4bn) in May 2024, b) repay a part of debt, and 3) end FY24F as a net cash company, 2) it will generate a similar OCF/EBITDA in FY25F, and 3) ~12% working capital requirement. Together, this could free up resources to acquire an asset with a revenue of ~US\$150m, assuming 2x price/sales multiple. Finally, 1) assuming an integration timeline of nine months/full year in FY25F/26F, 2) margin profile similar to current company average, 3) lower interest expenses, and 4) 4.5% depreciation as a percentage of sales to account for amortization drives ~3% cut in our FY25F/26F EPS. We estimate flattish EPS at a 5% equity dilution with similar assumptions.

Scenario analysis caps near-term upside in the stock

Acknowledging that the company's business horizon and that of investors may vary, we believe the dilution from a potential fund raising outweighs the gains from acquisition integration, at least in FY25F. This could limit further stock upside as lower EPS growth implies a lower P/E multiple (even retaining target PE/G) while a cut in the valuation over concerns relating to frequent dilution and acquisition integration could lead to a further downside. Our scenario analysis assuming an average P/E multiple of peers (LTIMindtree & Mphasis) based on consensus FY26F EPS implies ~10% downside from current levels.

Retain HOLD rating but equity dilution to weigh in the near term

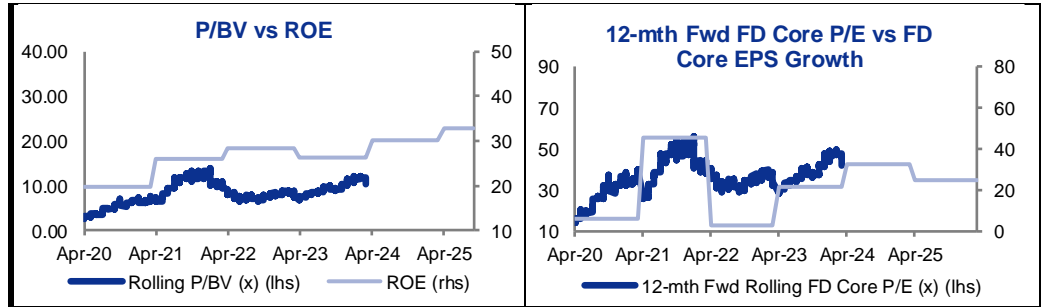
Acknowledging that a M&A-led revenue contribution could drive an absolute upside to our estimates, the equity dilution could outweigh the positives, while steady cash flow generation and payout (average 63% FCF payout over the previous four years) are key anchors. Though, we retain our estimates and also rating, the potential earnings pressure drives a cut in our PE/G multiple and target price. Higher cost of deals could accentuate the earnings pressure while a rethink on fund raising and better execution are upside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	64,320	80,146	92,169	106,927	123,674
Operating EBITDA (Rsm)	11,155	14,058	15,307	18,926	22,261
Net Profit (Rsm)	6,753	6,943	8,461	11,213	14,006
Core EPS (Rs)	108.8	154.3	140.9	179.7	224.5
Core EPS Growth	35.3%	41.9%	(8.7%)	27.6%	24.9%
FD Core P/E (x)	52.36	51.01	42.01	31.70	25.38
DPS (Rs)	52.0	64.0	76.0	100.9	122.6
Dividend Yield	0.89%	1.12%	1.33%	1.74%	2.11%
EV/EBITDA (x)	31.82	25.25	23.31	18.60	15.52
P/FCFE (x)	81.14	48.28	89.35	33.35	26.52
Net Gearing	1.3%	(0.5%)	1.4%	(10.8%)	(23.3%)
P/BV (x)	12.94	11.49	10.29	8.98	7.77
ROE	26.0%	33.0%	26.9%	30.3%	32.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	64,320	80,146	92,169	106,927	123,674
Gross Profit	20,584	26,087	30,048	35,607	41,183
Operating EBITDA	11,155	14,058	15,307	18,926	22,261
Depreciation And Amortisation	(2,272)	(2,585)	(3,131)	(3,529)	(3,958)
Operating EBIT	8,883	11,473	12,176	15,397	18,304
Financial Income/(Expense)	(538)	(634)	(987)	(829)	(655)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	406	4	30	53	62
Profit Before Tax (pre-EI)	8,751	10,843	11,220	14,622	17,710
Exceptional Items					
Pre-tax Profit	8,751	10,843	11,220	14,622	17,710
Taxation	(1,468)	(2,061)	(2,325)	(3,217)	(3,896)
Exceptional Income - post-tax		(1,326)	(165)		
Profit After Tax	7,283	7,456	8,730	11,405	13,814
Minority Interests	(530)	(513)	(269)	(192)	192
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,753	6,943	8,461	11,213	14,006
Recurring Net Profit	6,753	9,595	8,791	11,213	14,006
Fully Diluted Recurring Net Profit	6,753	9,595	8,791	11,213	14,006

