

Taking the Right Steps | BUY

We hosted Saurabh Goel, Dy. CFO for investor meetings. Management expects growth to be in the lower end of their 13-16% guidance despite longer furloughs in 3Q, and expects similar growth in FY25 given recent deal wins, even if demand doesn't pick up. Coforge has also intensified its focus on optimizing costs with the aim of improving margins by 150-300bps over next 3-4 years. We maintain Buy with rolled-over PT of Rs 6,580.

Confident of achieving FY24 guidance: Management highlighted that macro remains challenging and furloughs in 3Q are longer than usual, with shorter notices. However, recent new project wins suggest that outlook for 4Q may be better. The company is winning deals in the Banking and Insurance verticals, but is not seeing much traction in the Travel vertical. Overall, Coforge is confident of achieving the lower-end of its FY24 growth guidance of 13-16% YoYcc.

FY25 growth to be same or higher than FY24: Management highlighted that there is limited clarity on CY24 budgets; however, growth in FY25 is likely to be in the same range as FY24, even if the demand environment doesn't improve. Coforge's executable order book provides strong growth visibility and is iron clad given that they include only those deals where clients have signed a Statement of Work (SoW).

Focus on improving margins structurally: Amidst a weak demand environment, management is focused on optimizing the cost structure and structurally improving margins. Management sees ample scope to improve gross margins by reducing average resource costs and improving the pyramid. Given the focus on growth, SG&A is unlikely to see a meaningful cut. Overall, Management is targeting a 150-300bps margin improvement over the next 3-4 years.

Investing to scale up: With a vision to reach the US\$2bn topline, Coforge plans to scale up 4 new verticals – Public Sector, Healthcare, HiTech and Retail. Coforge is also investing in expanding its presence in the West Coast in the US. It is also looking to augment its capabilities in Digital process Automation, and grow its Salesforce and Cybersecurity practice. The company is open to acquisitions to scale verticals/service offerings

Barings exit to not impact performance: Management highlighted that Coforge's turnaround started before Barings entry in 2019 and Barings had limited influence on operations. Management is focused on delivering sector-leading growth and that focus remains so despite promoter exits. Furthermore, with one of the better ESOP plans in the industry, Coforge's management is well incentivized to deliver a strong performance, also setting a strong basis for a well-run professionally-managed company.

Maintain Buy: We are more positive on the growth and margin prospects of the company, as management's efforts are targeted towards longer-term goals. Management's confidence in FY25 growth is also encouraging. Coforge offers 15% revenue CAGR and 25% EPS CAGR over FY24-26E. Maintain Buy with rolled-fwd PT of Rs 6,580 at 30x PE.

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (B)	80.1	92.8	108.7	126.6
EBIT (B)	11.5	12.8	16.0	19.0
Net Profit (B)	8.1	9.0	11.4	14.1
EPS	133.10	147.30	186.50	230.20

TARGET CHANGE

RATING	BUY
PRICE	INR5,780.05*
PRICE TARGET % TO PT	↑ INR6,580 (INR6,250) +14%
52W HIGH-LOW	INR5,915.75 - INR3,565.20
FLOAT (%) ADV MM (USD)	100.9% 23.92
MARKET CAP	INR352.0B \$4.2B
TICKER	COFORGE IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	NA	NA
EPS	NA	NA	-1%	-2%

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	147.30
PREV					

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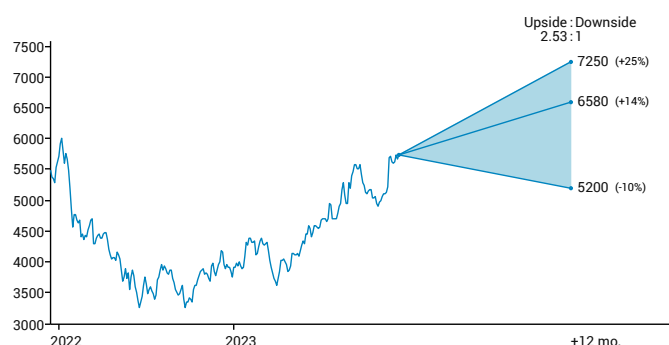
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The Long View: Coforge

Investment Thesis / Where We Differ

Coforge's executable order book offers visibility of mid-teens growth in FY24 - a positive amidst the current demand uncertainty. With the promoter stake sale overhang being lifted and growth momentum remaining strong, we expect multiples to re-rate from current levels.

