

**SELL**

TP: Rs 1,302 | ▼ 22%

COFORGE

IT Services

28 December 2025

**Encora – expensive buy; execution and return-dilution concerns**

- Encora expensive relative to Coforge for weaker organic growth. Transaction may be EPS-accretive but significantly return dilutive.
- Pros: AI skills, Hi-tech, Healthcare, US geo and near shore expansion. Challenges: Synergy extraction, team retention, margins
- PE's 50% shares free from lock-in at gaps of 6/12 months each post deal closure. Lower target PE for higher risks and retain SELL.

**Acquisition of Encora achieves some objectives:** (1) Acquire for AI capabilities (2) Headstart into new verticals like Hi-tech and Healthcare (3) Make inroads into US West and Mid-West, where Coforge has lower exposure (4) Have near-shore capabilities in Latin America (5) Expand US\$10mn clients from 34 to 45, post deal, to cross and upsell (6) in our view, will partly dilute problems like Sabre Corporation and GCC exposures (see details inside).

**Has downsides too:** (1) We believe Coforge has overpaid and hence, has diluted equity more. 4x Sales, 21x EBITDA on FY26E is at a premium to Coforge for weaker organic revenue growth of 7-8% (FY24-FY26E). The supposed AI native player has not delivered better growth or margins (2) 50%/100% of the equity held by investors in Encora (~21.5% post transaction) can come to market at 6/12-month intervals from deal closure (3) While the deal may be EPS-accretive, it is significantly return-dilutive. ROE/Post tax ROCE/Post tax ROIC will go from 21.3%, 16.9%, 18.3% in FY26E to 12%, 10.5%, 10.7% in FY28E respectively, post the deal. These were 24.1%, 22.3%, 25% in FY24 before the Cigniti buy (4) While Coforge has digested smaller acquisitions, this is the largest one done by any Indian player and more importantly, Encora itself in its current form has come about through multiple M&A transactions (details inside) and hence value extraction could be a challenge (5) Assumption of 13-14 year amortization of intangible asset for client relationships (hence higher EBIT margin) seems optimistic. Vendor consolidation is a key theme playing out in the market now; we do not think Coforge will be immune to that despite Sudhir Singh and team's good track record.

**Estimates tweaked; lower multiple and retain SELL:** Consolidated Encora from 2QFY27 (adding US\$166mn to that quarter's revenue). Made it marginally EPS-accretive from FY27 itself. We have lowered our target PE multiple on Coforge to 19x (with no premium to the TCS target PE multiple vs 10% earlier) due to the various risks that we have highlighted. Besides the issues pertaining to Encora, we are also wary of Sabre and GCC related risks highlighted previously.

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**Key changes**

Target	Rating
▼	◀ ▶

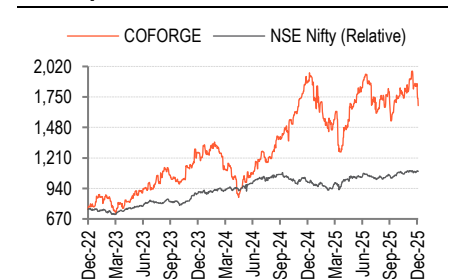
Ticker/Price	COFORGE IN/Rs 1,673
Market cap	US\$ 6.2bn
Free float	99%
3M ADV	US\$ 33.3mn
52wk high/low	Rs 2,005/Rs 1,194
Promoter/FPI/DII	0%/37%/52%

Source: NSE | Price as of 26 Dec 2025

**Key financials**

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	121,912	164,356	239,229
EBITDA (Rs mn)	18,332	30,231	44,311
Adj. net profit (Rs mn)	8,107	14,510	23,012
Adj. EPS (Rs)	24.5	44.4	56.5
Adj. ROAE (%)	16.2	21.3	14.2
Adj. P/E (x)	68.4	37.7	29.6
EV/EBITDA (x)	30.6	18.6	12.2
Adj. EPS growth (%)	(6.9)	81.7	27.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**

Source: NSE



### Prima facie an expensive transaction

- Based on financials for FY26E, we believe Encora has likely come at EV/sales and EV/EBITDA multiple of ~4x and ~21x respectively, which is at a premium to Coforge's own multiples of ~3.6x and ~20x (at stock price of Rs1815) respectively. This is despite Encora's organic growth being at just 7-8% during the FY24-FY26E time frame when Coforge's was at mid-teens or higher. Similar numbers are ~3.3x and ~18x for Mphasis that probably falls into the same growth category, though Encora is one third the size of Mphasis in FY26E and has a slightly weaker margin profile.

### Integration and cross and up-sell may be a tad more difficult vs Cigniti

- The US\$2.35bn (EV) Encora acquisition by Coforge is the largest-ever transaction done by an Indian IT Services company with the second largest being the HCL tech acquisition of IBM products for a valuation of US\$1.8bn in 2019. Indian companies have typically done smaller tuck in acquisitions to handle capability and geographic coverage gaps.
- Encora, at the time of the transaction, would be ~30-32% of the size of Coforge, whereas in earlier acquisitions, SLK Global was ~10% and Cigniti was ~16%.

