

NOT RATED**COFORGE**

| IT Services

| 23 October 2024

More bullish than peers on demand conditions

- Unlike peers who have been tentative on demand, Coforge CEO sounded confident that demand had returned convincingly
- Expects broad-based double-digit growth across verticals in FY25. Cigniti showed strong QoQ revenue growth
- Reiterated its commitment to hit US\$2bn in revenue before FY28 with better EBITDA margin. Will be initiating coverage shortly

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Good quarter for both Coforge and Cigniti: Coforge revenue was ahead of our estimate. Overall growth QoQ (including Cigniti) was 26.3% in CC terms (against our expectation of 22.6%). With organic QoQ revenue growth of 5.5% against our estimate of 3%. Cigniti too did slightly better than expected.

Broad based growth: Organic growth QoQ of Coforge was broad based across various verticals. The reported growth (including Cigniti) was driven by 'Others' consisting of primarily of Healthcare, Retail, Hi-Tech and Manufacturing. Coforge believes that for FY25 it is going to deliver broad-based growth with all verticals delivering double-digit growth.

12-month executable order book statistics: At US\$1.31bn, it is up optically at 40% YoY for the combined entity against the Coforge only base. The executable organic order book growth for Coforge was 18% YoY. Similarly, for Cigniti it was up only 8%. We think cross-sell could potentially lead to better numbers on this front in the quarters ahead.

EBIT margin came in lower than expected due to amortization: The reported EBIT margin at 11.8% came is lower than our estimate of 12.6% largely due to higher-than-expected depreciation and amortization expenses (Cigniti acquisition related).

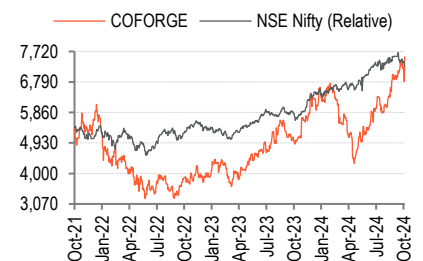
Margin of Cigniti would be higher than that guided earlier: The adjusted EBITDA margin of Cigniti was in line with organic EBITDA margin of Coforge and is expected to increase to 18% by the end of 4QFY25 (against the earlier guidance of 16.5%).

Strong order intake: Order intake at US\$516mn - eleventh consecutive quarter of US\$300+mn order intake. Three large deals were signed during the quarter. Coforge (organic) had an order intake of US\$448mn (up ~43% both YoY and QoQ). Cigniti standalone order intake of US\$67mn was up by ~10% YoY but down QoQ a tad.

Ticker/Price	COFORGE IN/Rs 7,558
Market cap	US\$ 6.0bn
Free float	99%
3M ADV	US\$ 36.9mn
52wk high/low	Rs 7,649/Rs 4,287
Promoter/FPI/DII	0%/42%/48%