Risk/Reward - 12 Month View



Base Case, INR6580, +14%

- Revenue CAGR of 15% YoYcc over FY23-26
- USDINR at 82.4/84/85 in FY 24/25/26E
- EBIT margin to be in the 14-15% range over FY24-26E
- FY24/25/26E EPS of Rs 147/187/230
- Fair value of Rs6,580 based on 30x 12m fwd EPS

Upside Scenario, INR7250, +25%

- Revenue CAGR of 17% YoYcc over FY22-25E
- Higher-than-expected INR depreciation
- Higher-than-expected Ebit margins
- FY24/25/26E EPS of Rs 150/196/246
- Fair value of Rs7,250 based on 31x 12m fwd EPS

Downside Scenario, INR5200, -10%

- A stronger or prolonged recessionary environment leading to cut in IT spends
- Revenue CAGR of 11% over FY23-26E
- Lower-than-expected INR depreciation
- Lower-than-expected EBIT margins
- FY24/25/26E EPS of Rs 144/174/208
- Fair value of Rs 5,200 based on 26x 12m fwd EPS

Sustainability Matters

Top Material Issue(s): Data Security, Customer privacy, Employee engagement, Energy management

Company Target(s): **1)** Focus on reducing carbon footprint **2)** Focus on reducing water and energy consumption and efficient waste disposal **3)** Focus on increasing share of renewable energy **4)** Focus on waste management and recycling to reduce resource consumption to minimum level

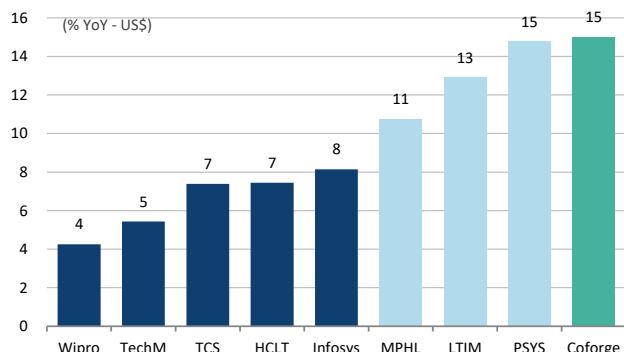
Qs to Mgmt: **1)** What are the environmental initiatives that the company has taken? **2)** How does the company plan to increase gender diversity at workplace as well as employee engagement? **3)** What are some of the initiatives being taken to ensure data security and privacy? **4)** How is management compensation linked to ESG initiatives?

Catalysts

- Higher-than-expected impact of Global slowdown in BFSI vertical
- Weaker-than-expected traction on large deal wins
- Lower-than-expected revenue growth
- Lower-than-expected margins
- Loss in market share
- Lower-than-expected growth/margin guidance
- Unfavourable currency movement

Exhibit 1 - Coforge is expected to be the fastest growing IT Services firm...