**Fig 1: Acquisitions by Encora over the years**

Date	Company Acquired	Rationale
Feb-25	DMI (Select Portfolio)	Encora acquired a specific business capabilities portfolio from DMI to expand its enterprise digital engineering, customer engagement, and commerce transformation capabilities. This deal added 750 professionals across the US, Canada, Argentina, UK, Spain, and India.
May-23	Softelligence	To establish Encora's first delivery centres in Europe (Romania and Macedonia). Softelligence brought critical expertise in the Banking and Insurance (InsurTech) sectors, specifically in paperless quote-and-bind flows and claims automation.
Jan-23	Excellerate	A major vertical-focused acquisition to boost expertise in HealthTech, FinTech, and InsurTech. It added 1,300+ engineers and deepened capabilities in AI, Analytics, and Automation.
Jul-21	Daitan	Significant expansion into Brazil, adding ~600 engineers with deep expertise in AI, Data Engineering, and Cloud-native architecture.
2020	Söoryen Technologies	To gain specialised expertise in FinTech and Consumer Tech innovation. Söoryen was known for high-end product engineering for Silicon Valley start-ups and enterprises.
2019	Nearsoft	Established a strong delivery footprint in Mexico. This was one of the foundational acquisitions that allowed the company to market itself as a "Nearshore" specialist to US clients.
Dec-19	Avantica	Expansion into Costa Rica, Peru, Bolivia, and Colombia. This gave Encora a massive footprint in Central and South America.

Source: Various media

- The sheer size of the deal, in terms of value, relative size compared to the acquiring company, and the relatively expensive valuation that it has been done at, indicates little room for error. We see some risks here.
  - Unlike Cigniti, Encora has been largely a PE-driven company with Advent buying the company from Warburg Pincus in 2021 for a valuation of US\$1.5bn (with Warburg continuing to be a minority shareholder). Therefore, we see this as an entity that was being prepared for a sale at some point. It has seen multiple acquisitions since 2019 (post its acquisition by Warburg Pincus from another PE company). See Fig 1.
  - 2019: Encora, in its first Avatar, was carved out as "Indecomm Digital" from 'Indecomm Global Services' and backed by Warburg Pincus. At this stage, it was a product engineering firm.
  - Indecomm Digital got rebranded to Encora in 2020. The company saw rapid acceleration driven by the post-pandemic surge in digital engineering demand.
  - It was bought by Advent International in Dec'21, post which it grew into a broader enterprise services company, hitting a revenue of US\$516mn in FY25 through both organic and inorganic growth.
  - In May'23, it hired as CEO, Anand Birje, who was the head of the Digital business of HCL Technologies. At the time he left HCLT, Anand was handling a business which had a revenue run rate of ~US\$5bn, based on our estimates.
  - One of the challenges the post-acquisition Coforge is going to face is to retain and drive senior employees who were formerly with these organisations, to work cohesively to cross-sell and up-sell. The 7-8% organic growth shown by Encora between FY24-FY26E indicates that growth had been a challenge in a difficult demand environment (due to macro, tariff, Gen AI, etc.).
  - It remains to be seen if Sudhir Singh and his team can extract synergies especially across a set of people who have come from disparate firms and are in disparate geographies. For instance, we are not sure if Anand Birje, the current CEO of Encora would want to stick around taking orders from Sudhir Singh especially as Anand has handled a larger P&L at HCL Technologies.
  - In our view, Cigniti was a more cohesive and tighter knit set up with a workforce largely based in India and cross sell and upsell was easier to extract. Besides, it had largely grown organically over the 10 years prior to acquisition by Coforge.

### **EBIT margins likely being overestimated**

- As indicated by the CFO, intangible assets – 20% of the value of transactions are being amortized over a 13-14 year period. This assumption, we believe is at risk in the current market as customers are in the mood to consolidate vendors. That

could mean even Coforge may not be spared and hence, amortization period is probably optimistic and inflates EBIT margin.

- To retain and incentivise the senior employees who have come from disparate acquired entities, we believe the ESOP program may have to be generous and that could have a negative impact on margins.

#### **Sabre and GCC risks will remain in the near to medium term**

- As highlighted in our previous reports on Coforge, we believe Sabre is an unstable, and a likely top 3 client of Coforge in FY26 (at possibly 7% of Coforge's revenue). While Sabre has de-levered to some extent through the sale of its hospitality unit, we think it still does not look to be in stable condition. Despite the balance sheet restructuring and rescheduling of debt, the stock is down ~60-65% YTD (and ~95% from its all-time high). While Coforge may have taken credit insurance for any bad receivables, our concern is loss of revenue and profits and possible downgrade to consensus estimates and PE derating, if something goes wrong with a financially unstable large client. We do not recall seeing another top 5 client of any other Indian IT Services firm being in this kind of condition. There are many more details on Sabre in the link ([2Q inline. Tier-2 organic revenue growth leader in FY26](#))
- **GCC seems to be an outsized element:** It was indicated by Coforge in one of its recent analyst calls that GCC business constituted ~10% of Coforge's revenue. What we are concerned about on the GCC side is the potential for revenue discontinuity when there is insourcing at some point in future. This has happened multiple times to various players in the industry.
- Both the above issues will get diluted to an extent post-merger with Encora due to the expanded revenue base.