Source: NSE | Price as of 23 Oct 2024

Stock performance



Source: NSE



Other Points

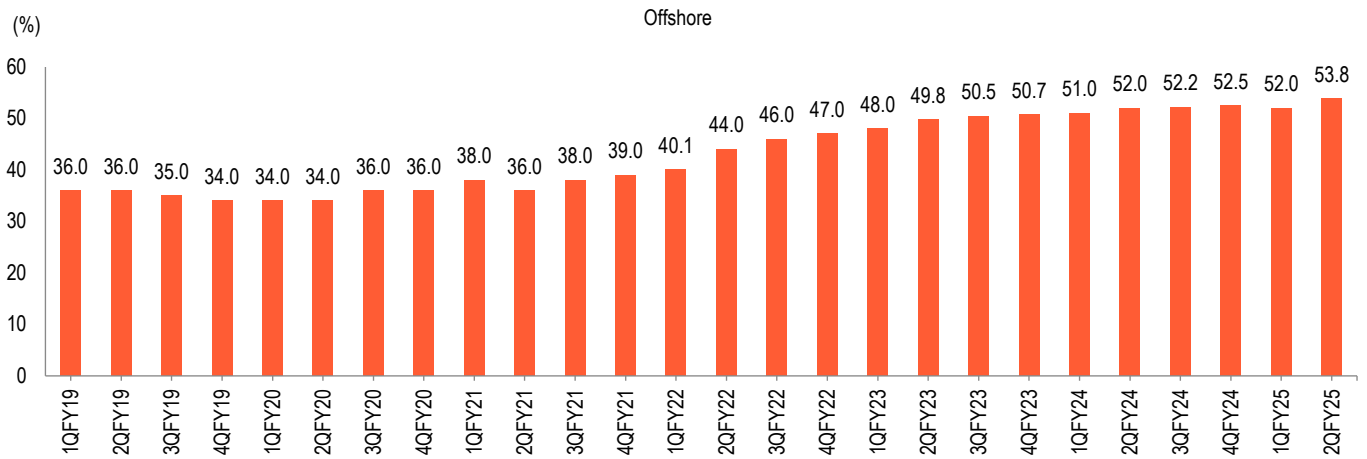
- The organic EBITDA margin for 2QFY25 stood at 16.6% (for the combined entity), reflecting decline of 126 bps over 1QFY25. All wage hikes were rolled out effectively on 1 July. In prior years, the impact of wage hike had been 250 to 270 bps. But, unlike previous years, when the salary hike was done in 1Q, this year it got pushed back by 3 months. Also, Coforge had hinted that the hikes would be lower than in previous years as its average resource cost had risen quite significantly.
- In 1H1FY25, organic gross margin was 32.2% up 64 bps. EBITDA was 16.4% up 125 bps. Organic EBIT was at 12.9% up 114 bps. In 1HFY'25, acquisition and integration related expenses had an impact of 230bps on profitability.
- Cigniti has been operationally integrated, and the synergies have exceeded Coforge's expectations. Coforge had guided for 16.5% EBITDA margin for Cigniti for FY25 post-acquisition. In 1Q it had an EBITDA margin of 16.2%, up 360 bps over previous quarter. And Coforge is now targeting 18% EBITA margin by end of FY25
- While Coforge had dropped giving an annual revenue guidance, it had guided for gross margin improvement of 50 bps and EBITDA to be flat for FY25.
- In terms of project type, the reported growth (including Cigniti) was driven by Time & material projects. In fact, Cigniti is heavily T&M focused with it contributing ~90% of its revenue.
- Customer GCC set up and support seems to have emerged a significant demand driver in the near term for several players of the industry including Coforge. Coforge was of the view that some of the work would be insourced at some point in time in the future, but it is able to get hold of additional ancillary work. It is also of the view that GCCs are not going to wax and wane like they did in the past but be a structural part of the landscape.
- Coforge indicated that deals are expanding because (1) it gained credibility in new areas like healthcare which it has been investing in for the last few years (2) product and platform engineering skills. These have to do with its Advantage go, Mona Lisa, SATS platforms that it has, and the platform work it has done for wealth management and travel tech players (3) geographical expansion into continental Europe.
- ESOPs have been granted to the leadership team towards the end of September and hence for 3Q and 4Q the ESOP cost is expected to go up to 180 bps to 200 before it drops off in 1QFY25
- Headcount - net addition of 5,871 sequentially includes 4,430 from Cigniti

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E March (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	2QFY25E	Dev (%)
Net Sales (US\$ mn)	278.1	291.4	369.4	32.8	26.8	359.7	2.7
Net Sales	22,762	24,008	30,623	34.5	27.6	30,139	1.6
Direct Cost	15,374	16,097	20,701	34.7	28.6	20,662	0.2
Gross Profit	7,388	7,911	9,922	34.3	25.4	9,477	4.7
% of Sales	32.5	33.0	32.4			31.4	
SG&A	3,392	3,625	4,859	43.2	34.0	4,466	8.8
% of Sales	14.9	15.1	15.9			14.8	
EBITDA	3,996	4,286	5,063	26.7	18.1	5,011	1.0
EBITDA Margin (%)	17.6	17.9	16.5			16.6	
Depreciation	772	815	1,243	61.0	52.5	1,023	21.5
Cost of ESOPs	519	199	222	(57.2)	11.6	199	11.6
ESOP Cost (%age of sales)	2.28	0.83	0.72			0.66	
EBIT	2,705	3,272	3,598	33.0	10.0	3,789	(5.0)
EBIT Margin (%age of sales)	11.9	13.6	11.7			12.6	
Other Income	(295)	(272)	(173)			77	(323.9)
Acquisition Related Expenses	-	953	201			-	
Exceptional Items	-	-	89			-	
Profit Before Tax	2,410	2,047	3,135	30.1	53.2	3,866	(18.9)
Provision for Taxation - Current & Deferred	528	654	799	51.3	22.2	851	(6.1)
Effective Tax Rate	21.9	31.9	25.5			22.0	
Net Profit	1,882	1,393	2,336	24.1	67.7	3,016	(22.5)
Minority Share of Net Profit	69	61	314			58	
PAT attributable to equity shareholders after Minority Interest	1,813	1,332	2,022	11.5	51.8	2,958	(31.6)
NPM (%)	8.0	5.5	6.6			9.8	