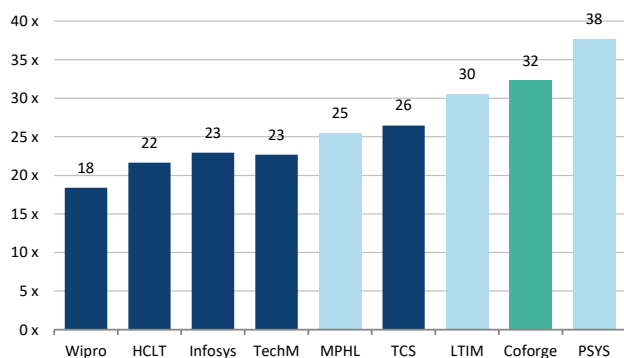
IT Services: FY24-26E revenue growth



Source: Company data, Bloomberg, Jefferies estimates

Exhibit 3 - Coforge's valuation is in line with other fast growing peers

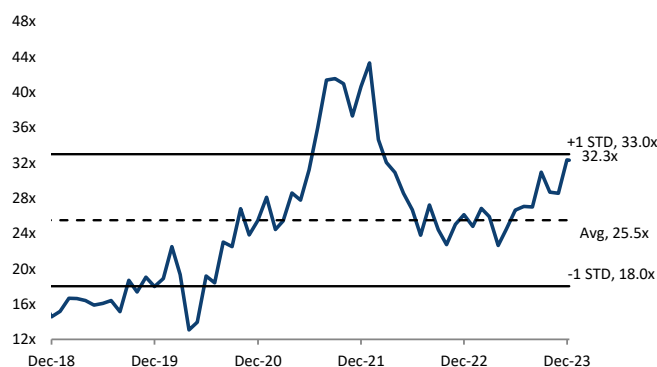
Coforge: 1-yr fwd valuation



Source: Bloomberg, Jefferies

Exhibit 5 - Coforge is trading at +1SD above 5-year average

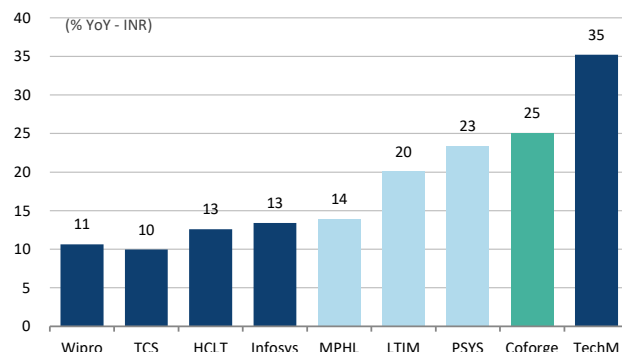
Coforge: 1-yr fwd PE



Source: Company data, Jefferies estimates

Exhibit 2 - ...which also translates into strong EPS growth for the firm

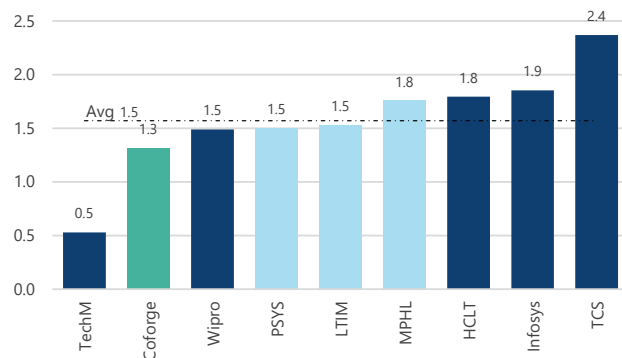
IT Services: FY24-26E EPS Cagr



Source: Company data, Bloomberg, Jefferies estimates

Exhibit 4 - ...but Coforge is one of the most attractive stocks on a PEG basis

PEG ratios



Source: Bloomberg, Jefferies; PEG calculated by dividend FY24 PE by FY24-26 EPS growth

Exhibit 6 - Coforge is trading at PEG slightly higher than 5-yr average

Coforge: PEG valuation trends



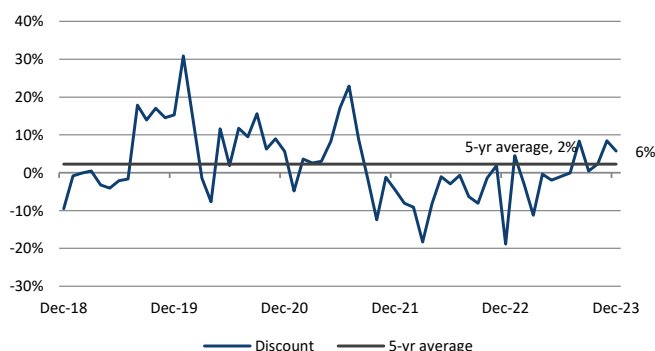
Source: Bloomberg, Jefferies

Exhibit 7 - Coforge is trading broadly in line with aggregate mid-sized valuations...

Coforge vs Mid-sized aggregate PE



Exhibit 8 - ...implying a slight discount vs a slight premium on 5-yr average

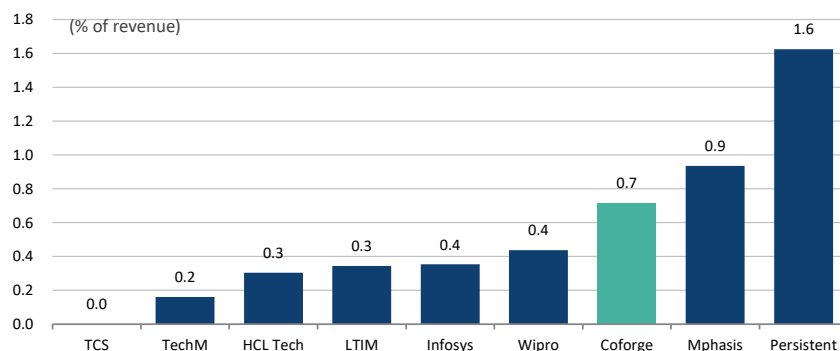


Source: Bloomberg, Jefferies

Source: Bloomberg, Jefferies; Mid-sized valuations is aggregate of LTIM, MPHL and PSYS