#### **Half the shares are locked in for 6 months and the other half for 12 months.**

##### **Investors may be worried about the growth overreach and stock dilution**

- Of the 21.5% of equity that PE players will get post the transaction, about half is locked in for 6 months (post close of the transaction) and the other 50% for 12 months. This will be an overhang on the stock
- After Barings sold down its entire 70% holding in the company as it exited, it remains to be seen if investors have further appetite for more such sales
- Investors will also be worried if the Coforge management will continue to repeat this in the future to drive faster than peer-set growth and they are going to be at the receiving end of further stock dilution

#### **Basic details of the deal**

- On 26 December 2025, Coforge announced a definitive agreement to acquire the US-based AI-led digital engineering player Encora, in an all-stock transaction with an enterprise value of \$2.35bn – the largest acquisition done by an Indian IT services company till date.
- The acquisition is expected to close within 4-6 months pending regulatory approval.

- According to Coforge, “It establishes a scaled AI-led Engineering, Data and Cloud services-based capability moat for the firm. This, aligned with Coforge’s hyperspecialised industry expertise and execution intensity, is likely to further accelerate our industry-leading growth”
- The transaction would create a company with a projected annual revenue of ~US\$2.5bn in FY26E (March 31 YE). Of this, US\$600mn would come from Encora. It will add ~9,300 employees to an employee base of ~35,000 (as of Sept’25 quarter).
- Encora revenues are largely spread over Hi-tech, Healthcare and BFSI verticals. The first two will likely contribute ~30% each. On the Hi-Tech side, it does Product Engineering services for Independent Software vendors like CSG - Cloud software group, Tibco, Netscape and others.
- The deal pegs Encora’s equity value at ~US\$1.89bn (~Rs170bn) and will see Coforge acquire 100% of the company from private equity investors Advent International, Warburg Pincus and other minority shareholders.
- The sellers of Encora have not exited; instead, they have rolled over their stake. The transaction was structured based on the shared belief that combining Coforge and Encora would create greater value than either company could achieve individually. No cash consideration was paid to the sellers; the only cash outlay will be for retiring existing company debt.
- As part of the acquisition, Coforge will issue about 93.8 mn equity shares at an issue price of Rs1,815.91 per share, implying a premium of about 8.5% to the company’s closing price on 26 December 2025. Post-transaction, Encora’s shareholders will collectively hold ~21.5% of Coforge’s expanded equity capital.
- The balance between equity value and enterprise value, amounting to up to ~US\$550 mn (around Rs 41bn), will be used to retire Encora’s existing expensive term loan. Coforge said the debt repayment component will be funded through a bridge facility or a qualified institutional placement (QIP), if required. While the Board has approved raising up to US\$550mn through a QIP or other permitted routes, Coforge said a share sale may not be triggered if alternative funding options are finalised.

### Rationale for buying Encora and the price paid

- **That Encora is an AI-native company:** Coforge says that ‘Encora is one of the select technology services firms with an AI-native DNA that provides software engineering services for digital native companies and Fortune1,000 enterprises. Coforge says that Encora works at the convergence of Cloud, Data and AI, with service offerings that span Intelligent Process Design, Agent Native Product Engineering, Core Modernization, AI foundation, Data readiness and AIOps. Encora has created one of the industry’s first composable AI platforms – AIVA – to deliver Integrated agentic-orchestration and software engineering services.
- Post the acquisition, AI-led engineering + Data + Cloud services alone are likely to deliver US\$2bn revenue in FY27.

- AI-led product engineering business is likely to be a US\$1.25bn+ business
- Cloud services a ~US\$500mn business
- Data engineering a ~US\$250mn+ business
- Hi-tech and Healthcare industry verticals are expected to reach material scale immediately post-acquisition.
  - Hi-tech vertical will be a US\$170mn+ run-rate business with several \$10mn+ relationships post-acquisition.
  - Healthcare vertical will be a US\$170mn run-rate business. Encora substantially expands Coforge's healthcare presence in Pharma, MedTech, and HealthTech and brings new AI-led solutions.
- Will reposition Coforge as a player with scaled-up nearshore delivery capability in LATAM for servicing US clients. Encora has a large and widespread near-shore delivery capability with 3,100+ delivery team strength in LATAM delivery centres.
- Will significantly expand the West and Mid-West US client footprint of Coforge
  - Pre-acquisition, only 25% of Coforge's North America geo unit revenue comes from the US West and Mid-West. The acquisition will provide a fillip to Coforge's North America growth plans. This was also one of the reasons given for the acquisition of Cigniti.
  - Coforge's North America business is expected to jump by ~50% to US\$1.4Bn+ post-acquisition
- The combined firm will have forty-five US\$10Mn+, highly scalable relationships
  - Encora adds eleven US\$10Mn+ tenured client relationships with its top 10 client relationship tenures averaging 10+ years.
  - Coforge has an exceptional record of growing acquired client relationships by effective cross-selling and up-selling. The most recent evidence of this was the Cigniti acquisition where all US\$10mn+ relationships have experienced strong growth post-acquisition.