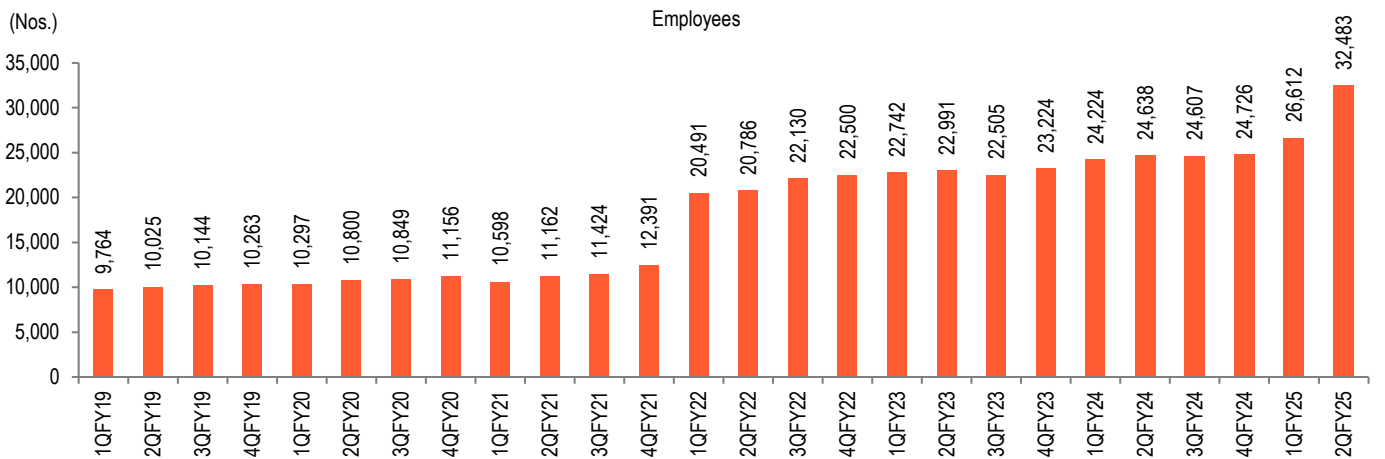
Source: Company, BOBCAPS Research

Fig 2 – Offshore contribution to revenue



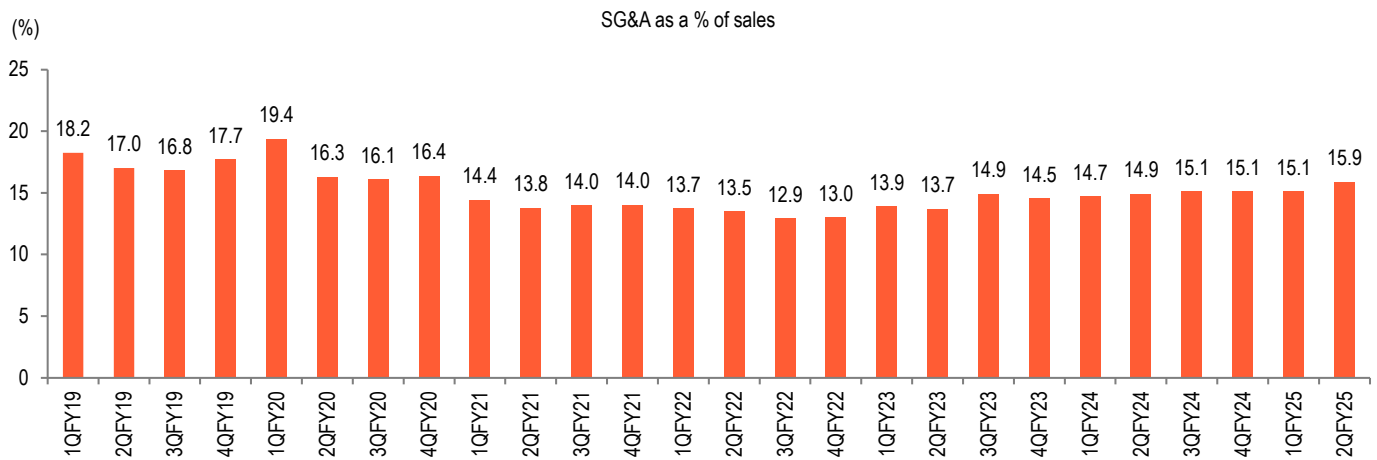
Source: Company, BOBCAPS Research