Exhibit 9 - Coforge's ESOP plans aligns management interest with firm's performance

ESOP cost as % of revenue, FY23



Source: Company data, Jefferies estimates

Exhibit 10 - Recommendation summary

	Rec.	Market Cap (US\$bn)	CMP (Rs)	Target (Rs)	Target PE (x)	Upside (%)	PE (x)			EPS Cagr- FY23-26 (%)	EV/Sales (x)			US\$ Sales Cagr- FY23-26 (%)
							FY24	FY25	FY26		FY24	FY25	FY26	
TCS	HOLD	159	3,627	3,690	24	2	28.3	25.9	23.4	10	5.3	4.9	4.5	6.5
Infosys	BUY	74	1,491	1,650	24	11	25.3	22.2	19.6	10	3.9	3.6	3.2	6.3
HCL Tech	HOLD	44	1,364	1,240	18	(9)	23.7	21.1	18.7	10	3.2	2.9	2.7	6.7
Wipro	UPF	26	423	345	15	(18)	21.3	19.3	17.5	5	2.3	2.2	2.0	1.5
TechM	UPF	14	1,225	910	16	(26)	37.2	23.8	19.6	4	2.3	2.1	2.0	1.6
Coforge	BUY	4	5,783	6,580	30	14	39.3	31.0	25.1	20	3.9	3.4	2.9	14.1
LTIMindtree	HOLD	20	5,709	5,575	25	(2)	34.1	27.9	23.7	17	4.5	3.9	3.4	10.8
Newgen	BUY	1.17	1,391	1,275	35	(8)	42.3	33.7	26.5	30	7.7	6.1	4.9	22.8

Source: Company data, Bloomberg, Jefferies estimates

Exhibit 11 - Earnings summary

	USD assumption			USD revenue growth (%)				EBIT Margin			EPS (Rs)			
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY23-26 Cagr	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY23-26 Cagr
TCS	83	84	85	4.6	6.9	7.9	6.5	24.4	24.7	25.0	128.1	140.1	154.8	10.4
Infosys	83	84	85	2.8	8.1	8.2	6.3	20.5	20.9	21.3	59.0	67.3	75.9	9.6
HCL Tech	83	84	85	5.2	7.6	7.3	6.7	18.1	18.6	19.3	57.5	64.7	73.0	10.1
Wipro	83	84	85	(4.1)	3.0	5.5	1.4	14.2	14.6	14.9	19.9	21.9	24.2	5.4
Tech M	83	84	85	(5.0)	4.6	6.8	2.0	7.2	10.8	12.2	32.9	51.5	62.5	4.4
Coforge	82	84	85	12.4	14.9	15.1	14.1	13.7	14.7	15.0	147.3	186.5	230.2	20.0
LTIMindtree	83	84	85	6.8	11.9	13.9	10.8	16.6	17.5	17.8	167.3	204.6	241.2	17.0
Newgen	83	84	85	26.5	23.0	22.0	23.8	19.8	20.2	20.6	32.9	40.5	50.6	28.9

