

29 December 2025

## Encora acquired at USD 2.35bn EV

Coforge (COFORGE IN) announced the acquisition of US-based Encora at an enterprise value of USD 2.35bn in an all-stock deal. The acquisition likely brings in benefits in terms of COFORGE addressing its gaps in the North American market (especially West and Mid-West regions that contribute only 25% to its North America revenues), expansion of its near shore delivery centers in the LATAM market (which are servicing US clients), scaling up its emerging verticals of Healthcare and Hi-tech. However, valuations at EV/sales of 3.9x appear expensive considering that Encora posted only 7-10% organic revenue growth in the past two years, lower than COFORGE's revenue growth. We downgrade COFORGE to **Reduce** from Accumulate with a lower TP of INR 1,720 per share.

**Deal structure:** COFORGE is acquiring Encora at an EV of USD 2.35bn, financed through equity of USD 1.89bn (~INR 170bn) and the balance through bridge loan or QIP to retire high-cost term loan of the Encora group. The company will issue 93.8mn shares on a preferential basis to the sellers at INR 1,815.91 per share (totaling INR 170bn) and accordingly, sellers will hold a 21.25% stake in the combined entity. The sellers include PE firms, Advent International and Warburg Pincus that will continue with the company and are not receiving any cash consideration. The sellers will appoint two board members. Shareholder approval will be secured within 30 days of signing the deal, while regulatory approvals are expected within 4-6 months of the signing. COFORGE likely to replace the current high cost debt of Encora with low cost debt or through a QIP launch in the next 4-6 months.

**Rationale for acquisition:** i) The US market is set to scale up – Most of COFORGE's US revenue (75%) comes from East and South regions and only 25% is from West and Mid-West regions. This gap is likely to be bridged through this acquisition. COFORGE's North American region is likely to post 50% revenue growth to USD 1.4bn post the acquisition. ii) Hi-Tech and Healthcare verticals will scale up, likely touching USD 170mn revenue run rate. iii) Nearshore delivery capabilities will expand in the LATAM market with the addition of 3,100+ delivery headcount. iv) Clients within USD 10mn+ revenue bracket will expand by 11 to 45 from 34 currently. v) Revenue per employee and margin profile will improve.

**Downgrade to Reduce from Accumulate; TP lowered to INR 1,720:** Historically (in FY21-25), COFORGE had reported high teen revenue CAGR on account of stable management, strong order book and specialization in select verticals of BFS, Insurance and Travel. Encora's organic revenue growth, on the other hand, was lower at 7-10%. Despite lower growth, COFORGE is acquiring Encora at 3.9X EV/sales and ~21x EV/EBITDA, in line with COFORGE's multiples, which appears expensive. So, we cut our target multiple for COFORGE from 39x to 34x to reflect higher valuation concern. Organically also, some costs for COFORGE witnessed an uptick in recent quarters, which may strain its margins, going ahead. Thus, we cut our earnings estimates by 7–8% for FY27E and FY28E, respectively. We downgrade COFORGE from Accumulate to **Reduce**, with TP reduced to INR 1,720 (from INR 2,120). The stock is already down 10% in a week, likely reflecting some above-mentioned concerns. Key upside risk is higher-than-expected growth and earnings.

### Key Financials

YE March (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	90,089	120,507	161,173	185,644	206,997
YoY (%)	12.4	33.8	33.7	15.2	11.5
EBITDA (INR mn)	15,168	19,982	27,761	32,241	35,495
EBITDA margin (%)	16.8	16.6	17.2	17.4	17.1
Adj PAT (INR mn)	8,341	9,787	14,662	17,133	20,279
YoY (%)	16.3	0.5	77.5	18.9	18.4
Fully DEPS (INR)	25.9	24.4	42.5	50.5	59.7
RoE (%)	24.2	16.2	16.7	17.6	18.8
RoCE (%)	31.8	24.9	23.9	26.0	26.7
P/E (x)	61.6	56.4	38.3	32.7	27.7
EV/EBITDA (x)	38.5	29.3	21.1	18.1	16.5

Note: Pricing as on 26 December 2025; Source: Company, Elara Securities Estimate

Rating: **Reduce**

Target Price: **INR 1,720**

Upside: **3%**

CMP: **INR 1,673**

As on 26 December 2025

#### Key data

Bloomberg	COFORGE IN
Reuters Code	COFO.NS
Shares outstanding (mn)	335
Market cap (INR bn/USD mn)	560/6,237
EV (INR bn/USD mn)	585/6,507
ADTV 3M (INR mn/USD mn)	3,097/34
52 week high/low	2,005/1,191
Free float (%)	100