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	11,155	14,058	15,307	18,926	22,261
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,433)	(1,027)	(1,687)	(1,708)	(1,919)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(530)	(513)	(269)	(192)	(192)
Other Operating Cashflow					
Net Interest (Paid)/Received	(650)	(806)	(1,232)	(1,150)	(1,150)
Tax Paid	(2,646)	(2,800)	(2,325)	(3,217)	(3,896)
Cashflow From Operations	5,896	8,912	9,794	12,659	15,104
Capex	(1,541)	(1,582)	(5,823)	(2,000)	(1,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(8,023)	(1,134)	275	374	557
Cash Flow From Investing	(9,564)	(2,716)	(5,548)	(1,626)	(1,143)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,748)	(4,285)	(4,741)	(6,167)	(7,492)
Preferred Dividends					
Other Financing Cashflow	2,190	(1,297)			
Cash Flow From Financing	(1,558)	(5,582)	(4,741)	(6,167)	(7,492)
Total Cash Generated	(5,226)	614	(495)	4,866	6,468
Free Cashflow To Equity	4,355	7,330	3,971	10,659	13,404
Free Cashflow To Firm	(3,018)	7,002	5,479	12,183	15,110

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,535	5,787	5,127	9,993	16,461
Total Debtors	13,894	16,131	18,802	21,599	24,858
Inventories					
Total Other Current Assets	3,780	4,146	4,146	4,146	4,146
Total Current Assets	22,209	26,064	28,076	35,739	45,466
Fixed Assets	6,014	6,866	9,558	8,030	5,772
Total Investments	2,719	2,484	2,484	2,484	2,484
Intangible Assets	14,821	16,299	16,299	16,299	16,299
Total Other Non-Current Assets	3,781	5,121	5,121	5,121	5,121
Total Non-current Assets	27,335	30,770	33,462	31,934	29,676
Short-term Debt	594	454	454	454	454
Current Portion of Long-Term Debt					
Total Creditors	6,160	6,481	7,466	8,554	9,894
Other Current Liabilities	5,038	10,458	10,458	10,458	10,458
Total Current Liabilities	11,792	17,393	18,378	19,466	20,806
Total Long-term Debt	4,302	5,168	5,168	5,168	5,168
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,136	2,574	2,574	2,574	2,574
Total Non-current Liabilities	9,438	7,742	7,742	7,742	7,742
Total Provisions					
Total Liabilities	21,230	25,135	26,120	27,208	28,548
Shareholders Equity	27,331	30,825	34,544	39,590	45,720
Minority Interests	983	874	874	874	874
Total Equity	28,314	31,699	35,418	40,464	46,594

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	37.9%	24.6%	15.0%	16.0%	15.7%
Operating EBITDA Growth	41.8%	26.0%	8.9%	23.6%	17.6%
Operating EBITDA Margin	17.3%	17.5%	16.6%	17.7%	18.0%
Net Cash Per Share (Rs)	(5.82)	2.65	(7.93)	70.07	173.74
BVPS (Rs)	440.34	495.82	553.70	634.58	732.84
Gross Interest Cover	13.67	14.23	9.88	13.39	15.92
Effective Tax Rate	16.8%	19.0%	20.7%	22.0%	22.0%
Net Dividend Payout Ratio	46.7%	48.1%	55.0%	55.0%	53.5%
Accounts Receivables Days	69.73	68.37	69.17	68.96	68.56
Inventory Days					
Accounts Payables Days	39.88	42.68	40.97	40.99	40.81
ROIC (%)	44.9%	29.9%	30.5%	33.4%	39.5%
ROCE (%)	25.2%	26.3%	24.6%	27.6%	29.0%
Return On Average Assets	18.3%	17.5%	16.3%	18.7%	20.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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