Source: Company data, Jefferies estimates

Exhibit 12 - Valmat

	Ticker	Currency	Price	Rating	PT	Upside	MCAP	Turnover	FY23-26		EV/Sales			P/E		Div. Yield		ROE	
							(US\$bn)	(US\$m)	Sales Cagr	EPS Cagr	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY24	FY25
Large Indian IT services firms																			
TCS	TCS IN	Rs	3,627	Hold	3,690	2%	159	84	6.5	10.4	5.3	4.9	4.5	28.3	25.9	23.4	3.3	48.3	49.1
Infosys	INFO IN	Rs	1,491	Buy	1,650	11%	74	93	6.3	9.6	3.9	3.6	3.2	25.3	22.2	19.6	2.7	30.3	28.6
HCL Tech	HCLT IN	Rs	1,364	Hold	1,240	-9%	44	35	6.7	10.1	3.2	2.9	2.7	23.7	21.1	18.7	4.3	23.5	25.2
Wipro	WPRO IN	Rs	423	UPF	345	-18%	26	25	1.5	5.4	2.3	2.2	2.0	21.3	19.3	17.5	2.6	13.8	14.3
TechM	TECHM IN	Rs	1,225	UPF	910	-26%	14	30	1.6	4.4	2.3	2.1	2.0	37.2	23.8	19.6	4.1	10.1	15.4
LTIMindtree	LTIM IN	Rs	5,709	Hold	5,575	-2%	20.2	21	10.8	17.4	4.5	3.9	3.4	34.1	27.9	23.7	1.2	27.0	27.3
Average									5.6	9.4	4.0	3.7	3.4	26.6	23.5	21.1	3.1	31.0	31.9
Mid-size Indian IT services firms																			
Mphasis	MPHL IN	Rs	2,427	NC	NA		5.5	12	6.2	8.6	3.3	2.9	2.6	28.3	24.5	21.8	2.5	21.7	22.6
Tata Elxsi	TELX IN	Rs	8,366	NC	NA		6.2	13	14.4	13.3	14.2	12.2	10.5	65.6	56.0	47.5	0.9	34.8	34.5
L&T Technology Services	LTTS IN	Rs	4,939	NC	NA		6.3	9	14.2	14.0	5.3	4.6	4.1	40.2	35.0	30.1	1.1	24.7	24.3
Persistent	PSYS IN	Rs	6,465	NC	NA		6.0	37	15.1	23.0	5.0	4.3	3.7	43.9	35.2	28.8	1.0	27.3	27.8
Coforge	COFORGE IN	Rs	5,783	Buy	6,580	14%	4.3	23	14.1	20.0	3.9	3.4	2.9	39.3	31.0	25.1	1.5	26.5	28.8
KPIT Tech	KPITTECH IN	Rs	1,479	NC	NA		4.9	21	25.8	34.9	8.5	7.0	5.8	70.6	55.2	42.8	0.5	30.9	31.5
Cyient	CYL IN	Rs	1,950	NC	NA		2.6	10	13.0	26.0	3.0	2.7	2.4	28.3	24.1	20.7	2.1	21.0	22.0
BirlaSoft	BISOFT IN	Rs	658	NC	NA		2.2	16	10.9	34.7	3.2	2.9	2.5	31.7	26.8	22.5	1.0	22.4	22.6
eClerx	ECLX IN	Rs	2,543	NC	NA		1.5	5	9.7	12.7	4.0	3.6	3.2	23.6	20.4	18.0	0.1	26.7	26.2
Average									12.7	17.4	4.9	4.3	3.7	39.9	33.4	28.4	1.1	24.3	25.5
Global Peers																			
IBM	IBM US	US\$	161	NC	NA		147	604	3.4	81.2	3.2	3.1	2.9	16.9	16.2	14.9	4.2	32.6	33.0
Accenture	ACN US	US\$	336	Hold	298	-11%	223	604	6.2	10.9	3.3	3.1	2.8	27.5	25.2	22.6	1.6	27.7	28.0
Coq nizant	CTSH US	US\$	70	Hold	67	-4%	35	215	2.6	4.5	1.8	1.7	1.6	15.9	15.2	13.9	1.8	16.6	16.7
Capgemini	CAP FP	EUR	190	Buy	210	11%	36	62	5.2	14.5	1.7	1.6	1.5	16.6	15.5	14.1	1.9	17.9	17.9
Atos	ATO FP	EUR	6	NC	NA		1	9	(0.7)	n/m	0.4	0.4	0.4	n/m	2.9	1.9	0.0	6.6	8.2
Endava	DAVA US	USD	70	NC	NA		4	20	6.9	11.5	4.9	4.9	4.2	32.5	42.9	30.7	0.0	14.5	18.6
EPAM	EPAM US	USD	264	Buy	304	15%	15	106	5.0	19.1	2.9	2.8	2.4	25.6	24.9	21.4	0.0	16.3	16.3
Globant	GLOB US	USD	227	Buy	222	-2%	10	76	18.6	31.8	4.6	3.9	3.3	39.6	34.0	27.9	0.0	14.5	15.1
Average									4.5	38.8	2.7	2.6	2.5	21.2	19.8	18.0	2.2	25.3	25.5