### Other points from the analyst call

- Organizational and reporting changes will be finalised after obtaining all regulatory approvals, with updates communicated gradually
- From a financial perspective, the acquisition is expected to be EPS-accretive from Day 1. Encora's revenue for the current year (FY26E) is ~US\$600 mn, with adjusted EBITDA margins near 19%. Encora reported revenue of US\$516m in FY25 and US\$481m in FY24.
- EPS accretion: Intangibles will be ~20% of transaction value. At 13–14 years, the life of customer relationships is long, reflecting Encora's 25-year long client base. Adjusting for liabilities in the transaction (implying equity value below the headline \$2.35bn), amortization is expected to be ~US\$37–39mn annually, which, after tax,

supports EPS accretion. With current EBITDA margins of ~19%, incremental synergies across G&A, sales and marketing, and operations, along with ongoing growth, are expected to further support the EPS number

- Over the last two years, Encora's organic growth rate has been in the 7–8% range and 15–16% prior to that period
- Encora's EBITDA margins have remained stable in the 17–19% range over the past three years, with ~19% expected for FY26.
- Encora's revenue per employee (US\$74,000) is 7% higher than Coforge's revenue per employee - US\$69,000
- Management indicated that Encora stood out as a rare acquisition where capability and customer profile offered strong and simultaneous growth runways. Primary evaluation lens was capability, which it says is considered truly cutting-edge, supported by high revenue per employee and the nature of its client engagements
- Coforge expects significant revenue synergies by cross-selling its 11 technology service lines into Encora's client base, particularly to its 11 clients with over US\$10mn in revenues and a broader set of \$5 mn-plus accounts. In parallel, Encora's AI-led engineering capabilities will be aggressively cross-sold into Coforge's existing client base
- On the cost side, management is assuming ~2 percentage points of EBITDA margin improvement. This is materially lower than margin gains achieved in past acquisitions, reflecting Encora's already strong operating profile
- 2 people from Advent are expected to join the Coforge board and there exists the possibility of selling into the other portfolio companies of Advent in the days ahead.

## Change in our estimates

- In our new estimates, we have consolidated Encora both on the P&L and balance sheet (as best as we could with the limited financials shared). We have consolidated revenue from 2QFY27.
- We have taken Coforge at its word that the transaction would be EPS-accretive, which reflects in our new estimates, despite significant equity dilution.
- We have also assumed that US\$550mn will be fresh debt that would be raised to pay off the high-cost debt that currently is on the balance sheet. We have assumed there will be no QIP money raised.
- On the cost side, we have assumed amortization as indicated by the company; also assumed higher ESOP expenses vs earlier estimates.

## Valuation

- Considering the risks that Coforge has taken, we have decided to price this through a lower PE multiple. Unlike in our recent estimates where we were valuing the company at a target PE multiple of 20.9x (10% premium to target multiple accorded to TCS), we have lowered it to 19x (same as that of TCS).

- Besides the risks to estimates, we believe the market is also going to be cognizant of the dilution to return ratios of the company, post-acquisition. Already, the Cigniti deal has resulted in material deterioration in ratios. We think that the situation would be accentuated post the Encora deal. ROE/Post tax ROCE/Post tax ROIC will go from 21.3%, 16.9%, 18.3% in FY26E to 12%, 10.5%, 10.7% in FY28E respectively. These were 24.1%, 22.3%, 25% in FY24 before the Cigniti buy. We think investors will also focus on this.



## We have an Underweight stance on Indian IT Services

We reinitiated coverage on the Indian IT Services with an Underweight stance through a report on 1 January 2025 (**Slow is the (new/old) normal**) and reiterated our view with an update on 12<sup>th</sup> March 2025 (**FY26 unlikely to be better than FY25**). We also put out a recent update (**Uncertainty stays and 'eating the tariff' may impact even FY27**) where we indicate the tariff decisions of 7 July 2025 on 14 countries, post the 90-day pause, prolongs the current phase of uncertainty.

Consequently, we see Tier-1 growth to remain at low-single-digit level for FY26 and 'eating the tariff' may lead to an adverse impact on FY27.

While both earnings and PE multiples have corrected since 1 Jan 2025, we believe the industry's structural organic revenue growth from here on will be lower than the ~7% CAGR seen during FY15-FY20, possibly ~5% CAGR over FY25-FY30 in constant currency (CC) terms.

### Multiple speed breakers post FY25 drive our Underweight stance

**Trump policies raise uncertainty:** Tariffs, the higher fiscal deficit from the 'one big, beautiful bill' (OBBA), crackdown on illegal and legal immigration (the latter through the major new hurdles put in for H1-B visas), etc., all point to uncertainty in the coming days that may delay the decision making.

