

**SELL**

TP: Rs 6,202 | ▼ 17%

**COFORGE**

| IT Services

| 06 May 2025

## Robust growth likely in FY26. But pricey at 37x

- 4QFY25 CC growth a tad below estimate but EBIT margin surprise +ve. FY25 organic rev. growth is likely in mid teen. FY26 hinted to be better.
- Order inflow bolstered by the Sabre mega deal (US\$1.56bn). Says risks associated with the deal covered. Ex-Sabre TCV down 4%.
- Raise FY26/FY27 USD revenue and EPS estimates a bit. While it will be among the growth leaders believe that is in the price at 37x FY26EPS.

**Execution and proactive solutions the secret sauce:** It noted that its 8-year track record of good revenue performance has been largely due to execution excellence, being close to the customer and delivering proactive solutions. It indicated that in current times of macro driven slowdown, it depends on wallet share gains rather than an increase in budgets to drive growth.

**4QFY25 was strong:** Unlike for many of its peers, revenue grew 3.4% QoQ in CC terms. This is against our estimate of 4% growth. EBIT margin stood at 13.2%, 140bps higher than our estimate of 11.8%. A large portion of this has come from a better gross margin than we expected. Some of it has come from lower-than-expected SGA and ESOP costs.

**Order inflow bolstered by the Sabre deal:** The highlight of the year was the extremely strong order inflow which was bolstered by the 13-year US\$1.56bn Sabre (travel tech player) deal. Its full year TCV was US\$3.5bn (up 75%) with US\$2.1bn booked in 4Q alone. Without the Sabre deal the order inflow would have been down 4% for FY25. The 12-month executable order book at US\$1.5bn was also up 47% - part of it contributed by the Cigniti acquisition.

**Regarding Sabre risk (as it has weak financial position):** Coforge indicated that it is working closely with the company. It also stated that Sabre delevered to some extent recently through the sale of one of its units. It also stated that Coforge has taken credit insurance on the deal. Our concern in the current situation is not so much on the receivables part, but loss of revenue and profits and possible downgrade to consensus estimates and PE derating because of that.

**GCC seems to be an outsized element:** It was indicated that GCC business constituted 10% of the revenue of the Coforge. While all Indian companies recently have been touting their GCC credentials no one has put out a number on exposure. What we are concerned about on the GCC side is the potential for revenue discontinuity when there is insourcing at some point in time in the future. We are also concerned that some of this is possibly staff augmentation type of work.

**Girish Pai**

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## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	COFORGE IN/Rs 7,497
Market cap	US\$ 6.0bn
Free float	99%
3M ADV	US\$ 62.9mn
52wk high/low	Rs 10,027/Rs 4,287
Promoter/FPI/DII	0%/40%/50%

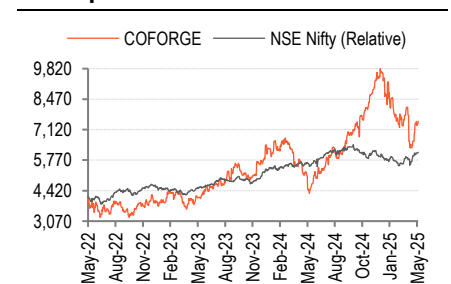
Source: NSE | Price as of 5 May 2025

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	121,912	152,747	180,796
EBITDA (Rs mn)	18,332	26,499	31,874
Adj. net profit (Rs mn)	8,107	14,219	17,547
Adj. EPS (Rs)	122.3	205.2	253.2
Consensus EPS (Rs)	141.7	211.1	258.6
Adj. ROAE (%)	16.2	21.4	24.2
Adj. P/E (x)	61.3	36.5	29.6
EV/EBITDA (x)	27.3	18.9	15.5
Adj. EPS growth (%)	(6.9)	67.8	23.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



- **Optically growth looks stronger in FY25:** Because of the addition of Cigniti from 2QFY25 the revenue growth in the low 30s looked much stronger than the organic growth of mid-teens. We expect one extra quarter of Cigniti in FY26 to add to its organic growth. We also believe that organic growth for Coforge was also bolstered by cross sell into the Cigniti client base. Growth in FY25 has been broad-based across geographies, service lines, and verticals - Cigniti being part of the reason.
- Considering the strong order inflow we have raised our USD revenue and EPS estimates. EPS estimates have been increased partly by increasing the EBIT margin estimates offset by increase in tax rate.
- We maintain our SELL on the stock largely driven by our view on valuation. We keep our target multiple at 15% premium to that of TCS at 24.5x on FY27 EPS. At 37x FY26 EPS we think the valuation is expensive. We are also a bit nervous about the Sabre deal and its sustainability and possible growth discontinuity when there is GCC insourcing.

## Key Points from the quarter and the earnings call

### FY25

- Revenue from continuing business (ex AdvantageGo) stood at US\$1.468bn, growing 32% in CC terms
- EBIT margin stood at 13%
- Full-year order intake stood at US\$3.5bn; 14 large deals were signed in FY25 (5 large deals closed in 4Q). This includes US\$1.56bn, 13-year Sabre deal clocked in 4QFY25
- Executable order book for the next 12 months stands at US\$1.5bn up 47% YoY. This includes orders received post-acquisition of Cigniti.
- Vertical Performance (USD terms)
  - Travel vertical led annual growth at 33.7% YoY
  - Government Outside India vertical grew 27.1% YoY
  - Banking and Financial Services vertical grew 20.4% YoY
  - Insurance vertical recorded 13.3% YoY growth
  - Other emerging verticals (much of it coming from the Cigniti acquisition) grew 67.9% YoY

### 4QFY25

- Revenue stood at US\$410.2mn growing 3.4% QoQ in CC terms. This is against our estimate of 4%.
- EBIT margin stood at 13.2%, 140bps higher than our estimate of 11.8%. A large portion of this has come from better gross margins than what we expected. Some part has come from lower-than-expected ESOP costs and lower SGA.

- EBIT exit margin in 4Q stood at 13.2% (which included a 50bps drag from a now-divested business of AdvantageGo). ESOP charges will decline by 70–80bps by 3Q, partially offset by wage hikes later in the year. Most of the progression from 13.2% to the targeted 14% EBIT margin is expected to be achieved in FY26
- Margin expansion is expected to be driven by structural business changes, benefits from scale, and large deal ramp-ups without gross margin dilution. Gross margin, EBITDA margin, and EBIT margin are all expected to sustain and expand over the next two years from 4QFY25 levels.
- 4Q order intake reached US\$2.1bn including the SABRE deal of US\$1.56bn.
- Vertical Performance (USD terms)
  - BFS vertical led 4Q sequential growth at 13.4%
  - Travel vertical grew 7.5% QoQ
  - Government Outside India vertical grew 8.5% QoQ
  - Other emerging verticals declined by 8.3% QoQ
- Headcount at end of 4Q stood at 33,497 (up ~400 QoQ and up ~8750 YoY, the YoY number includes the Cigniti acquisition)
- Utilization for the quarter was 82% and attrition over the last 12 months was 10.9%

#### Future Outlook

- Management exuded confidence that despite uncertain macros the revenue and margin picture is robust for FY26, backed by record order intake, growing executable order book, and strong deal pipeline. Organically it expects revenue growth to be better than what it achieved in FY25 – mid teen growth.
- The EBIT margin is projected to reach 14% by FY27, with the majority of the improvement expected by end-FY26
- Coforge said that there is no perceived risk to achieving the US\$2bn revenue target by FY27, despite near-term macroeconomic weakness
- Signed definitive agreement during 4Q to sell entire stake in AdvantageGo Business for GBP43mn
  - AdvantageGo business generated revenue of US\$23mn, EBIT loss of US\$5mn, and cash burn of US\$8.5mn during FY25
  - Acquired a data and cloud asset in the US generating quarterly revenue of US\$6mn and a ServiceNow asset in Australia with US\$2mn quarterly revenue
  - Revenues from these acquisitions will broadly offset the loss of revenue from the divestment of AdvantageGo Business
- Sabre US\$1.56bn deal announced in the quarter has transitioned and ramped up strongly in 4QFY25.