Fig 3 – Total No. of Employees



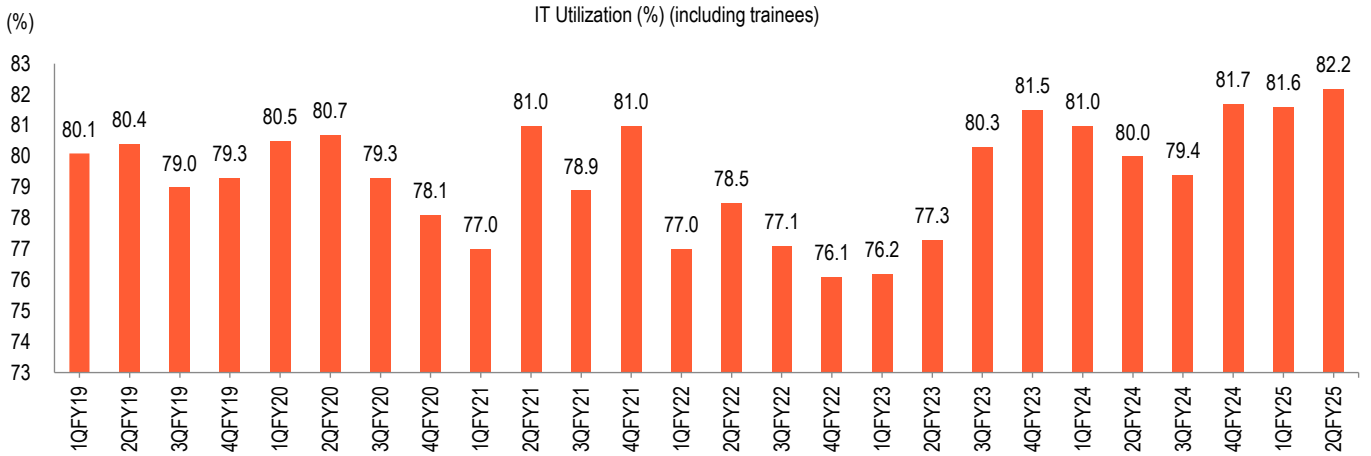
Source: Company, BOBCAPS Research

Fig 4 – SG&A as % of sales



Source: Company, BOBCAPS Research

Fig 5 – IT Utilization (at a peak)



