

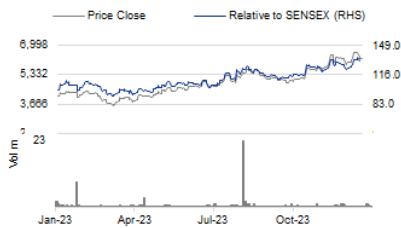
India

HOLD (previously ADD)

Consensus ratings*:	Buy 22	Hold 4	Sell 8
Current price:	Rs6,283		
Target price:	Rs6,458 ▲		
Previous target:	Rs5,708		
Up/downside:	2.8%		
InCred Research / Consensus:	4.4%		
Reuters:	NITT.NS		
Bloomberg:	COFORGE IN		
Market cap:	US\$4,671m		
	Rs388,015m		
Average daily turnover:	US\$38.8m		
	Rs3223.6m		
Current shares o/s:	62.4m		
Free float:	100.0%		
*Source: Bloomberg			

Key changes in this note

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



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.1)	25.7	53.2
Relative (%)	(0.6)	15.1	30.0

Major shareholders	% held
HDFC Mid-cap Opportunities Fund	7.0
LIC	6.2
Axis Mid Cap fund	4.4

Research Analyst(s)



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Coforge Limited

Downgrade to HOLD

- 4QFY24F could be better than 3QFY24, led by reversal of furlough impact and ramp-up of large deals.
- 4QFY24F EBITDA margin could be materially higher vs. 3QFY24.
- Downgrade our rating to HOLD (from ADD) with a higher TP of Rs6,458.

Earnings summary

3QFY24 revenue of Coforge was in line with estimate while the EBITDA margin beat was led by the reduction in ESOP costs. Ramp-up of large deals and reversal of furloughs could aid 4QFY24F revenue & margins while the executable order book over the next 12 months (US\$974m; up 15.8% yoy), gross margin expansion driven by rationalization of costs and SG&A leverage provides visibility to FY25F estimates. However, most of it is likely priced in.

Deal wins encouraging

Coforge signed three large deals (>US\$20m, one net new, second largely net new & third partially net new) and seven new logos despite a challenging macroeconomic & IT spending environment. Order intake (at US\$354m, up 13.1% qoq and 2.6% yoy) takes the TTM intake (at US\$1,499m, up 18.4% yoy) & the executable book over the next 12 months to US\$974m, up 15.8% yoy, providing visibility on mid-teen revenue growth in FY25F.

Margins likely to improve in FY25F

The EBITDA margin, adj. for ESOP expenses, stood at 18%, up 39bp qoq (down 52bp yoy) as tailwinds from efficiency gains (aided gross margin by 60bp) was offset by higher SG&A expenses (-20bp) qoq while the reported margin at 17.3% was up 201bp qoq (down 32bp yoy) led by lower ESOP costs qoq. Management commentary suggests that although investments could continue in strengthening sales & marketing, in new vertical capabilities & geographies and expanding the presence in verticals like healthcare, retail & CMT, SG&A expenses could be capped at 15% of revenue. Growth leverage, employee pyramid rationalization & improvement in 1) utilization (up to 150bp from 79.5% in 3QFY24), and 2) segment margin, especially of RoW, are key tailwinds to EBIT margin expansion. We raise our average FY25F-26F EBITDA margin assumption by 40bp to 17.9%.

Downgrade rating to HOLD with a higher target price of Rs6,458

We downgrade our rating on Coforge to HOLD (from ADD) with a higher target price of Rs6,458 (Rs5,708 earlier) as its valuation has caught up with peers after the recent run-up in its share price. We model a 13.2% US\$ revenue CAGR over FY24F-26F & a 26.9% PAT (Rs) CAGR and increase our target PE/G multiple to ~1.1x vs. 1.0x earlier, as the promoter stake sale event overhang is behind, to arrive at a target P/E multiple of 29.6x. Steady cash generation and high payout ratio (average 63% FCF payout over the previous four years) provide cushion, in our view. Moderation in deal velocity and senior leadership attrition are downside risks while M&A-led revenue growth is an upside risk to our estimates.