- Leadership position now achieved in the travel services tech partner landscape
- The shift towards large, proactive, managed services-led deals is a long-term strategic direction and not a temporary response to macroeconomic conditions. Discretionary spending fluctuations are not expected to impact this approach.
- Large deal velocity and median size are expected to continue growing despite ongoing macro uncertainty.
- The ramp-up of the Sabre deal will not negatively impact margins
- Deal win momentum is expected to be sustained through key focus areas including transformation, legacy modernization and cost optimization
- Growth in future quarters is expected to come from multiple vectors. The deal wins reflect demand across a range of solutions and sectors, not concentrated in any single area
- On the travel vertical, the outlook is mixed:
  - In North America and Europe, caution is evident among airlines due to geopolitical uncertainty, capacity limitations, rising labor costs, and potential booking cancellations. Despite these headwinds, leisure travel is recovering steadily, particularly among low-cost and digital-first carriers
  - Travel demand is growing steadily in Asia-Pacific, Middle East, Latin America, and Africa.
  - Despite the regional divergence, the outlook for the travel vertical in FY26 remains strong
- Number of working days in 1QFY26 will be higher than in 4QFY25, providing a tailwind for sequential revenue growth
- No wage hikes are planned for 1QFY26. It may happen in 2Q like in FY25. Visa costs will be the only margin-impacting item in 1Q, as they are incurred upfront for the full year
- Utilization for the quarter stood at 82%, which is considered a healthy level
- Ramp-up for large deals began in 3Q, and material headcount additions are expected in the coming quarters
- The sharp growth in engineering services is largely attributed to the Sabre deal, which is heavily engineering-focused
- The company maintains deep engagement across Sabre's leadership, including executive and board levels, ensuring clear visibility into its strategic and financial direction. To mitigate risks, the company actively monitors Sabre's financials and strategic moves, uses non-recourse factoring and has taken out a credit insurance policy to protect against receivable risk
- The Cigniti acquisition remains strategically sound, with a healthy and expanding pipeline of large deals

- One of the largest deals of the quarter (US\$62mn TCV over 3 years) came from a top Cigniti account
- Coforge is addressing a client complaint regarding a security breach where a hacker tricked service desk agents into resetting passwords, allowing access to a customer loyalty database. Coforge had no responsibility for the database or its management. The company is consulting legal counsel and its insurance provider, and the breach has not impacted Coforge's relationship with the client, who is not a material client and is not part of the top 50 clients
- Coforge said on 30 April 2025 sold its wholly owned subsidiary Coforge AdvantageGo to Sapiens UK for a base consideration of 43 million UK pounds (USD 53.5 million), as part of a broader strategic restructuring.
- The transaction is expected to close within four to six weeks. The divestment follows a strategic review aimed at sharpening the company's focus on its core insurance services business, which continues to be a key vertical for growth.
- AdvantageGo is a commercial and specialty insurance software provider with a strong presence in the Lloyd's Syndicate Market and has operated for more than 30 years, serving major global insurers. Coforge said the divestment would eliminate potential channel conflicts with strategic partners in the property and casualty space and help accelerate growth in its insurance services segment.

**View on the Indian IT Services sector:** 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 that view with an update on 12<sup>th</sup> March 2025 (**FY26 unlikely to be better than FY25**)

While both earnings (less so) and PE multiple (more so) have corrected since 1 Jan 2025, we suspect that there are further cuts possible for both FY26 and FY27 earnings under the current macro conditions which we believe could last longer than companies' sanguine commentary.

We believe the industry's structural USD 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. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc, all point to uncertainty in the coming days which may delay decision making by customers and lead to lower spending.

**Higher for longer interest rate environment:** One of the reasons for optimism around the Indian IT Services sector in late 2024 has been the view that the US would achieve a soft landing in 2025 (which we define as 0.5-1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two

-muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'.

Lately, based on inflation prints and fears of a higher fiscal deficit (due to economic slowdown concerns, not enough gains from DOGE, etc) US 10-year yields rose. 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.

Since Trump 2.0 took office and the fact that it is putting into effect a lot of structural repair, the market seems to believe that while growth would slow there would not be a commensurate decline in Inflation. This stagflationary set up and the uncertainty induced by the back and forth on tariff pronouncements, we believe, will lead to slower decision making and spending by US/global corporations on IT. The tariff spat with China is particularly concerning. Discretionary spending which was beginning to look up may go back into a shell again.

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

**Gen AI – value compressive in the near term:** Gen AI has significantly boosted revenue in semiconductors, data centres, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arising from heavy investments in surrounding services.

**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.

**Higher competition:** Indian Tier-1 companies now face higher competition from Accenture (especially as it loses business due to DOGE), Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

**Weak TCV:** The weaker TCV for most players in 9MFY25 (YoY) and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26. Many of the large companies like TCS, INFO and HCLT will also grapple with large contributions to incremental revenue by a limited set of large clients in FY25 or the need to set off large pass-through items.

**How we are valuing companies:** We are using PE methodology and using TCS as our industry benchmark. The target PE used for TCS now is 21.3x, which is the average PE multiple of TCS over the last 10 years less 0.5SD. We have changed this from 24.6x (which is the average PE multiple of TCS over the last five years less 1SD). The changed methodology reflects the changed outlook on growth in FY26. Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27, especially due to Trump 2.0 proposals.

## 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 and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the 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 which are likely to impact their margins adversely.