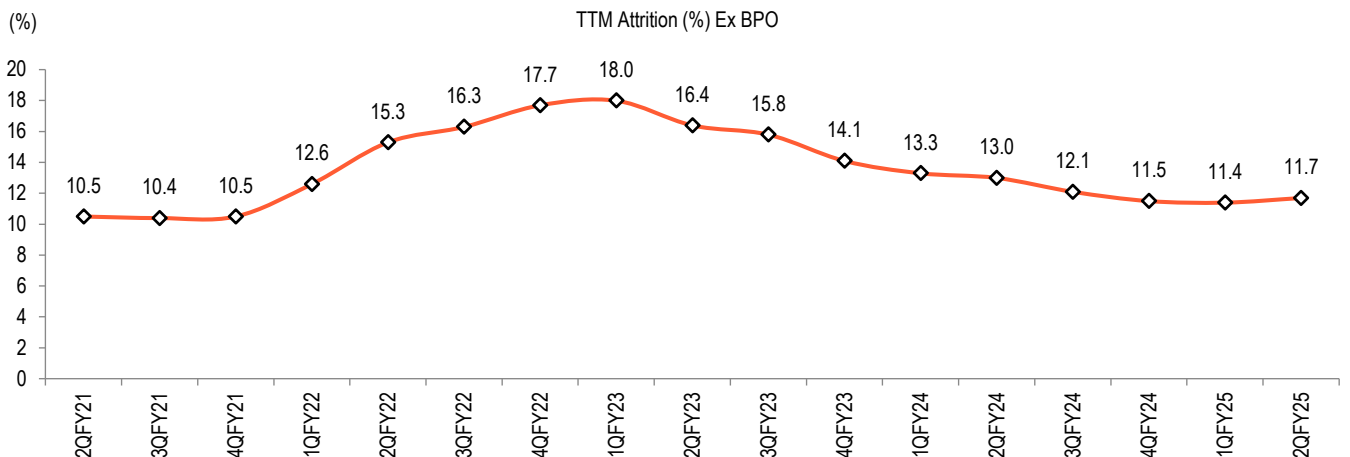
Source: Company, BOBCAPS Research

Fig 6 – Client concentration over the quarters



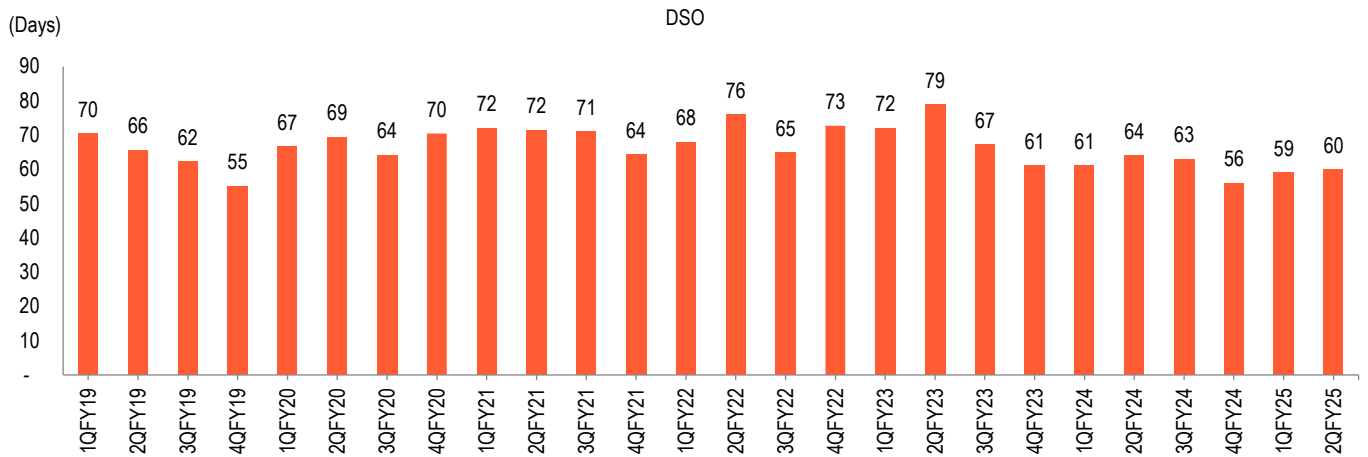
Source: Company, BOBCAPS Research

Fig 7 – Attrition trend



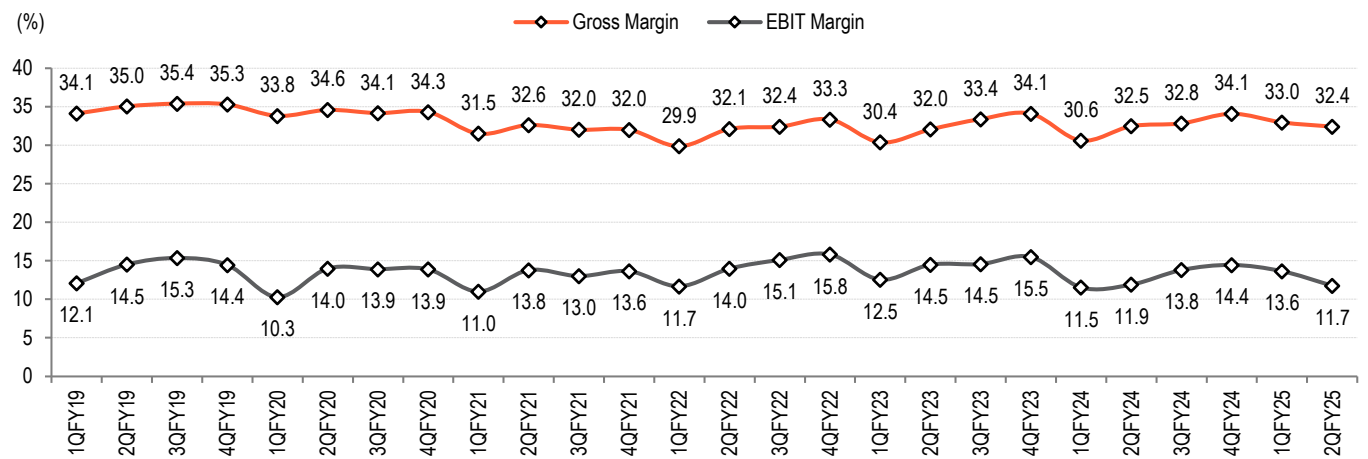
Source: Company, BOBCAPS Research

Fig 8 – DSO



Source: Company, BOBCAPS Research

Fig 9 – Gross Margin and EBIT Margin



Source: Company, BOBCAPS Research

Fig 10 – Quarterly Snapshot

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Rs mn										
INR/US\$	76.5	79.3	81.9	82.4	82.2	82.7	83.3	83.1	83.4	83.8
US\$ Revenue (US\$ mn)	239	247	252	264	272	278	282	287	291	369
INR Revenue	18,294	19,594	20,558	21,700	22,210	22,762	23,233	23,585	24,008	30,623
Gross margin	5,555	6,278	6,860	7,394	6,796	7,388	7,624	8,034	7,911	9,922
SGA	2,543	2,682	3,063	3,150	3,264	3,392	3,508	3,561	3,625	4,859
ESOP Cost	90	147	182	168	216	519	104	222	199	222
EBITDA	2,922	3,449	3,615	4,076	3,316	3,477	4,012	4,251	4,087	4,841
Depreciation and Amortisation	630	614	624	717	757	772	811	846	815	1,243
EBIT	2,292	2,835	2,991	3,359	2,559	2,705	3,201	3,405	3,272	3,598
Other income	(76)	(150)	83	(487)	(152)	(295)	(257)	(452)	(272)	(173)