**Higher for longer interest rate environment:** Lately, based on inflation prints and fears of a higher fiscal deficit, US 10-year yields have remained firm. There are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US demand in areas like housing, autos and retail.

The Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase that are yet to be fully unwound.

**Gen AI and GCCs are going to disrupt growth:** We also believe that AI/Gen AI will lead to compression of revenue for the industry in the next 24-36 months as companies self-cannibalize to hold on to their existing clients. We also believe that the rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between the outsourcers and their clients in setting up these GCCs, there will be growth discontinuity when the business is insourced at some point.

### Massive hyper scaler AI capex should accentuate re-alignment in IT spend:

Software players, including hyper scalers, are increasing capex on AI-related data centres. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS and move it away from the those who have lower bargaining power – the global IT Services players.

**Higher competition:** Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players and Cognizant, likely slowing their growth vs FY15-FY20. This

is besides the fact that by FY25, Tier-1 revenue has reached US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

**How we are valuing companies:** We are using PE methodology as also using TCS as our industry benchmark. Target PE used for TCS now is 19x, which is the average PE multiple of TCS over the last 10 years less 1SD. Through our choice of the benchmark target PE multiple, we seek to capture the probability of downside risks to consensus EPS expectations for FY27.

### **Tier- 2 valuation reflects growth gap with Tier-1**

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution as well as their smaller size. And, unlike in the past cycles, they have performed better than the Tier-1 set, largely due to better management teams.

However, current PE premium to Tier-1s is excessive, as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take-out projects that are likely to impact margins adversely.