**Fig 1 – Quarterly results: Comparison of actuals with estimates**

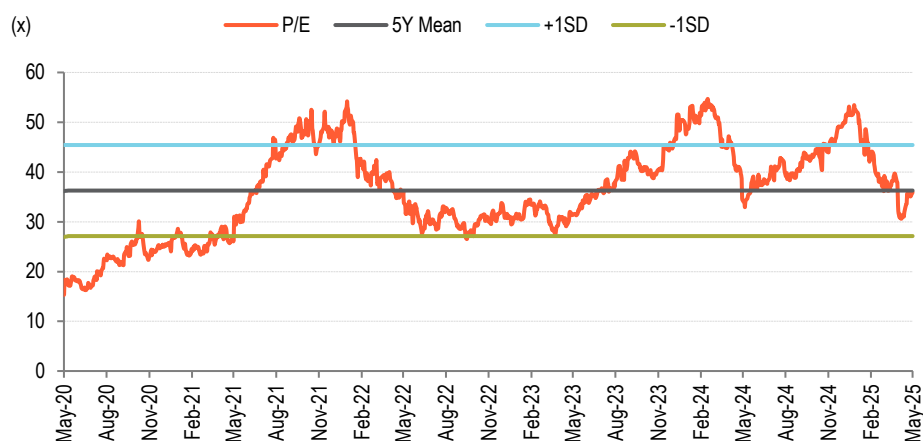
Y/E March (Rsmn)	4QFY24	3QFY25	4QFY25	YoY(%)	QoQ (%)	4QFY25E	Dev(%)
Net Sales (USD mn)	286.8	397.1	410.2	43.0	3.3	409.4	0.2
Net Sales	23,585	33,182	34,099	44.6	2.8	35,409	(3.7)
Direct Cost	15,551	22,166	22,471	44.5	1.4	23,723	(5.3)
Gross Profit	8,034	11,016	11,628	44.7	5.5	11,686	(0.5)
% of Sales	34.1	33.2	34.1			33.0	
SG&A	3,561	5,126	5,264	47.8	2.7	5,469	(3.7)
% of Sales	15.1	15.4	15.4			15.4	
EBITDA	4,473	5,890	6,364	42.3	8.0	6,218	2.4
EBITDA Margin (%)	19.0	17.8	18.7			17.6	
Depreciation	846	1,268	1,254	48.2	(1.1)	1,353	(7.3)
Cost of ESOPs	222	700	616	177.5	(12.0)	673	(8.4)
ESOP Cost (%age of sales)	0.94	2.11	1.81			1.90	
EBIT	3,405	3,922	4,494	32.0	14.6	4,192	7.2
EBIT Margin (%age of sales)	14.4	11.8	13.2			11.8	
Other Income	(452)	(327)	(300)			5	(6,558.6)
Acquisition Related Expenses	96	162	218			-	
Exceptional Items	-	-	43			-	
Profit Before Tax	2,857	3,433	3,933	37.7	14.6	4,196	(6.3)
Provision for Taxation - Current & Deferred	564	874	874	55.0	-	1,068	(18.2)
Effective Tax Rate	19.7	25.5	22.2			25.5	
Net Profit	2,293	2,559	3,059	33.4	19.5	3,128	(2.2)
Minority Share of Net Profit	55	404	461			404	
PAT attributable to equity shareholders after Minority Interest	2,238	2,155	2,598	16.1	20.6	2,724	(4.6)
NPM (%)	9.5	6.5	7.6			7.7	

Source: Company, BOBCAPS Research

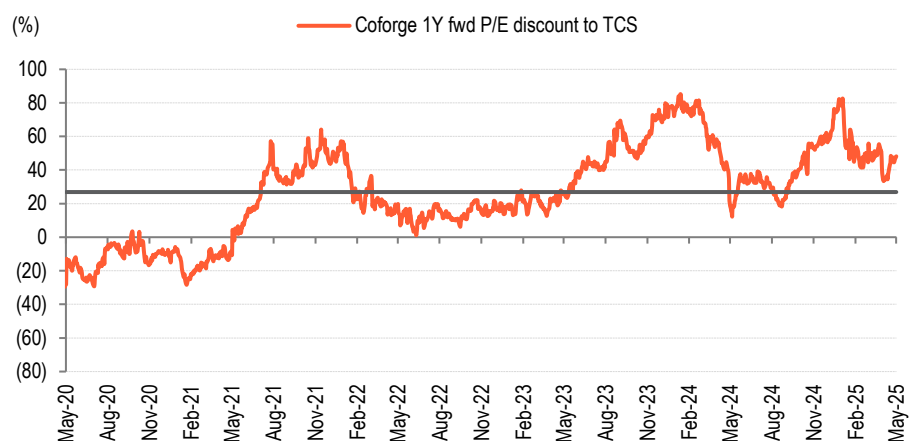
**Fig 2 – Revised Estimates**

	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
INR/USD	87.3	89.3	87.3	89.3	-	-
USD Revenue (USD mn)	1,750	2,025	1,706	1,981	2.6	2.2
USD Revenue Growth (%)	19.2	15.7	16.5	16.1		
Revenue (Rsmn)	152,747	180,796	148,846	176,843	2.6	2.2
EBIT (Rsmn)	20,972	25,365	19,486	24,142	7.6	5.1
EBIT Margin (%)	13.7	14.0	13.1	13.7		
PAT (Rsmn)	14,219	17,547	13,773	17,123	3.2	2.5
EPS (Rs)	205.2	253.2	198.7	247.1	3.2	2.5