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)	57.75	56.26	46.33	34.96	27.99
DPS (Rs)	52.0	64.0	76.0	100.9	122.6
Dividend Yield	0.81%	1.02%	1.21%	1.57%	1.91%
EV/EBITDA (x)	35.08	27.84	25.70	20.53	17.16
P/FCFE (x)	89.49	53.25	98.54	36.78	29.25
Net Gearing	1.3%	(0.5%)	1.4%	(10.8%)	(23.3%)
P/BV (x)	14.27	12.67	11.35	9.90	8.57
ROE	26.0%	33.0%	26.9%	30.3%	32.8%
% Change In Core EPS Estimates			(2.90%)	(0.98%)	1.59%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	3QFY24F	Var. (%)
Revenue (US\$ m)	282.0	251.7	12.0	278.1	1.4	281.5	0.2
Revenue (Rs m)	23,233	20,558	13.0	22,762	2.1	23,451	(0.9)
USD-INR realization	82.4	81.7	0.9	81.8	0.7	83.3	(1.1)
EBITDA	4,013	3,615	11.0	3,473	15.5	3,893	3.1
EBITDA margin (%)	17.3	17.6	(31 bp)	15.3	201 bp	16.6	67 bp
EBIT	3,202	2,991	7.1	2,701	18.5	3,098	3.4
EBIT margin (%)	13.8	14.5	(77 bp)	11.9	192 bp	13.2	57 bp
Depreciation	811	624	30.0	772	5.1	795	2.0
Net other income	-257	83	(409.6)	-295	(12.9)	-249	3.4
PBT	2,945	3,074	(4.2)	2,406	22.4	2,849	3.4
Provision for tax	516	715	(27.8)	528	(2.3)	627	(17.7)
% tax rate	17.5	23.3	(574 bp)	21.9	(442 bp)	22.0	(448 bp)
Net profit	2,381	2,282	4.3	1,809	31.6	2,222	7.1
EPS (Rs)	38.1	36.7	4.3	29.0	31.6	35.6	7.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metric trend