PBT	2,212	2,680	3,074	1,546	2,242	2,410	2,944	2,857	2,047	3,135
Tax	493	474	715	379	485	528	516	564	654	799
PAT	1,497	2,011	2,282	1,148	1,653	1,813	2,380	2,238	1,332	2,022
EPS Adjusted (Rs)	24.6	33.0	37.4	18.8	27.0	29.6	38.6	36.2	20.9	30.3
YoY Growth (%)										
US\$ Revenue	19.6	16.2	13.7	13.8	13.9	12.6	12.0	8.5	7.2	32.8
INR Revenue	25.2	24.9	24.0	24.5	21.4	16.2	13.0	8.7	8.1	34.5
Gross profit	27.2	24.6	27.7	27.3	22.3	17.7	11.1	8.7	16.4	34.3
EBIT	34.4	29.5	19.5	21.9	11.6	(4.6)	7.0	1.4	27.9	33.0
Net Profit	21.0	37.0	24.2	(44.7)	10.4	(9.8)	4.3	94.9	(19.4)	11.5
QoQ growth (%)										
US\$ Revenue	2.7	3.4	1.9	5.05	2.80	2.32	1.40	1.70	1.60	26.8
INR Revenue	5.0	7.1	4.9	5.6	2.4	2.5	2.1	1.5	1.8	27.6
EBIT	(16.8)	23.7	5.5	12.3	(23.8)	5.7	18.3	6.4	(3.9)	10.0
Net Profit	(27.9)	34.3	13.5	(49.7)	44.0	9.7	31.3	(6.0)	(40.5)	51.8
Margins (%)										
Gross Margin	30.4	32.0	33.4	34.1	30.6	32.5	32.8	34.1	33.0	32.4
SGA	13.9	13.7	14.9	14.5	14.7	14.9	15.1	15.1	15.1	15.9
EBITDA	16.0	17.6	17.6	18.8	14.9	15.3	17.3	18.0	17.0	15.8
EBIT	12.5	14.5	14.5	15.5	11.5	11.9	13.8	14.4	13.6	11.7
PAT	8.2	10.3	11.1	5.3	7.4	8.0	10.2	9.5	5.5	6.6

Source: Company, BOBCAPS Research. Note: Cigniti got integrated with Coforge in 2QFY25