Source: Company, BOBCAPS Research

**Fig 3 – 5 Yr PE trend**

Source: Company, BOBCAPS Research

**Fig 4 – Premium/ Discount to TCS**

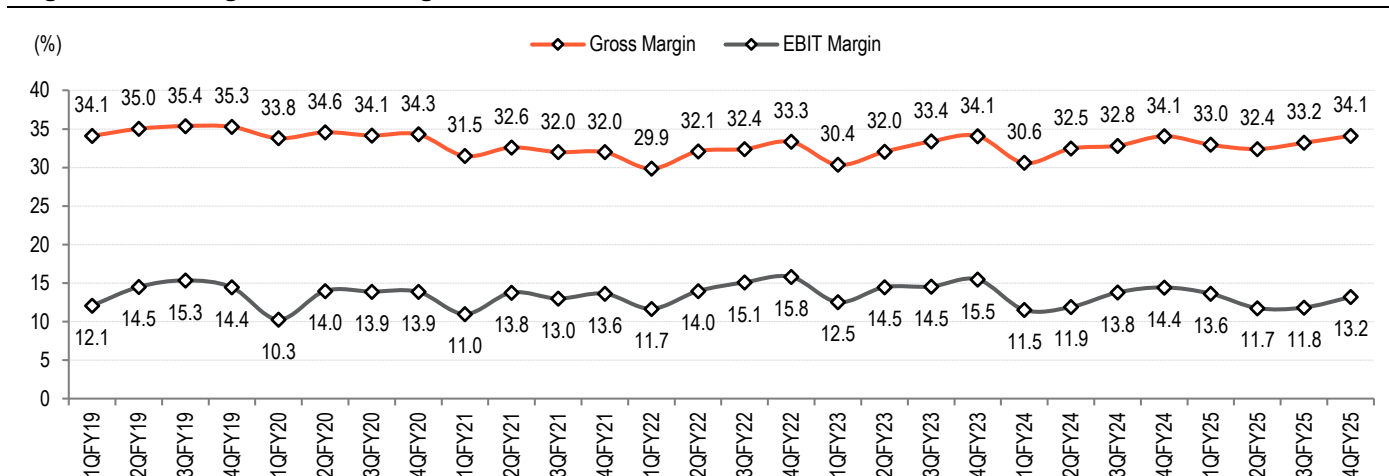
Source: Company, BOBCAPS Research



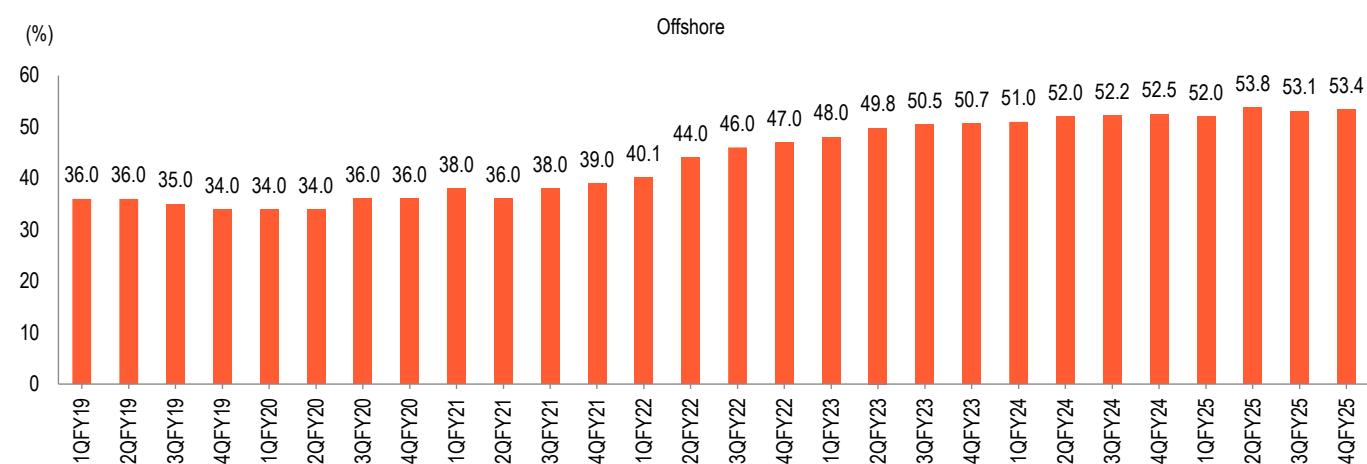
**Fig 5 – P&L at a glance**

(YE March) Rs mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Average INR/USD	54.3	60.5	61.2	64.4	67.0	64.5	70.2	70.5	74.2	74.2	80.0	82.8	84.5	87.3	89.3
<b>Net sales (US\$m)</b>	<b>373</b>	<b>381</b>	<b>388</b>	<b>416</b>	<b>417</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>1,750</b>	<b>2,025</b>
<b>-Growth (%)</b>		<b>2.3</b>	<b>1.8</b>	<b>7.3</b>	<b>0.2</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>19.2</b>	<b>15.7</b>
Net Sales	20,213	23,050	23,724	26,824	27,958	29,914	36,762	41,839	46,628	64,320	80,146	91,790	121,912	152,747	180,796
-Growth (%)	28.2	14.0	2.9	13.1	4.2	7.0	22.9	13.8	11.4	37.9	24.6	14.5	32.8	25.3	18.4
Direct cost	13,159	15,167	15,655	16,896	17,815	19,179	23,907	27,528	31,693	43,736	54,059	61,948	81,435	101,365	120,916
Gross Profit	7,054	7,883	8,069	9,928	10,143	10,735	12,855	14,311	14,935	20,584	26,087	29,842	40,477	51,382	59,879
Gross Margin (%)	34.9	34.2	34.0	37.0	36.3	35.9	35.0	34.2	32.0	32.0	32.5	32.5	33.2	33.6	33.1
SGA Expenses	3759	4368	4613	5195	5284	5723	6402	7096	6544	8527	11438	13725	18874	23018	26449
% of sales	18.6	19.0	19.4	19.4	18.9	19.1	17.4	17.0	14.0	13.3	14.3	15.0	15.5	15.1	14.6
Acquisition Related Expenses	-	-	-	-	-	-	-	-	46	269	9	96	1,534	-	-
Cost of ESOPs	-	-	-	-	-	-	-	17	481	633	587	1,061	1,737	1,865	1,556
EBITDA	3,295	3,515	3,456	4,733	4,859	5,012	6,453	7,198	7,864	11,155	14,053	14,960	18,332	26,499	31,874
% of sales	16.3	15.2	14.6	17.6	17.4	16.8	17.6	17.2	16.9	17.3	17.5	16.3	15.0	17.3	17.6
Depreciation & Amortisation	567	619	916	1101	1150	1273	1248	1730	1836	2272	2585	3186	4580	5527	6509
% of sales	2.8	2.7	3.9	4.1	4.1	4.3	3.4	4.1	3.9	3.5	3.2	3.5	3.8	3.6	3.6
<b>EBIT</b>	<b>2728</b>	<b>2896</b>	<b>2540</b>	<b>3632</b>	<b>3709</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>20972</b>	<b>25365</b>
<b>% of sales</b>	<b>13.5</b>	<b>12.6</b>	<b>10.7</b>	<b>13.5</b>	<b>13.3</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>13.7</b>	<b>14.0</b>
Other income (net)	207	288	18	183	187	298	476	558	113	(266)	(630)	(1,156)	(1,072)	446	489
Exceptional Items	-	-	800	13	221	-	56	71	180	-	1,326	165	132	-	-
PBT	2,935	3,184	1,758	3,802	3,675	4,037	5,625	5,955	5,961	8,617	9,512	10,453	12,548	21,418	25,854
-PBT margin (%)	14.5	13.8	7.4	14.2	13.1	13.5	15.3	14.2	12.8	13.4	11.9	11.4	10.3	14.0	14.3
Provision for tax	750	803	540	831	820	950	1,404	1,278	1,302	1,468	2,061	2,093	3,201	5,354	6,464
Effective tax rate (%)	25.6	25.2	30.7	21.9	22.3	23.5	25.0	21.5	21.8	17.0	21.7	20.0	25.5	25.0	25.0
Net profit	2,185	2,381	1,218	2,971	2,855	3,087	4,221	4,677	4,659	7,149	7,451	8,360	9,347	16,063	19,391
Minority Interest & share of profit/(loss) of associate	52	76	79	170	220	285	188	236	104	530	513	276	1,240	1,844	1,844
<b>Net reported profit</b>	<b>2,133</b>	<b>2,305</b>	<b>1,139</b>	<b>2,801</b>	<b>2,635</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>14,219</b>	<b>17,547</b>
<b>-Growth (%)</b>	<b>8.2</b>	<b>8.1</b>	<b>-50.6</b>	<b>145.9</b>	<b>-5.9</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>75.4</b>	<b>23.4</b>
<b>-Net profit margin (%)</b>	<b>10.6</b>	<b>10.0</b>	<b>4.8</b>	<b>10.4</b>	<b>9.4</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>9.3</b>	<b>9.7</b>