**Fig 2: P&L at a glance (post consolidation of Encora in P&L)**

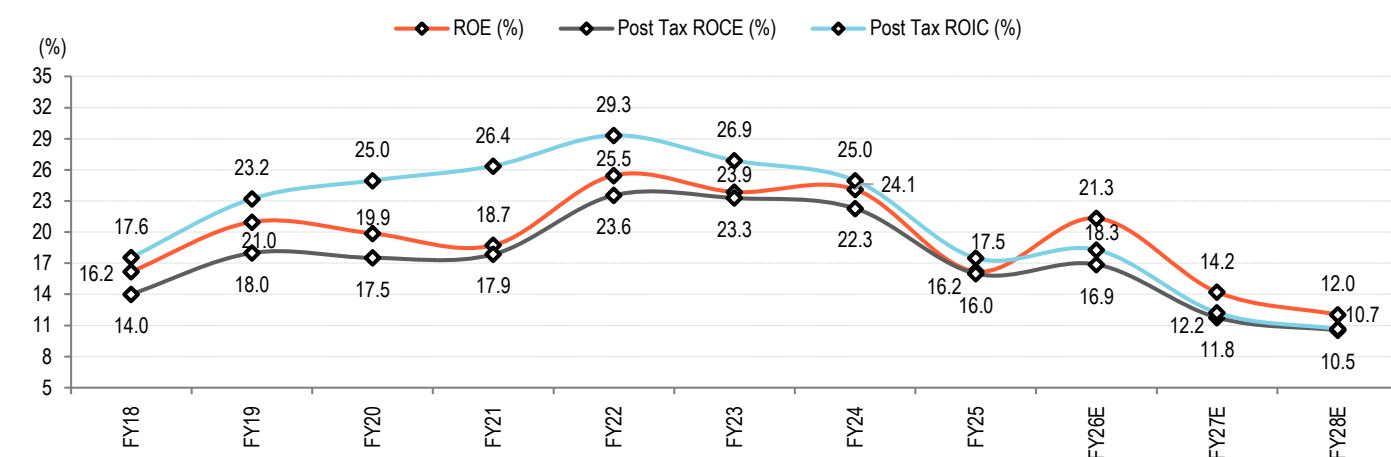
(YE March)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Average INR/USD	64.5	70.2	70.5	74.2	74.2	80.0	82.8	84.5	87.8	89.4	91.1
<b>Net sales (US\$mn)</b>	<b>464</b>	<b>523</b>	<b>593</b>	<b>628</b>	<b>867</b>	<b>1,002</b>	<b>1,119</b>	<b>1,468</b>	<b>1,888</b>	<b>2,676</b>	<b>3,295</b>
<b>-Growth (%)</b>	<b>11.2%</b>	<b>12.8%</b>	<b>13.4%</b>	<b>5.8%</b>	<b>38.0%</b>	<b>15.6%</b>	<b>11.7%</b>	<b>31.2%</b>	<b>28.6%</b>	<b>41.7%</b>	<b>23.2%</b>
Net Sales	29,914	36,762	41,839	46,628	64,320	80,146	91,790	121,912	164,356	239,229	300,141
-Growth (%)	7.0%	22.9%	13.8%	11.4%	37.9%	24.6%	14.5%	32.8%	34.8%	45.6%	25.5%
Direct cost	19,179	23,907	27,528	31,693	43,736	54,059	61,948	81,435	107,707	157,370	197,632
Gross Profit	10,735	12,855	14,311	14,935	20,584	26,087	29,842	40,477	56,649	81,859	102,509
Gross Margin	35.9%	35.0%	34.2%	32.0%	32.0%	32.5%	32.5%	33.2%	34.5%	34.2%	34.2%
SGA Expenses	5723	6402	7096	6544	8527	11438	13725	18874	24364	34327	43043
% of sales	19.1%	17.4%	17.0%	14.0%	13.3%	14.3%	15.0%	15.5%	14.8%	14.3%	14.3%
Acquisition Related Expenses	-	-	-	46	269	9	96	1,534	43	-	-
Cost of ESOPs	-	-	17	481	633	587	1,061	1,737	2,011	3,221	3,724
EBITDA	5,012	6,453	7,198	7,864	11,155	14,053	14,960	18,332	30,231	44,311	55,743
% of sales	16.8%	17.6%	17.2%	16.9%	17.3%	17.5%	16.3%	15.0%	18.4%	18.5%	18.6%
Depreciation & Amortisation	1273	1248	1730	1836	2272	2585	3186	4580	6816	10167	10505
% of sales	4.3%	3.4%	4.1%	3.9%	3.5%	3.2%	3.5%	3.8%	4.1%	4.3%	3.5%
<b>EBIT</b>	<b>3739</b>	<b>5205</b>	<b>5468</b>	<b>6028</b>	<b>8883</b>	<b>11468</b>	<b>11774</b>	<b>13752</b>	<b>23415</b>	<b>34143</b>	<b>45238</b>
<b>% of sales</b>	<b>12.5%</b>	<b>14.2%</b>	<b>13.1%</b>	<b>12.9%</b>	<b>13.8%</b>	<b>14.3%</b>	<b>12.8%</b>	<b>11.3%</b>	<b>14.2%</b>	<b>14.3%</b>	<b>15.1%</b>
Other income (net)	298	476	558	113	(266)	(630)	(1,156)	(1,072)	(504)	(1,121)	(1,672)
Exceptional Items	-	56	71	180	-	1,326	165	132	706	-	-
PBT	4,037	5,625	5,955	5,961	8,617	9,512	10,453	12,548	22,205	33,023	43,567
-PBT margin (%)	13.5%	15.3%	14.2%	12.8%	13.4%	11.9%	11.4%	10.3%	13.5%	13.8%	14.5%
Provision for tax	950	1,404	1,278	1,302	1,468	2,061	2,093	3,201	5,817	8,027	10,456
Effective tax rate (%)	23.5%	25.0%	21.5%	21.8%	17.0%	21.7%	20.0%	25.5%	26.2%	24.3%	24.0%
Net profit	3,087	4,221	4,677	4,659	7,149	7,451	8,360	9,347	16,388	24,996	33,111
Minority Interest & share of profit/(loss) of associate	285	188	236	104	530	513	276	1,240	1,878	1,984	1,984
<b>Net reported profit</b>	<b>2,802</b>	<b>4,033</b>	<b>4,441</b>	<b>4,555</b>	<b>6,619</b>	<b>6,938</b>	<b>8,084</b>	<b>8,107</b>	<b>14,510</b>	<b>23,012</b>	<b>31,127</b>
<b>-Growth (%)</b>	<b>6.3%</b>	<b>43.9%</b>	<b>10.1%</b>	<b>2.6%</b>	<b>45.3%</b>	<b>4.8%</b>	<b>16.5%</b>	<b>0.3%</b>	<b>79.0%</b>	<b>58.6%</b>	<b>35.3%</b>
<b>-Net profit margin (%)</b>	<b>9.4%</b>	<b>11.0%</b>	<b>10.6%</b>	<b>9.8%</b>	<b>10.3%</b>	<b>8.7%</b>	<b>8.8%</b>	<b>6.6%</b>	<b>8.8%</b>	<b>9.6%</b>	<b>10.4%</b>

Source: Company, BOBCAPS Research.