Source: Bloomberg, Jefferies estimates

Exhibit 13 - Coforge: Financial Summary

Rs m	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
P&L								
USDINR	69.6	70.5	74.2	74.2	80.0	82.4	84.0	85.0
Revenue (US\$m)	528	593	628	867	1,002	1,126	1,294	1,489
Revenue	36,762	41,809	46,628	64,320	80,146	92,778	108,677	126,583
EBITDA	6,453	7,168	7,865	11,154	14,053	15,788	19,231	22,599
EBIT	5,205	5,438	6,029	8,882	11,468	12,751	15,989	18,972
PBT (Reported)	5,625	5,925	5,962	8,616	9,512	11,759	15,380	18,802
PAT (Reported)	4,033	4,460	4,556	6,618	6,938	8,868	11,397	14,066
PAT (Recurring)	4,075	4,516	4,736	6,618	8,117	8,997	11,397	14,066
Recurring EPS	66.3	72.4	77.7	109.0	133.1	147.3	186.5	230.2
Balance Sheet								
Networth	20,723	23,965	24,661	27,331	30,825	36,072	43,151	52,545
Minority interest	75	0	0	983	874	1,187	1,787	2,387
Gross debt	71	315	10	3,545	3,382	9,425	6,425	3,425
Lease liabilities	0	973	812	1,351	2,240	2,740	3,240	3,740
Current liabilities	5,453	6,716	8,648	12,660	15,065	17,439	20,428	23,794
Other liabilities	2,412	2,429	902	3,674	4,448	798	798	798
Total Liabilities	28,734	34,398	35,033	49,544	56,834	67,661	75,829	86,689
PPE+ROU	4,205	4,808	4,518	6,096	6,866	6,721	6,674	6,589
Receivables	7,443	11,196	12,267	15,585	17,903	23,030	26,977	31,422
Cash and Investments	8,730	8,332	8,123	4,468	5,699	11,656	15,912	22,320
Goodwill	2,448	4,091	4,226	10,708	11,665	11,665	11,665	11,665
Intangible assets	1,548	1,897	1,464	4,031	4,634	4,097	3,576	3,066
Other assets	4,360	4,074	4,435	8,656	10,067	10,492	11,026	11,629
Total assets	28,734	34,398	35,033	49,544	56,834	67,661	75,829	86,689
Cash Flow Statement								
CFO	4,527	2,969	7,623	7,656	9,505	10,891	15,170	17,730
CFI	(2,300)	1,123	(2,354)	(10,293)	(2,716)	(5,239)	(1,779)	(1,924)
Capex	(676)	(703)	(757)	(1,475)	(1,537)	(1,856)	(2,174)	(2,532)
Acquisitions	(1,756)	(1,959)	(1,691)	(9,286)	(1,222)	(3,650)	0	0
CFF	(1,063)	(1,327)	(5,531)	(829)	(5,582)	305	(9,135)	(9,399)
FCFE	2,260	305	5,169	(3,352)	6,075	4,557	12,388	15,029
Growth								
US\$ revenue growth (%YoY)	13.9	12.3	5.9	38.0	15.6	12.4	14.9	15.1
Revenue growth (%YoYcc)	17.6	11.0	6.0	38.0	22.4	13.4	15.6	15.2
Revenue growth (Organic %YoYcc)	17.3	11.9	5.9	24.9	21.6	13.4	15.6	15.2
INR Revenue growth (%YoY)	22.9	13.7	11.5	37.9	24.6	15.8	17.1	16.5
EBITDA Growth (%YoY)	28.8	11.1	9.7	41.8	26.0	12.3	21.8	17.5
EBIT Growth (%YoY)	39.2	4.5	10.9	47.3	29.1	11.2	25.4	18.7
PAT Growth (%YoY)	43.9	10.6	2.2	45.3	4.8	27.8	28.5	23.4
Recurring EPS growth (%YoY)	45.0	9.2	7.2	40.4	22.1	10.6	26.7	23.4
Margin								
EBITDA Margin (%)	17.6	17.1	16.9	17.3	17.5	17.0	17.7	17.9
EBIT Margin (%)	14.2	13.0	12.9	13.8	14.3	13.7	14.7	15.0
Reported PAT Margin (%)	11.0	10.7	9.8	10.3	8.7	9.6	10.5	11.1
Return ratios								
ROE	21.0	20.0	18.7	25.5	23.9	26.5	28.8	26.8
ROA	15.2	14.9	13.4	16.9	14.0	14.7	16.7	16.9
ROIC	34.6	30.7	29.0	33.5	31.6	30.9	35.4	41.1
ROCE	27.5	25.4	25.1	29.1	26.2	26.7	32.0	36.5
Per share								
EPS	66.3	72.4	77.7	109.0	133.1	147.3	186.5	230.2
DPS	0.0	31.0	13.0	52.0	64.0	76.0	84.0	92.0
BPS	340.3	393.5	404.9	448.8	506.2	592.3	708.6	862.8
FCF/share	37.0	5.0	84.6	(54.9)	99.4	74.6	202.8	246.0
Valuation								
PE	87.3	79.9	74.5	53.1	43.5	39.3	31.0	25.1
PB	17.0	14.7	14.3	12.9	11.4	9.8	8.2	6.7
P/sales	9.6	8.5	7.6	5.5	4.4	3.8	3.3	2.8
P/FCF	156.4	1,158.7	68.4	(105.4)	58.2	77.5	28.5	23.5
FCF yield	0.6	0.1	1.5	(0.9)	1.7	1.3	3.5	4.3
Dividend yield	0.0	0.5	0.2	0.9	1.1	1.3	1.5	1.6