Fig 11 – Key Metrics

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
P and L (Rs mn)										
Revenue	18,294	19,594	20,558	21,700	22,210	22,762	23,233	23,585	24,008	30,623
EBITDA	2,922	3,449	3,615	4,076	3,316	3,477	4,012	4,251	4,087	4,841
PAT	1,497	2,011	2,282	1,148	1,653	1,813	2,380	2,238	1,332	2,022
Vertical Mix (%)										
BFS	29.5	31.7	31.1	31.0	31.1	31.6	32.2	33.7	31.8	29.4
Insurance	23.1	23.2	22.1	22.2	22.6	22.6	22.0	21.6	21.4	19.1
Transportation	19.4	19.3	19.3	18.8	18.5	18.5	17.8	17.6	18.1	18.1
Government (overseas)								7.6	7.8	7.6
Others	28.0	25.8	27.4	28.0	27.8	27.3	28.1	19.5	21.0	25.9
Geographical Mix (%)										
Americas	51.3	51.3	49.2	48.3	49.7	49.4	46.6	47.7	49.9	55.1
EMEA	36.9	38.5	40.3	39.6	38.6	38.8	40.0	40.1	38.7	33.8
APAC	11.9	10.2	10.5	12.1	11.7	11.8	13.4	12.2	11.4	11.1
Revenue Mix - IT Business (%)										
Onsite	52.0	50.2	49.5	49.3	49.0	48.0	47.8	47.5	48.0	46.2
Offshore	48.0	49.8	50.5	50.7	51.0	52.0	52.2	52.5	52.0	53.8
IT Utilization (%) (including trainees)	76.2	77.3	80.3	81.5	81.0	80.0	79.4	81.7	81.6	82.2
Clients Concentration (%)										
Top 5 Clients	22.9	23.1	23.9	23.0	25.1	23.5	22.7	23.0	21.0	23.0
Top 10 Clients	35.5	35.8	36.3	35.5	37.7	35.2	34.3	34.4	32.9	34.4
Number of Client										
Between 1 to 5 million	98.0	97.0	98.0	101.0	102.0	104.0	109.0	112.0	118.0	173.0
Between 5 to 10 million	24.0	26.0	23.0	23.0	24.0	23.0	23.0	24.0	25.0	29.0
Above 10 million	19.0	19.0	21.0	21.0	21.0	23.0	24.0	24.0	23.0	29.0
Revenue by Project type										
Fixed Price Project	51.9	49.8	50.4	50.2	48.9	49.3	51.0	51.5	50.4	42.5
Time & Material	48.1	50.2	49.6	49.8	51.1	50.7	49.0	48.5	49.6	57.5
Service Line Mix (%)										
Product Engineering	10.5	10.5	9.9	9.5	9.4	8.9	7.8	7.8	-	-
Data & Integration	23.3	23.1	23.9	23.6	24.0	24.5	25.7	25.2	27.4	23.2
Intelligent Automation	12.6	12.6	11.8	11.1	11.5	12.1	11.3	11.2	11.7	9.1
CIMS	18.2	17.5	18.6	19.0	20.0	18.5	18.9	19.1	19.2	17.2
ADM	24.2	25.8	26.7	27.7	25.6	26.6	27.1	27.3	-	-
BPM	11.1	10.4	9.1	9.0	9.5	9.5	9.2	9.4	9.4	8.1
Engineering									32.1	42.4
Employees	22,742.0	22,991.0	22,505.0	23,224.0	24,224.0	24,638.0	24,607.0	24,726.0	26,612.0	32,483.0
TTM Attrition (%) Ex BPO	18.0	16.4	15.8	14.1	13.3	13.0	12.1	11.5	11.4	11.7
Profit and Loss Statement (in US\$ mn)										
Revenue	238.7	246.9	251.7	264.4	271.8	278.1	282.0	286.8	291.4	369.4
EBIT	30.0	35.8	36.5	40.8	31.2	32.7	38.4	41.0	39.3	43.0
PAT	19.6	25.4	27.9	13.9	20.1	21.9	28.6	26.9	16.0	24.1
Productivity Metrics										
Per Capita in USD (Annualised)										
Revenue	41,984.0	42,955.9	44,736.7	45,539.1	44,881.1	45,149.8	45,840.6	46,396.5	43,799.8	45,488.4
EBIT	5,271.1	6,221.4	6,494.2	7,025.4	5,143.7	5,312.2	6,249.6	6,632.6	5,899.8	5,289.7
PAT	3,442.7	4,413.2	4,954.8	2,401.1	3,322.6	3,560.4	4,646.7	4,359.4	2,401.8	2,972.7