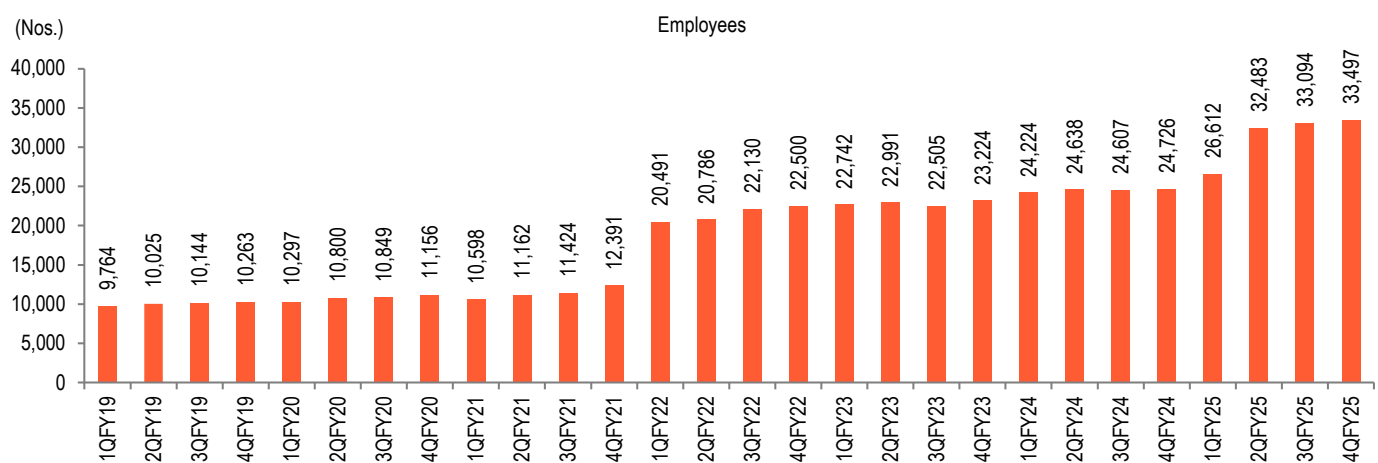
Source: Company, BOBCAPS Research

**Fig 6 – Gross Margin and EBIT Margin**

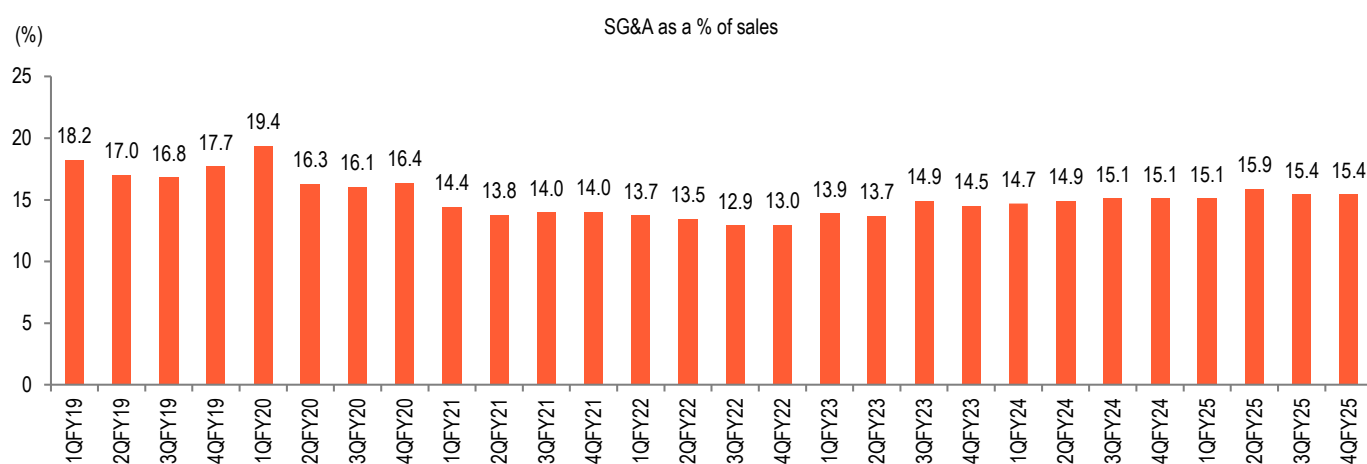
Source: Company, BOBCAPS Research

**Fig 7 – Offshore contribution to revenue**

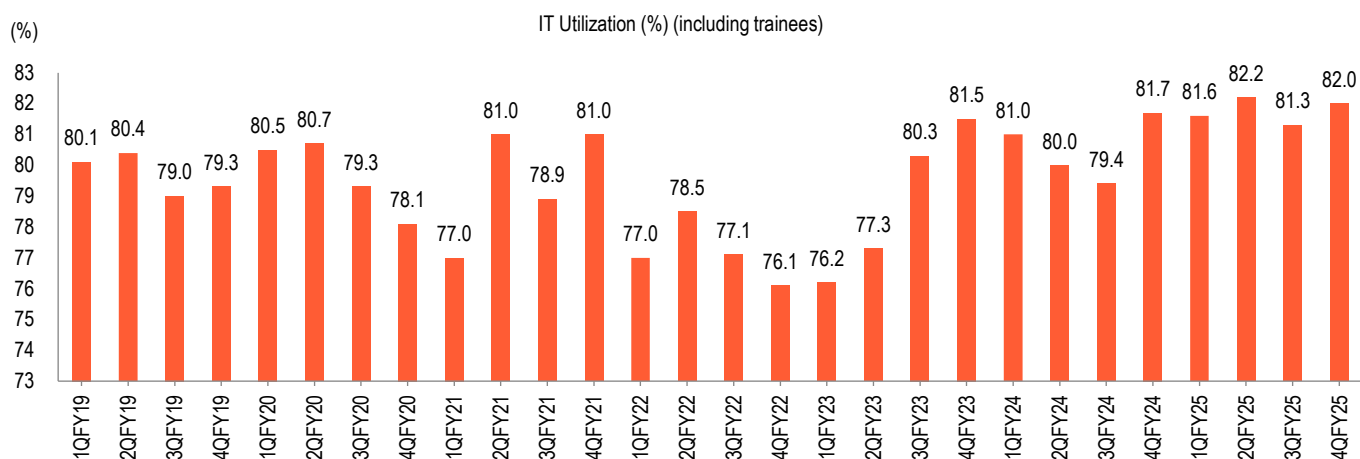
Source: Company, BOBCAPS Research

**Fig 8 – Total No. of Employees**

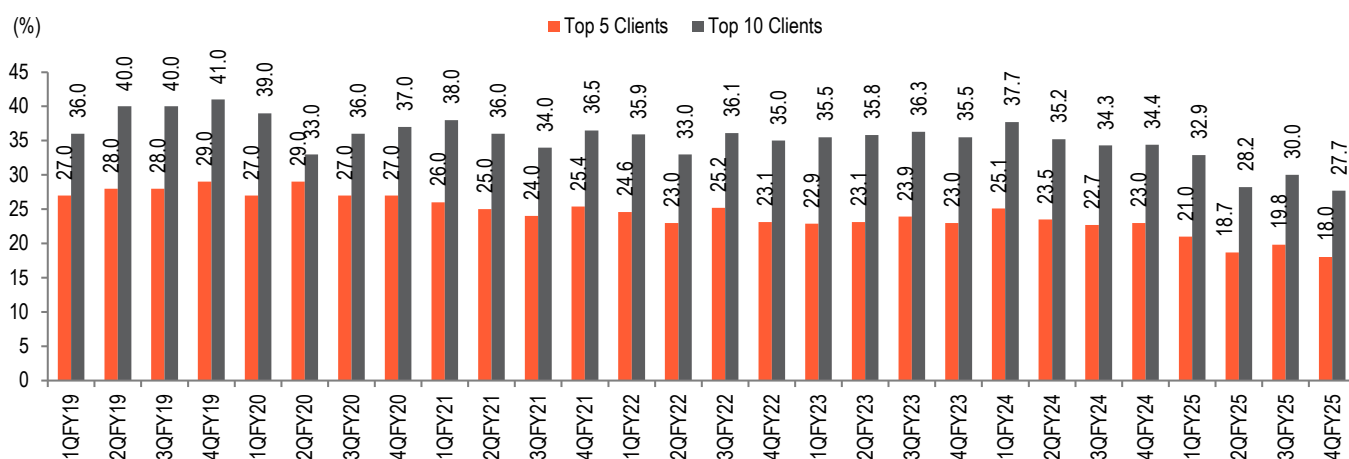
Source: Company, BOBCAPS Research

**Fig 9 – SG&A as % of sales**

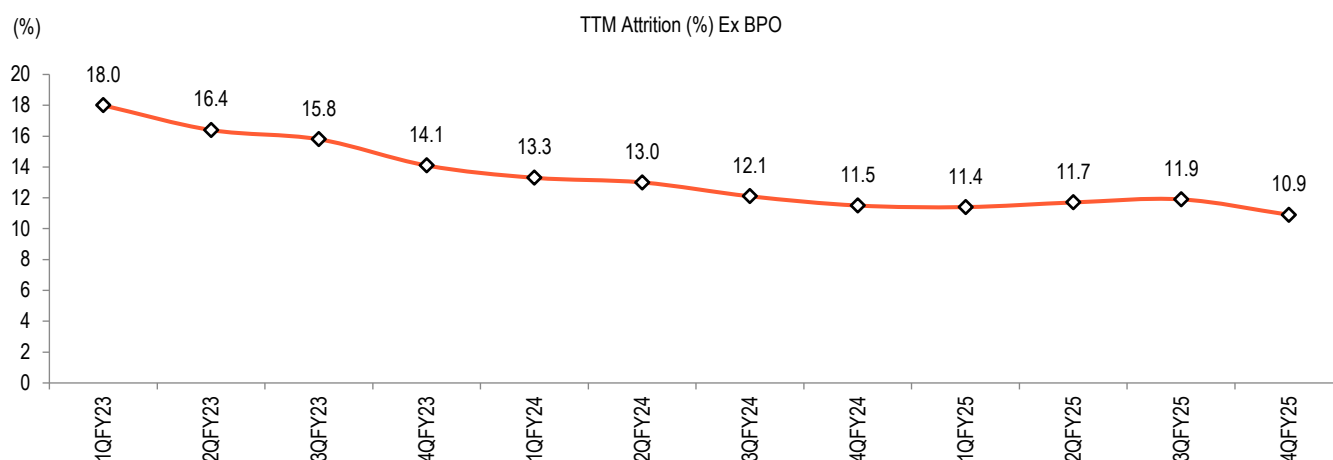
Source: Company, BOBCAPS Research

**Fig 10 – IT Utilization**

Source: Company, BOBCAPS Research

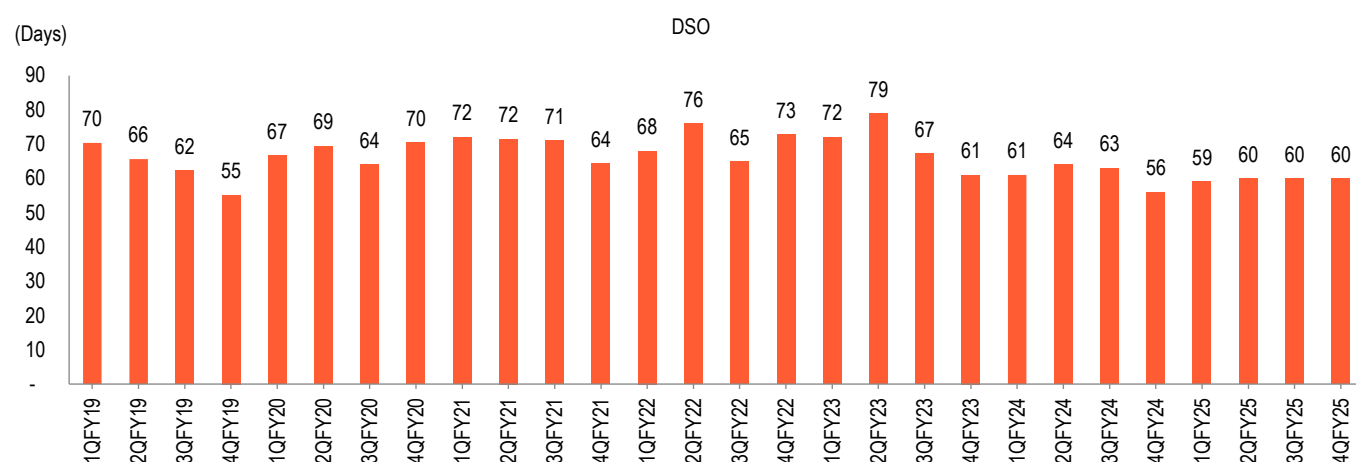
**Fig 11 – Client concentration (% of revenue) over the quarters**

Source: Company, BOBCAPS Research

**Fig 12 – Attrition trend**

Source: Company, BOBCAPS Research

Fig 13 – DSO



Source: Company, BOBCAPS Research

Fig 14 – Quarterly Snapshot

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
Rs mn												
INR/USD	76.5	79.3	81.9	82.4	82.2	82.7	83.3	83.1	83.4	83.8	84.4	86.6
USD Revenue (USD mn)	239	247	252	264	272	278	282	287	291	369	397	410
INR Revenue	18,294	19,594	20,558	21,700	22,210	22,762	23,233	23,585	24,008	30,623	33,182	34,099
Gross margin	5,555	6,278	6,860	7,394	6,796	7,388	7,624	8,034	7,911	9,922	11,016	11,628
SGA	2,543	2,682	3,063	3,150	3,264	3,392	3,508	3,561	3,625	4,859	5,126	5,264
ESOP Cost	90	147	182	168	216	519	104	222	199	222	700	616
EBITDA	2,922	3,449	3,615	4,076	3,316	3,477	4,012	4,251	4,087	4,841	5,190	5,748