Source: Company data, Jefferies estimates

Company Description

Coforge

Coforge (erstwhile NIIT Technologies) was established in 2004 as a result of a spinoff from NIIT Limited. The company was rebranded to Coforge in 2020. Coforge is a global IT solutions provider with a strong presence in select industry verticals - Banking and Financial Services, Insurance and Travel & Hospitality. In addition to these, the company has a growing presence in Retail, Healthcare and Hi-tech, Manufacturing, and Public Sector/Government verticals. Baring Private Equity Asia has a 50% holding in the company.

Company Valuation/Risks

Coforge

Our price target of Rs6,580 is based on 30x 12m fwd EPS (1.2x PEG). Key risks include Higher than expected impact on BFSI vertical, management churn, weaker than expected revenue growth, Lower than expected margin, unfavorable currency movements.

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(Article 3(1)e and Article 7 of MAR)

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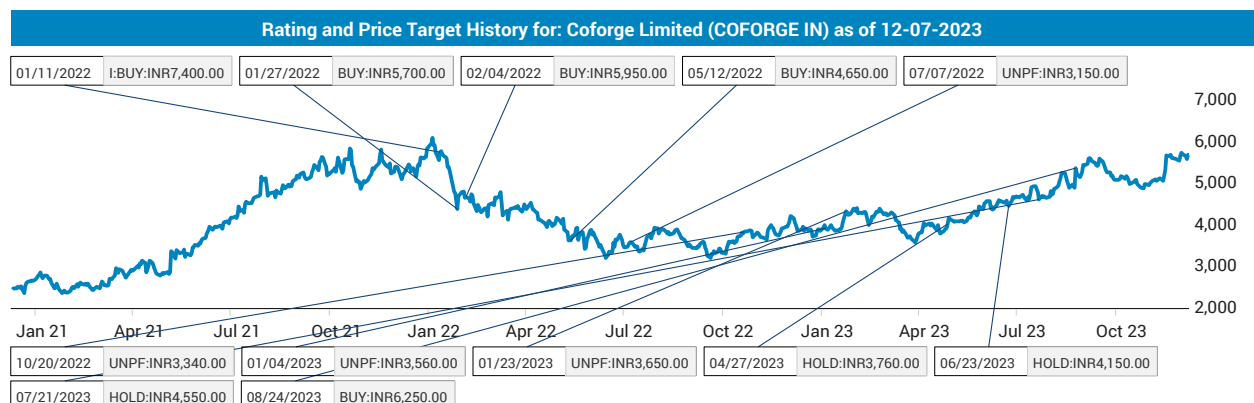
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- Globant (GLOB: \$227.27, BUY)
- HCL Technologies (HCLT IN: INR1,362.90, HOLD)
- Infosys (INFO IN: INR1,490.60, BUY)
- LTIMindtree (LTIM IN: INR5,707.65, HOLD)
- Newgen Software Technologies Limited (NEWGEN IN: INR1,393.30, BUY)
- Tata Consultancy Services (TCS IN: INR3,626.40, HOLD)
- Tech Mahindra (TECHM IN: INR1,225.65, UNDERPERFORM)
- Wipro (WPRO IN: INR422.00, UNDERPERFORM)



Distribution of Ratings

			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
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