**Fig 3: Ratios (post consolidation of Encora in P&L)**

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Per Share (Rs mn)</b>											
EPS	8.9	13.1	14.3	14.9	21.8	22.8	26.3	24.5	44.4	56.5	72.5
FDEPS	8.9	13.1	14.3	14.9	21.8	22.8	26.3	24.5	44.4	56.5	72.5
Dividend Per Share	2.5	3.0	6.2	6.6	10.4	12.8	15.2	15.2	24.0	35.0	40.0
Dividend Yield (%)	0.1	0.2	0.4	0.4	0.6	0.8	0.9	0.9	1.4	2.1	2.4
Book Value	58	68	78	81	90	101	117	191	216	586	618
Dividend Payout Ratio (excl DT)	27.3	22.8	42.7	44.4	48.0	56.3	57.8	61.9	55.5	62.0	55.2
<b>Return ratios (%)</b>											
RoE	16.2	21.0	19.9	18.7	25.5	23.9	24.1	16.2	21.3	14.2	12.0
Post Tax RoCE	14.0	18.0	17.5	17.9	23.6	23.3	22.3	16.0	16.9	11.8	10.5
Post Tax ROIC	17.6	23.2	25.0	26.4	29.3	26.9	25.0	17.5	18.3	12.2	10.7
<b>Turnover Ratios</b>											
Asset Turnover Ratio	1.1	1.3	1.2	1.3	1.3	1.4	1.5	1.0	1.2	0.6	0.8
Debtor Days (incl. unbilled Rev)	71	58	75	70	79	73	72	77	79	80	78
Working Capital Cycle Days	75	62	40	37	33	13	29	33	29	29	28
<b>Valuation ratios (x)</b>											
PER	188.4	127.5	117.0	112.0	76.7	73.5	63.7	68.4	37.6	29.6	23.1
P/BV	28.9	24.7	21.4	20.8	18.6	16.6	14.3	8.8	7.7	2.9	2.7
EV/EBITDA	100.8	78.1	69.5	63.4	44.2	35.8	33.6	27.7	18.2	16.0	12.9
EV/Sales	16.9	13.7	12.0	10.8	7.8	6.3	5.5	4.5	3.4	3.0	2.4
Net Debt/Equity	-0.4	-0.4	-0.4	-0.3	0.0	-0.1	0.0	-0.1	0.0	0.1	0.1
M-cap/Sales	17.0	13.9	12.2	10.9	7.9	6.4	5.5	4.6	3.4	3.0	2.4

Source: Company, BOBCAPS Research

**Fig 4: Return Ratio trend: Return ratios have collapsed post the 2 M&A transactions – Cigniti and Encora**

Source: Company, BOBCAPS Research

**Fig 5: Change in estimates: Marginally EPS accretive in FY27 and a bit more in FY28**

	New			Old			% Change		
Change in estimates	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
INR/USD	87.8	89.4	91.1	87.4	89.3	91.1	0.4	0.1	-
USD Revenue (USD mn)	1,888	2,676	3,295	1,888	2,164	2,514	-	23.7	31.1
USD Revenue Growth (%)	28.6	41.7	23.2	28.6	14.6	16.2			
Revenue (Rsmn)	1,64,356	2,39,229	3,00,141	1,63,709	1,93,135	2,28,944	0.4	23.9	31.1
EBIT (Rsmn)	23,458	34,143	45,238	22,769	27,476	33,408	3.0	24.3	35.4
EBIT Margin (%)	14.3	14.3	15.1	13.9	14.2	14.6			
PAT (Rsmn)	14,510	23,012	31,127	14,207	18,863	23,553	2.1	22.0	32.2
EPS (Rs)	44.4	56.5	72.5	43.5	56.2	70.2	2.1	0.6	3.3

Source: Company, BOBCAPS Research.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Total revenue</b>	<b>91,790</b>	<b>121,912</b>	<b>164,356</b>	<b>239,229</b>	<b>300,141</b>
EBITDA	14,960	18,332	30,231	44,311	55,743
Depreciation	3,186	4,580	6,816	10,167	10,505
EBIT	11,774	13,752	23,415	34,143	45,238
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	(1,156)	(1,072)	(504)	(1,121)	(1,672)
Exceptional items	165	132	706	0	0
EBT	10,453	12,548	22,205	33,023	43,567
Income taxes	2,093	3,201	5,817	8,027	10,456
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	276	1,240	1,878	1,984	1,984
<b>Reported net profit</b>	<b>8,084</b>	<b>8,107</b>	<b>14,510</b>	<b>23,012</b>	<b>31,127</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,084</b>	<b>8,107</b>	<b>14,510</b>	<b>23,012</b>	<b>31,127</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	0	0	0	0	0
Other current liabilities	15,315	27,800	31,325	46,598	56,589
Provisions	1,304	1,743	2,017	2,017	2,017
Debt funds	4,153	3,502	6,021	44,721	23,921
Other liabilities	4,039	28,070	29,965	31,247	32,010
Equity capital	618	669	669	859	859
Reserves & surplus	35,648	63,123	71,579	250,555	264,508
Shareholders' fund	36,266	63,792	72,248	251,414	265,367
<b>Total liab. and equities</b>	<b>61,077</b>	<b>124,907</b>	<b>141,577</b>	<b>375,997</b>	<b>379,904</b>
Cash and cash eq.	3,352	8,832	7,047	9,542	(2,171)
Accounts receivables	18,039	25,771	35,391	52,646	63,934
Inventories	0	0	0	0	0
Other current assets	4,634	11,555	8,896	13,233	16,070
Investments	0	1,457	0	0	0
Net fixed assets	4,470	7,682	11,914	21,322	22,817
CWIP	232	24	174	174	174
Intangible assets	16,133	49,726	55,080	256,005	256,005
Deferred tax assets, net	5,583	5,470	6,155	6,155	6,155
Other assets	8,634	14,390	16,920	16,920	16,920
<b>Total assets</b>	<b>61,077</b>	<b>124,907</b>	<b>141,577</b>	<b>375,997</b>	<b>379,904</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Cash flow from operations</b>	<b>7,333</b>	<b>11,968</b>	<b>21,974</b>	<b>28,844</b>	<b>39,482</b>
Capital expenditures	(3,783)	(41,804)	(16,412)	(220,500)	(12,000)
Change in investments	0	1,457	(1,457)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(3,783)</b>	<b>(40,347)</b>	<b>(17,869)</b>	<b>(220,500)</b>	<b>(12,000)</b>
Equities issued/Others	0	22,400	0	170,326	0
Debt raised/repaid	380	(651)	2,519	38,700	(20,800)
Interest expenses	0	0	0	0	0
Dividends paid	(4,673)	(5,019)	(8,047)	(14,276)	(17,173)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(4,293)</b>	<b>16,730</b>	<b>(5,528)</b>	<b>194,750</b>	<b>(37,973)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(2,435)</b>	<b>5,480</b>	<b>(1,785)</b>	<b>2,495</b>	<b>(11,713)</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,352</b>	<b>8,832</b>	<b>7,047</b>	<b>9,542</b>	<b>(2,171)</b>

### Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	26.3	24.5	44.4	56.5	72.5
Adjusted EPS	26.3	24.5	44.4	56.5	72.5
Dividend per share	15.2	15.2	24.0	35.0	40.0
Book value per share	117.3	190.5	216.3	585.6	618.1

### Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	6.1	4.6	3.4	2.3	1.8
EV/EBITDA	37.4	30.6	18.6	12.2	9.5
Adjusted P/E	63.7	68.4	37.7	29.6	23.1
P/BV	14.3	8.8	7.7	2.9	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	77.3	63.9	63.3	69.7	71.4
Interest burden (PBT/EBIT)	88.1	83.0	97.7	96.7	96.3
EBIT margin (EBIT/Revenue)	12.9	12.5	14.3	14.3	15.1
Asset turnover (Rev./Avg TA)	215.5	170.7	158.5	108.8	92.0
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.5	1.4	1.3
Adjusted ROAE	24.1	16.2	21.3	14.2	12.0

### Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>YoY growth (%)</b>					
Revenue	14.5	32.8	34.8	45.6	25.5
EBITDA	6.5	22.5	64.9	46.6	25.8
Adjusted EPS	15.5	(6.9)	81.7	27.2	28.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	15.0	18.4	18.5	18.6
EBIT margin	12.8	11.3	14.2	14.3	15.1
Adjusted profit margin	8.8	6.6	8.8	9.6	10.4
Adjusted ROAE	24.1	16.2	21.3	14.2	12.0
ROCE	22.3	16.0	16.9	11.8	10.5

### Working capital days (days)

Receivables	72	77	79	80	78
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

### Ratios (x)

Gross asset turnover	20.5	15.9	13.8	11.2	13.2
Current ratio	1.7	1.7	1.6	1.6	1.4
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	0.0	(0.1)	0.0	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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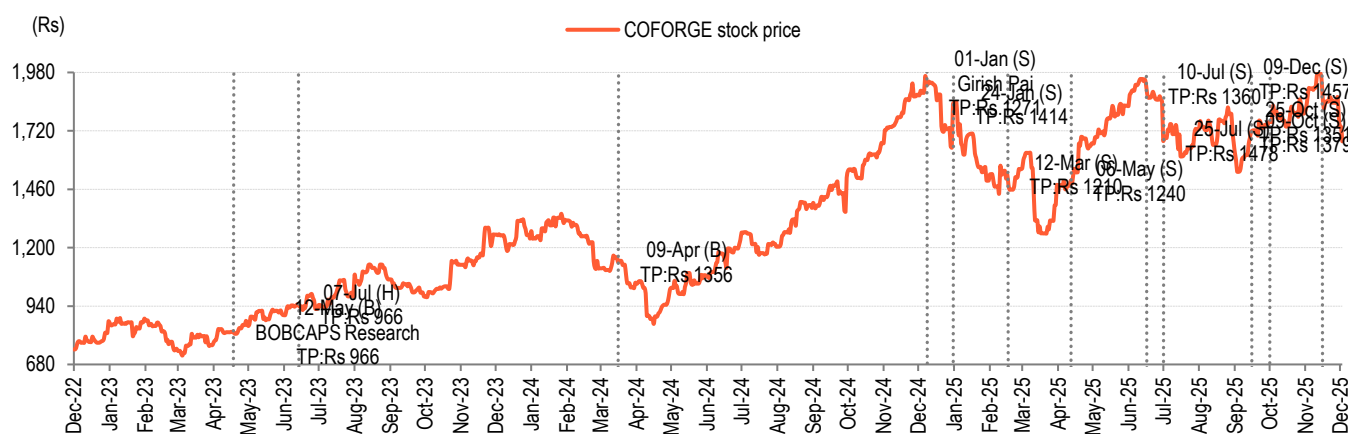
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