Depreciation and Amortisation	630	614	624	717	757	772	811	846	815	1,243	1,268	1,254
EBIT	2,292	2,835	2,991	3,359	2,559	2,705	3,201	3,405	3,272	3,598	3,922	4,494
Other income	(76)	(150)	83	(487)	(152)	(295)	(257)	(452)	(272)	(173)	(327)	(300)
PBT	2,212	2,680	3,074	1,546	2,242	2,410	2,944	2,857	2,047	3,135	3,433	3,933
Tax	493	474	715	379	485	528	516	564	654	799	874	874
PAT	1,497	2,011	2,282	1,148	1,653	1,813	2,380	2,238	1,332	2,022	2,155	2,598
EPS Adjusted (Rs)	24.6	33.0	37.4	18.8	27.0	29.6	38.6	36.2	20.9	30.3	32.3	38.8
YoY Growth												
USD Revenue	19.6	16.2	13.7	13.8	13.9	12.6	12.0	8.5	7.2	32.8	40.8	43.0
INR Revenue	25.2	24.9	24.0	24.5	21.4	16.2	13.0	8.7	8.1	34.5	42.8	44.6
Gross profit	27.2	24.6	27.7	27.3	22.3	17.7	11.1	8.7	16.4	34.3	44.5	44.7
EBIT	34.4	29.5	19.5	21.9	11.6	(4.6)	7.0	1.4	27.9	33.0	22.5	32.0
Net Profit	21.0	37.0	24.2	(44.7)	10.4	(9.8)	4.3	94.9	(19.4)	11.5	(9.5)	16.1
QoQ growth												
USD Revenue	2.7	3.4	1.9	5.05	2.80	2.32	1.40	1.70	1.60	26.77	7.5	3.3
INR Revenue	5.0	7.1	4.9	5.6	2.4	2.5	2.1	1.5	1.8	27.6	8.4	2.8
EBIT	(16.8)	23.7	5.5	12.3	(23.8)	5.7	18.3	6.4	(3.9)	10.0	9.0	14.6
Net Profit	(27.9)	34.3	13.5	(49.7)	44.0	9.7	31.3	(6.0)	(40.5)	51.8	6.6	20.6
Margins												
Gross Margin	30.4	32.0	33.4	34.1	30.6	32.5	32.8	34.1	33.0	32.4	33.2	34.1
SGA	13.9	13.7	14.9	14.5	14.7	14.9	15.1	15.1	15.1	15.9	15.4	15.4
EBITDA	16.0	17.6	17.6	18.8	14.9	15.3	17.3	18.0	17.0	15.8	15.6	16.9
EBIT	12.5	14.5	14.5	15.5	11.5	11.9	13.8	14.4	13.6	11.7	11.8	13.2
PAT	8.2	10.3	11.1	5.3	7.4	8.0	10.2	9.5	5.5	6.6	6.5	7.6