Source: Company, BOBCAPS Research

Fig 12 – QoQ and YoY data of various parameters

	FY22-23				FY23-24				FY25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
QoQ Growth										
By Geography (%)										
Americas	5.6	3.4	(2.2)	3.1	5.8	1.7	(4.3)	4.1	6.3	40.0
EMEA	(4.8)	7.9	6.7	3.2	0.2	2.8	4.5	2.0	(1.9)	10.7
APAC	18.7	(11.3)	4.9	21.1	(0.6)	3.2	15.2	(7.4)	(5.1)	23.4
By Industry (%)										
BFS	9.4	11.1	0.0	4.7	3.1	4.0	3.3	6.4	(4.1)	17.2
Insurance	(7.7)	3.9	(2.9)	5.5	4.7	2.3	(1.3)	(0.1)	0.7	13.1
Transportation	(0.9)	2.9	1.9	2.3	1.2	2.3	(2.4)	0.6	4.5	26.8
Government (overseas)									4.3	23.5
Others	8.5	(4.7)	8.3	7.3	2.1	0.5	4.4	(29.4)	9.4	56.3
By Practice Split (%) - Reinstated										
Product Engineering	0.8	3.4	(3.9)	0.8	1.7	(3.1)	(11.1)	1.7		
Data & Integration	8.8	2.5	5.5	3.7	4.5	4.4	6.4	(0.3)	10.5	7.3
Intelligent Automation	1.9	3.4	(4.5)	(1.2)	6.5	7.7	(5.3)	0.8	6.1	(1.4)
CIMS	3.9	(0.5)	8.4	7.3	8.2	(5.4)	3.6	2.8	2.1	13.6
ADM	(1.8)	10.3	5.5	9.0	(5.0)	6.3	3.3	2.5		
BPM	1.8	(3.1)	(10.8)	3.9	8.5	2.3	(1.8)	3.9	1.6	9.2
Engineering									(7.1)	67.4
Revenues from Top Clients										
Top 5	1.8	4.3	5.5	1.1	12.2	(4.2)	(2.0)	3.0	(7.2)	38.8
Top 10	4.2	4.3	3.4	2.7	9.2	(4.5)	(1.2)	2.0	(2.8)	32.5
Onsite:Offshore Mix										
Onsite	0.8	(0.1)	0.5	4.6	2.2	0.2	1.0	1.1	2.7	22.0
Offshore	4.9	7.3	3.4	5.5	3.4	4.3	1.8	2.3	0.6	31.2
YoY Growth										
By Geography(%)										
Americas	18.9	14.2	4.9	10.1	10.3	8.5	6.1	7.1	7.6	48.2
EMEA	25.0	37.7	35.9	13.2	19.1	13.5	11.2	9.8	7.5	15.7
APAC	8.6	(22.5)	(8.2)	33.7	12.0	30.3	43.0	9.4	4.5	25.0
By Industry (%)										
BFS	67.2	52.9	24.5	27.3	20.0	12.3	16.0	17.9	9.6	23.6
Insurance	(10.3)	(7.6)	(9.7)	(1.7)	11.4	9.7	11.5	5.5	1.5	12.3
Transportation	22.8	20.6	19.9	6.4	8.6	8.0	3.3	1.5	4.9	30.0
Government (overseas)									NA	NA
Others	14.7	6.7	22.6	20.2	13.1	19.2	14.9	(24.5)	(19.0)	26.0
By Practice Split (%) - Reinstated										
Product Engineering	(10.3)	(3.9)	4.2	1.0	1.9	(4.5)	(11.7)	(10.9)		
Data & Integration	37.9	30.4	32.5	22.0	17.3	19.5	20.5	15.8	22.4	25.8
Intelligent Automation	3.9	2.4	(4.2)	(0.6)	3.9	8.2	7.3	9.4	9.1	(0.1)
CIMS	27.3	19.7	13.7	20.1	25.1	19.1	13.8	9.0	2.9	23.5
ADM	11.7	25.5	22.9	24.6	20.5	16.1	13.7	6.9		
BPM	58.0	4.2	(9.3)	(8.6)	(2.5)	2.9	13.3	13.3	6.1	13.3
Engineering									(1.7)	58.6
Revenues from Top Clients										
Top 5	11.3	16.8	7.8	13.3	24.8	14.6	6.4	8.5	(10.3)	30.0
Top 10	18.3	26.1	14.3	15.4	20.9	10.7	5.9	5.1	(6.4)	29.8
Onsite:Offshore Mix										
Onsite	3.8	4.2	4.2	5.8	7.3	7.7	8.2	4.5	5.0	27.8
Offshore	43.2	31.6	24.8	22.7	21.0	17.6	15.8	12.3	9.3	37.4

Source: Company, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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