Coforge

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	COFORGE IN
Equity Shares (m)	67
M.Cap.(INRb)/(USDb)	504.1 / 6
52-Week Range (INR)	7649 / 4287
1, 6, 12 Rel. Per (%)	16/36/27
12M Avg Val (INR m)	2932

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	120.8	150.7	174.0
EBIT Margin (%)	12.6	15.0	15.7
PAT	9.8	16.0	19.5
EPS (INR)	147.9	240.5	292.6
Adj. PAT	9.8	16.0	19.5
Adj. EPS (INR)	147.1	239.2	291.0
Adj. EPS Gr. (%)	10.4	62.6	21.7
BV/Sh. (INR)	621.8	732.8	877.1
Ratios			
RoE (%)	24.6	34.9	35.7
RoCE (%)	23.3	30.8	31.7
Payout (%)	50.0	50.0	50.0
Valuations			
P/E (x)	51.4	31.6	26.0
P/BV (x)	12.2	10.3	8.6
EV/EBITDA (x)	25.1	18.0	14.9
Div Yield (%)	1.0	1.6	1.9

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	48.2	47.3	54.3
FII	42.1	41.4	34.4
Others	9.8	11.3	11.4

FII Includes depository receipts

CMP: INR7,558 TP: INR10,000 (+32%) BUY

A blazing quarter

Growth across the board and a strong start to Cigniti integration

- COFORGE reported 2QFY25 organic revenue growth of 6.3% QoQ in USD terms, above our estimate of 4.3%. It reported an organic CC QoQ growth of 5.5% (consol. CC QoQ growth of 26.3%). Consol. revenue stood at USD369.4m (up 26.8% QoQ/32.8% YoY). Organic order intake of USD448m in 2Q with three large deals, resulting in a robust organic 12-month executable order book of USD1,105m (+18% YoY). Organic EBIT margin, adjusted for transaction-related costs of INR201m, came in at 12.2% (est. 12.5%). Organic adj. PAT stood at INR1.8b (+39.5% QoQ/2.7% YoY) due to lower SG&A costs and higher other income. The company's revenue grew 10.4% in 1HFY25, while EBIT/PAT declined 0.7%/12.4% vs. 1HFY24 in organic terms. We expect revenue/EBIT/PAT to grow organically by 19.0%/20.6%/17.0% YoY in 2HFY25. **We reiterate our BUY rating on COFORGE with a TP of INR10,000, implying a 32% potential upside.**

Our view: Coforge in pole position to participate in recovery

- **COFORGE had a robust quarter, to lead the industry on the growth front:** COFORGE's organic growth was broad-based across BFS, Insurance, and Travel. Order intake was quite healthy too, up 43% QoQ. We believe COFORGE's organic business is in great shape, and its executable order book over the next 12 months (up 18% YoY) provides confidence in FY25 growth. Further, its presence in high growth verticals in a recovering demand environment positions it as a growth leader alongside Persistent.
- **Not just margins, but Cigniti growth could surprise on the upside too:**. While the EBITDA margin expansion from 12.6% in Q1 to 16.2% in Q2 was the key highlight, Cigniti's growth numbers were an even bigger surprise. Cigniti reported revenue growth of 6.1% sequentially.
- COFORGE believes it can extract further synergies and expand margin to over 18% by 4QFY25. Further, early cross-selling initiatives between COFORGE and Cigniti indicate that COFORGE could engineer a growth turnaround at Cigniti earlier than expected.
- **Demand turnaround now certain, COFORGE a key beneficiary:** The 2Q earnings season corroborates our thesis that demand is recovering, and COFORGE's offerings and vertical exposures put it in pole position to lead growth. It continues to be our top pick, as detailed in our IMPACT framework analysis (Exhibit 3).

Valuation and changes to our estimates

- We integrate Cigniti numbers in our financial model, and we now assume 80% ownership of Cigniti by FY25E and 100% ownership beyond FY26E. We value COFORGE organically at 40x Sep'26E EPS (vs. 38x earlier) and value the Cigniti business at 25x Sep'26E EPS. This SOTP-based approach yields a rounded TP of INR10,000 (INR8,700 for COFORGE and INR1,300 for Cigniti). **We reiterate our BUY rating on the stock with a TP of INR10,000, implying a 32% potential upside.**