Source: Company, BOBCAPS Research

Fig 15 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
<b>P and L (Rs mn)</b>												
Revenue	18,294	19,594	20,558	21,700	22,210	22,762	23,233	23,585	24,008	30,623	33,182	34,099
EBITDA	2,922	3,449	3,615	4,076	3,316	3,477	4,012	4,251	4,087	4,841	5,190	5,748
PAT	1,497	2,011	2,282	1,148	1,653	1,813	2,380	2,238	1,332	2,022	2,155	2,598
<b>Vertical Mix (%)</b>												
BFS	30	32	31	31	31	32	32	34	32	29	28	30
Insurance	23	23	22	22	23	23	22	22	21	19	19	18
Transportation	19	19	19	19	19	19	18	18	18	18	18	19
Government (overseas)								8	8	8	7	7
Others	28	26	27	28	28	27	28	20	21	26	29	26
<b>Geographical Mix (%)</b>												
Americas	51	51	49	48	50	49	47	48	50	55	56	54
EMEA	37	39	40	40	39	39	40	40	39	34	34	33
APAC	12	10	11	12	12	12	13	12	11	11	10	13
<b>Revenue Mix - IT Business (%)</b>												
Onsite	52	50	50	49	49	48	48	48	48	46	47	47
Offshore	48	50	51	51	51	52	52	53	52	54	53	53
IT Utilization (%) (including trainees)	76.2	77.3	80.3	81.5	81.0	80.0	79.4	81.7	81.6	82.2	81.3	82.0
<b>Clients Concentration (%)</b>												
Top 5 Clients	23	23	24	23	25	24	23	23	21	19	20	18
Top 10 Clients	36	36	36	36	38	35	34	34	33	28	30	28
<b>Number of Client</b>												
Between 1 to 5 million	98	97	98	101	102	104	109	112	118	173	176	173
Between 5 to 10 million	24	26	23	23	24	23	23	24	25	29	31	35
Above 10 million	19	19	21	21	21	23	24	24	23	29	31	31
<b>Revenue by Project type</b>												
Fixed Price Project	52	50	50	50	49	49	51	52	50	43	45	46
Time & Material	48	50	50	50	51	51	49	49	50	58	55	54
<b>Service Line Mix (%)</b>												
Product Engineering	11	11	10	10	9	9	8	8	0	0	0	0
Data & Integration	23	23	24	24	24	25	26	25	27	23	22	22
Intelligent Automation	13	13	12	11	12	12	11	11	12	9	9	9
CIMS	18	18	19	19	20	19	19	19	19	17	19	16
ADM	24	26	27	28	26	27	27	27	0	0	0	0
BPM	11	10	9	9	10	10	9	9	9	8	8	8
Engineering									32	42	42	45
Employees	22,742	22,991	22,505	23,224	24,224	24,638	24,607	24,726	26,612	32,483	33,094	33,497
TTM Attrition (%) Ex BPO	18.0	16.4	15.8	14.1	13.3	13.0	12.1	11.5	11.4	11.7	11.9	10.9
<b>Profit and Loss Statement (in USD mn)</b>												
Revenue	239	247	252	264	272	278	282	287	291	369	397	410
EBIT	30	36	37	41	31	33	38	41	39	43	46	52
PAT	20	25	28	14	20	22	29	27	16	24	26	30
<b>Productivity Metrics</b>												
<b>Per Capita (Annualised)</b>												
Revenue	41,984	42,956	44,737	45,539	44,881	45,150	45,841	46,397	43,800	45,488	47,997	48,983
EBIT	5,271	6,221	6,494	7,025	5,144	5,312	6,250	6,633	5,900	5,290	5,614	6,198
PAT	3,443	4,413	4,955	2,401	3,323	3,560	4,647	4,359	2,402	2,973	3,085	3,583

Source: Company, BOBCAPS Research

Fig 16 – QoQ and YoY growth of various parameters

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
<b>QoQ Growth</b>												
<b>By Geography (%)</b>												
Americas	5.6	3.4	(2.2)	3.1	5.8	1.7	(4.3)	4.1	6.3	40.0	9.3	(0.8)
EMEA	(4.8)	7.9	6.7	3.2	0.2	2.8	4.5	2.0	(1.9)	10.7	8.8	0.6
APAC	18.7	(11.3)	4.9	21.1	(0.6)	3.2	15.2	(7.4)	(5.1)	23.4	(5.1)	36.0
<b>By Industry (%)</b>												
BFS	9.4	11.1	0.0	4.7	3.1	4.0	3.3	6.4	(4.1)	17.2	0.6	13.4
Insurance	(7.7)	3.9	(2.9)	5.5	4.7	2.3	(1.3)	(0.1)	0.7	13.1	5.8	0.0
Transportation	(0.9)	2.9	1.9	2.3	1.2	2.3	(2.4)	0.6	4.5	26.8	7.5	7.3
Government (overseas)									4.3	23.5	(2.4)	9.3
Others	8.5	(4.7)	8.3	7.3	2.1	0.5	4.4	(29.4)	9.4	56.3	19.1	(8.2)
<b>By Practice Split (%) - Reinstated</b>												
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	3.8	1.9
Intelligent Automation	1.9	3.4	(4.5)	(1.2)	6.5	7.7	(5.3)	0.8	6.1	(1.4)	5.1	1.0
CIMS	3.9	(0.5)	8.4	7.3	8.2	(5.4)	3.6	2.8	2.1	13.6	19.4	(12.4)
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	0.9	4.7
Engineering									(7.1)	67.4	6.2	11.9
<b>Revenues from Top Clients</b>												
Top 5	1.8	4.3	5.5	1.1	12.2	(4.2)	(2.0)	3.0	(7.2)	12.9	13.8	(6.1)
Top 10	4.2	4.3	3.4	2.7	9.2	(4.5)	(1.2)	2.0	(2.8)	8.7	14.4	(4.6)
<b>Onsite:Offshore Mix</b>												
Onsite	0.8	(0.1)	0.5	4.6	2.2	0.2	1.0	1.1	2.7	22.0	9.1	2.6
Offshore	4.9	7.3	3.4	5.5	3.4	4.3	1.8	2.3	0.6	31.2	6.1	3.9
<b>YoY Growth</b>												
<b>By Geography(%)</b>												
Americas	18.9	14.2	4.9	10.1	10.3	8.5	6.1	7.1	7.6	48.2	69.2	61.3
EMEA	25.0	37.7	35.9	13.2	19.1	13.5	11.2	9.8	7.5	15.7	20.4	18.8
APAC	8.6	(22.5)	(8.2)	33.7	12.0	30.3	43.0	9.4	4.5	25.0	3.0	51.2
<b>By Industry (%)</b>												
BFS	67.2	52.9	24.5	27.3	20.0	12.3	16.0	17.9	9.6	23.6	20.3	28.2
Insurance	(10.3)	(7.6)	(9.7)	(1.7)	11.4	9.7	11.5	5.5	1.5	12.3	20.3	20.5
Transportation	22.8	20.6	19.9	6.4	8.6	8.0	3.3	1.5	4.9	30.0	43.2	52.8
Government (overseas)								NA	NA	NA	NA	37.4
Others	14.7	6.7	22.6	20.2	13.1	19.2	14.9	(24.5)	(19.0)	26.0	43.8	87.0
<b>By Practice Split (%) - Reinstated</b>												
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	22.7	25.4
Intelligent Automation	3.9	2.4	(4.2)	(0.6)	3.9	8.2	7.3	9.4	9.1	(0.1)	10.9	11.1
CIMS	27.3	19.7	13.7	20.1	25.1	19.1	13.8	9.0	2.9	23.5	42.3	21.3
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	16.3	17.2
Engineering									(1.7)	58.6	69.1	85.0
<b>Revenues from Top Clients</b>												
Top 5	11.3	16.8	7.8	13.3	24.8	14.6	6.4	8.5	(10.3)	5.7	22.8	11.9
Top 10	18.3	26.1	14.3	15.4	20.9	10.7	5.9	5.1	(6.4)	6.4	23.2	15.2
<b>Onsite:Offshore Mix</b>												
Onsite	3.8	4.2	4.2	5.8	7.3	7.7	8.2	4.5	5.0	27.8	38.2	40.3
Offshore	43.2	31.6	24.8	22.7	21.0	17.6	15.8	12.3	9.3	37.4	43.2	45.5