Operating trends	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Revenue (US\$ m)	221.6	232.4	238.7	246.9	251.7	264.4	271.8	278.1	282.0
Growth YoY (%)	37.8	35.0	19.5	16.0	13.6	13.8	13.9	12.6	12.0
Growth QoQ (%)	4.1	4.9	2.7	3.4	1.9	5.0	2.8	2.3	1.4
Revenue (Rs. m)	16,581	17,429	18,294	19,594	20,558	21,700	22,210	22,762	23,233
Growth YoY (%)	39.3	38.2	25.2	24.9	24.0	24.5	21.4	16.2	13.0
Growth QoQ (%)	5.7	5.1	5.0	7.1	4.9	5.6	2.4	2.5	2.1
EBIT Margin (%)	14.8	15.5	12.5	14.4	14.5	15.5	11.5	11.9	13.8
US\$-INR realized rate	74.8	75.0	76.6	79.4	81.7	82.1	81.7	81.8	82.4
Headcount	22,130	22,500	22,742	22,991	22,505	23,224	24,224	24,638	24,607
Utilization including trainees (%)	77.1	76.1	76.2	77.3	80.3	81.5	81.0	80.0	79.4
LTM attrition (%)	16.3	17.7	18.0	16.4	15.8	14.1	13.3	13.0	12.1
Vertical (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFS	28.4	27.7	29.5	31.7	31.1	31.0	31.1	31.6	32.2
Insurance	27.8	25.7	23.1	23.2	22.1	22.2	22.6	22.6	22.0
TTH	18.3	20.1	19.4	19.3	19.3	18.8	18.5	18.5	17.8
Others	25.4	26.5	28.0	25.8	27.4	28.0	27.8	27.3	28.1
Vertical (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFS	62.9	64.4	70.4	78.3	78.3	82.0	84.5	87.9	90.8
Insurance	61.6	59.7	55.1	57.3	55.6	58.7	61.4	62.9	62.0
TTH	40.6	46.7	46.3	47.7	48.6	49.7	50.3	51.4	50.2
Others	56.3	61.6	66.8	63.7	69.0	74.0	75.6	75.9	79.2
Vertical YoY (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFS	111.6	120.0	67.9	52.6	24.4	27.3	20.0	12.3	16.0
Insurance	21.6	12.0	-10.9	-7.8	-9.7	-1.7	11.4	9.7	11.5
TTH	26.1	42.9	22.0	20.4	19.8	6.4	8.6	8.0	3.3
Others	16.7	8.4	15.4	6.5	22.5	20.2	13.1	19.2	14.9
Vertical QoQ (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFS	22.7	2.3	9.4	11.1	0.0	4.7	3.1	4.0	3.3
Insurance	-0.9	-3.0	-7.7	3.9	-2.9	5.5	4.7	2.3	-1.3
TTH	2.5	15.2	-0.9	2.9	1.9	2.3	1.2	2.3	-2.4
Others	-5.9	9.4	8.5	-4.7	8.3	7.3	2.1	0.5	4.4
Incremental revenue (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFS	11.6	1.4	6.0	7.9	0.0	3.7	2.6	3.3	2.9
Insurance	-0.5	-1.9	-4.6	2.1	-1.7	3.1	2.7	1.4	-0.8
TTH	1.0	6.2	-0.4	1.3	0.9	1.1	0.6	1.2	-1.3
Others	-3.5	5.3	5.2	-3.1	5.3	5.1	1.5	0.4	3.3
Geography (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Americas	53.3	49.9	51.3	51.3	49.2	48.3	49.7	49.4	46.6
EMEA	33.7	39.8	36.9	38.5	40.3	39.6	38.6	38.8	40
RoW	13	10.3	11.9	10.2	10.5	12.1	11.7	11.8	13.4
Geography (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Americas	118.1	116.0	122.5	126.7	123.8	127.7	135.1	137.4	131.4
EMEA	74.7	92.5	88.1	95.1	101.4	104.7	104.9	107.9	112.8
RoW	28.8	23.9	28.4	25.2	26.4	32.0	31.8	32.8	37.8
Geography YoY (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Americas	48.7	46.5	17.9	14.0	4.8	10.1	10.3	8.5	6.1
EMEA	29.7	34.4	26.0	37.4	35.8	13.2	19.1	13.5	11.2
RoW	21.0	-0.7	9.4	-22.7	-8.3	33.7	12.0	30.3	43.0
Geography QoQ (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Americas	6.3	-1.8	5.6	3.4	-2.2	3.1	5.8	1.7	-4.3
EMEA	8.0	23.9	-4.8	7.9	6.7	3.2	0.2	2.8	4.5
RoW	-11.5	-16.9	18.7	-11.3	4.9	21.1	-0.6	3.2	15.2
Incremental revenue (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Americas	7.0	-2.1	6.5	4.2	-2.8	3.9	7.4	2.3	-6.0
EMEA	5.5	17.8	-4.4	7.0	6.4	3.3	0.2	3.0	4.9
RoW	-3.8	-4.9	4.5	-3.2	1.2	5.6	-0.2	1.0	5.0
Deal wins (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Order intake	248	302	315	304	345	301	531	313	354
QoQ (%)	-13.0	21.8	4.3	-3.5	13.5	-12.8	76.4	-41.1	13.1
YoY (%)	28.5	50.2	-1.3	6.7	39.1	-0.3	68.6	3.0	2.6
TTM order intake	1,053	1,154	1,150	1,169	1,266	1,265	1,481	1,490	1,499

Executable book over the next 12 months	701	720	745	802	841	869	897	935	974
QoQ (%)	1.9	2.7	3.5	7.7	4.9	3.3	3.2	4.2	4.2
YoY (%)	39.9	38.5	15.5	16.6	20.0	20.7	20.4	16.6	15.8
Clients (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	25.2	23.1	22.9	23.1	23.9	23	25.1	23.5	22.7
Top 6-10	10.9	11.9	12.6	12.7	12.4	12.5	12.6	11.7	11.6
Non-top 10	63.9	65	64.5	64.2	63.7	64.5	62.3	64.8	65.7
Clients (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	55.8	53.7	54.7	57.0	60.2	60.8	68.2	65.4	64.0
Top 6-10	24.2	27.7	30.1	31.4	31.2	33.1	34.2	32.5	32.7
Non-top 10	141.6	151.1	154.0	158.5	160.3	170.5	169.3	180.2	185.3
Clients YoY (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	42.3	24.8	11.3	19.1	7.7	13.3	24.8	14.6	6.4
Top 6-10	53.3	39.7	33.3	40.3	29.2	19.5	13.9	3.8	4.8
Non-top 10	33.8	38.2	20.3	11.2	13.2	12.9	10.0	13.7	15.6
Clients QoQ (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	16.6	-3.9	1.8	4.3	5.5	1.1	12.2	-4.2	-2.0
Top 6-10	8.1	14.5	8.8	4.3	-0.5	5.9	3.6	-5.0	0.5
Non-top 10	-0.7	6.7	1.9	3.0	1.2	6.4	-0.7	6.4	2.8
Incremental revenue (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	8.0	-2.2	1.0	2.4	3.1	0.7	7.4	-2.9	-1.3
Top 6-10	1.8	3.5	2.4	1.3	-0.1	1.8	1.2	-1.7	0.2
Non-top 10	-1.0	9.5	2.9	4.5	1.8	10.2	-1.2	10.9	5.1
Per employee analysis	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Revenue (US\$ m) - TTM	806.2	866.5	905.5	939.6	969.7	1001.7	1034.8	1066.0	1096.3
Employees (average TTM)	18,950	21,477	22,040	22,591	22,685	22,866	23,236	23,648	24,173
Revenue per employee (TTM)	42,545	40,346	41,085	41,592	42,747	43,808	44,534	45,078	45,352