Source: Company, BOBCAPS Research

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Total revenue</b>	<b>80,146</b>	<b>91,790</b>	<b>121,912</b>	<b>152,747</b>	<b>180,796</b>
EBITDA	14,053	14,960	18,332	26,499	31,874
Depreciation	2,585	3,186	4,580	5,527	6,509
EBIT	11,468	11,774	13,752	20,972	25,365
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	(630)	(1,156)	(1,072)	446	489
Exceptional items	1,326	165	132	0	0
EBT	9,512	10,453	12,548	21,418	25,854
Income taxes	2,061	2,093	3,201	5,354	6,464
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	513	276	1,240	1,844	1,844
<b>Reported net profit</b>	<b>6,938</b>	<b>8,084</b>	<b>8,107</b>	<b>14,219</b>	<b>17,547</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>6,938</b>	<b>8,084</b>	<b>8,107</b>	<b>14,219</b>	<b>17,547</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	17,393	15,315	27,800	28,130	33,548
Provisions	1,276	1,304	1,743	1,743	1,743
Debt funds	3,773	4,153	3,502	2,702	1,902
Other liabilities	3,567	4,039	28,070	28,380	28,885
Equity capital	611	618	669	693	693
Reserves & surplus	30,214	35,648	63,123	68,333	75,485
Shareholders' fund	30,825	36,266	63,792	69,026	76,178
<b>Total liab. and equities</b>	<b>56,834</b>	<b>61,077</b>	<b>124,907</b>	<b>129,981</b>	<b>142,256</b>
Cash and cash eq.	5,787	3,352	8,832	10,021	14,678
Accounts receivables	16,131	18,039	25,771	30,140	35,944
Inventories	0	0	0	0	0
Other current assets	4,146	4,634	11,555	12,056	14,378
Investments	0	0	1,457	0	0
Net fixed assets	4,455	4,470	7,682	8,155	7,646
CWIP	46	232	24	24	24
Intangible assets	16,299	16,133	49,726	49,726	49,726
Deferred tax assets, net	3,757	5,583	5,470	5,470	5,470
Other assets	6,213	8,634	14,390	14,390	14,390
<b>Total assets</b>	<b>56,834</b>	<b>61,077</b>	<b>124,907</b>	<b>129,981</b>	<b>142,256</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Cash flow from operations</b>	<b>14,369</b>	<b>7,333</b>	<b>11,968</b>	<b>18,508</b>	<b>23,191</b>
Capital expenditures	(4,915)	(3,783)	(41,804)	(6,000)	(6,000)
Change in investments	0	0	1,457	(1,457)	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(4,915)</b>	<b>(3,783)</b>	<b>(40,347)</b>	<b>(7,457)</b>	<b>(6,000)</b>
Equities issued/Others	0	0	22,400	0	0
Debt raised/repaid	(7)	380	(651)	(800)	(800)
Interest expenses	0	0	0	0	0
Dividends paid	(3,907)	(4,673)	(5,019)	(9,009)	(10,395)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(3,914)</b>	<b>(4,293)</b>	<b>16,730</b>	<b>(9,809)</b>	<b>(11,195)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,252</b>	<b>(2,435)</b>	<b>5,480</b>	<b>1,189</b>	<b>4,657</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,787</b>	<b>3,352</b>	<b>8,832</b>	<b>10,021</b>	<b>14,678</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	113.8	131.4	122.3	205.2	253.2
Adjusted EPS	113.8	131.4	122.3	205.2	253.2
Dividend per share	64.0	76.0	76.0	130.0	150.0
Book value per share	504.5	586.6	952.7	996.1	1,099.2

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	6.2	5.5	4.1	3.3	2.7
EV/EBITDA	35.4	33.5	27.3	18.9	15.5
Adjusted P/E	65.9	57.1	61.3	36.5	29.6
P/BV	14.9	12.8	7.9	7.5	6.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	72.9	77.3	63.9	66.4	67.9
Interest burden (PBT/EBIT)	82.9	88.1	83.0	102.1	101.9
EBIT margin (EBIT/Revenue)	14.3	12.9	12.5	13.7	14.0
Asset turnover (Rev./Avg TA)	207.7	215.5	170.7	153.5	171.7
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.5	1.5
<b>Adjusted ROAE</b>	<b>23.9</b>	<b>24.1</b>	<b>16.2</b>	<b>21.4</b>	<b>24.2</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	24.6	14.5	32.8	25.3	18.4
EBITDA	26.0	6.5	22.5	44.5	20.3
Adjusted EPS	4.4	15.5	(6.9)	67.8	23.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.5	16.3	15.0	17.3	17.6
EBIT margin	14.3	12.8	11.3	13.7	14.0
Adjusted profit margin	8.7	8.8	6.6	9.3	9.7
Adjusted ROAE	23.9	24.1	16.2	21.4	24.2
ROCE	23.3	22.3	16.0	15.8	18.1

### Working capital days (days)

Receivables	73	72	77	72	73
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

### Ratios (x)

Gross asset turnover	18.0	20.5	15.9	18.7	23.6
Current ratio	1.5	1.7	1.7	1.9	1.9
Net interest coverage ratio	NA	NA	NA	NA	NA
<b>Adjusted debt/equity</b>	<b>(0.1)</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.2)</b>

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

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**BUY** – Expected return >+15%

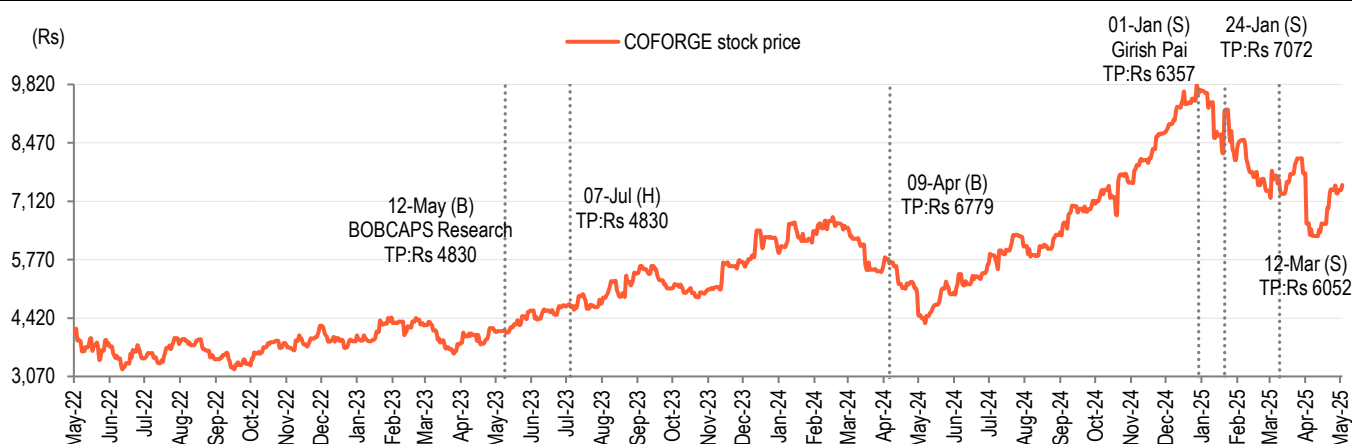
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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