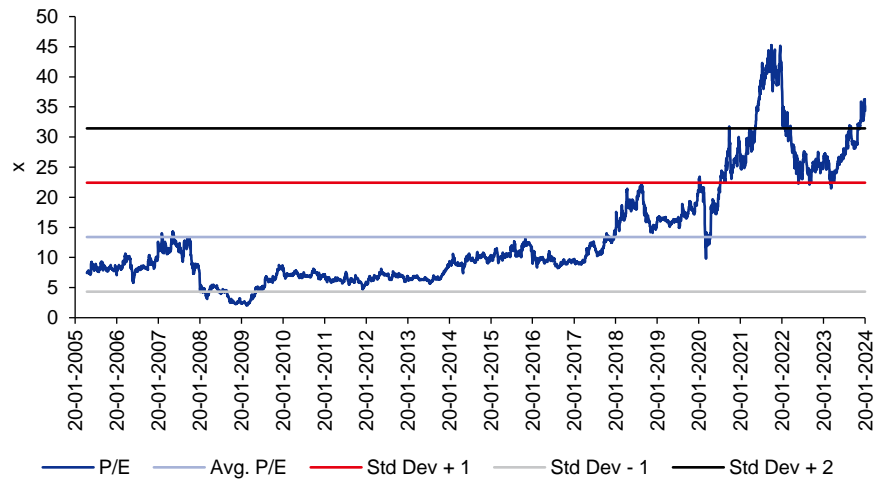
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	1,123	1,129	-0.5	1,273	1,275	-0.2	1,438	1,441	-0.2
Revenue	92,169	92,426	-0.3	1,06,927	1,07,112	-0.2	1,23,674	1,23,884	-0.2
EBIT	12,176	12,270	-0.8	15,397	14,996	2.7	18,304	17,839	2.6
EBIT margin (%)	13.2	13.3	(6) bp	14.4	14.0	40 bp	14.8	14.4	40 bp
Net PAT	8,461	8,707	-2.8	11,213	11,324	-1.0	13,622	13,786	-1.2
EPS (Rs)	135.6	139.5	-2.8	179.7	181.5	-1.0	218.3	221.0	-1.2

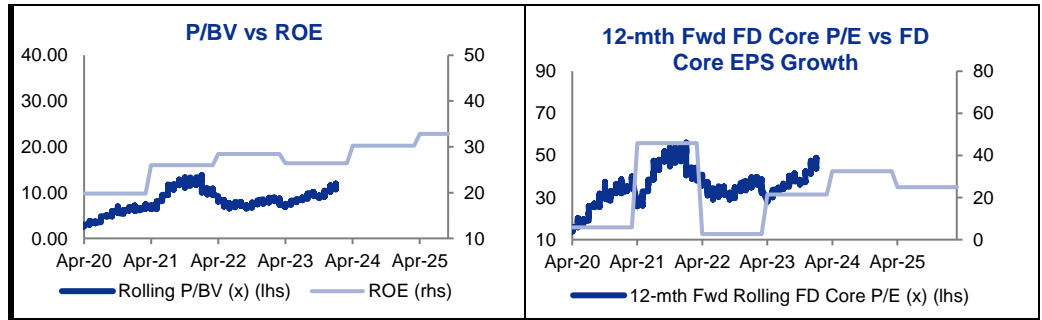
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Coforge trades at ~34x one-year forward P/E



SOURCE: INCRED RESEARCH, BLOOMBERG

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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