Note: as on 26 December 2025; Source: Bloomberg

#### Price chart



Source: Bloomberg

	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Shareholding (%)				
Promoter	0.0	0.0	0.0	0.0
% Pledge	0.0	0.0	0.0	0.0
FII	42.6	40.2	37.4	34.1
DII	47.9	50.1	52.3	54.9
Others	9.5	9.7	10.3	11.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.7	1.6	9.4
Coforge	8.8	(11.9)	(11.5)
NSE Mid-cap	5.3	1.5	6.7
NSE Small-cap	(0.3)	(5.8)	(6.2)

Source: Bloomberg

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## Financials (YE March)

<b>Income Statement (INR mn)</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Total Revenue	90,089	120,507	161,173	185,644	206,997
Gross Profit	29,949	39,523	53,696	59,816	65,108
EBITDA	15,168	19,982	27,761	32,241	35,495
EBIT	12,196	15,704	21,209	25,514	29,136
Interest expense	1,256	1,347	1,347	1,347	1,347
Other income	(1,153)	(1,080)	(1,028)	(999)	(495)
Exceptional/ Extra-ordinary items	(261)	(1,666)	(248)	-	-
PBT	10,698	12,961	20,071	24,515	28,641
Tax	2,209	3,326	4,693	5,822	6,802
Minority interest/Associates income	(409)	(1,514)	(964)	(1,560)	(1,560)
Reported PAT	8,080	8,121	14,414	17,133	20,279
Adjusted PAT	8,341	9,787	14,662	17,133	20,279
<b>Balance Sheet (INR mn)</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Shareholders' Equity	36,266	63,792	70,999	79,565	89,705
Minority Interest	1,003	19,498	21,164	22,724	24,284
Trade Payables	627	1,844	1,844	1,844	1,844
Provisions & Other Current Liabilities	6,899	11,006	11,006	11,006	11,006
Total Borrowings	4,366	1,034	1,034	1,034	1,034
Other long term liabilities	10,949	26,766	36,499	42,198	47,171
<b>Total liabilities &amp; equity</b>	<b>61,077</b>	<b>124,907</b>	<b>143,513</b>	<b>159,338</b>	<b>176,010</b>
Net Fixed Assets	7,629	11,260	10,108	8,981	8,223
Goodwill	11,738	38,430	38,430	38,430	38,430
Intangible assets	4,395	11,296	11,296	11,296	11,296
Business Investments / other NC assets	11,290	16,306	16,306	16,306	16,306
Cash, Bank Balances & treasury investments	3,352	8,832	12,928	24,378	43,587
Inventories	-	-	-	-	-
Sundry Debtors	18,039	25,771	35,326	40,689	39,698
Other Current Assets	4,634	13,012	19,120	19,258	18,470
<b>Total Assets</b>	<b>61,077</b>	<b>124,907</b>	<b>143,513</b>	<b>159,338</b>	<b>176,010</b>
<b>Cash Flow Statement (INR mn)</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
<b>Cashflow from Operations</b>	<b>9,034</b>	<b>12,371</b>	<b>17,579</b>	<b>25,616</b>	<b>34,949</b>
Capital expenditure	(2,655)	(6,144)	(5,400)	(5,600)	(5,600)
Acquisitions / divestitures	57	(20,238)	-	-	-
Other Business cashflow	120	1,899	-	-	-
<b>Free Cash Flow</b>	<b>6,379</b>	<b>6,227</b>	<b>12,179</b>	<b>20,016</b>	<b>29,349</b>
Cashflow from Financing	(8,870)	16,753	(7,207)	(8,566)	(10,139)
Net Change in Cash / treasury investments	(2,314)	4,641	4,972	11,449	19,210
<b>Key assumptions &amp; Ratios</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Dividend per share (INR)	15.0	15.2	21.2	25.2	29.9
Book value per share (INR)	116.3	191.7	209.1	234.4	264.2
RoCE (Pre-tax) (%)	31.8	24.9	23.9	26.0	26.7
ROIC (Pre-tax) (%)	36.1	27.6	27.2	32.1	38.7
ROE (%)	24.2	16.2	16.7	17.6	18.8
Asset Turnover (x)	12.4	12.8	15.1	19.5	24.1
Net Debt to Equity (x)	0.0	(0.1)	(0.2)	(0.3)	(0.5)
Net Debt to EBITDA (x)	0.1	(0.4)	(0.4)	(0.7)	(1.2)
Interest cover (x) (EBITDA/ int exp)	12.1	14.8	20.6	23.9	26.4
Total Working capital days (WC/rev)	74.1	81.7	85.8	81.0	69.7
<b>Valuation</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
P/E (x)	61.6	56.4	38.3	32.7	27.7
P/Sales (x)	6.2	4.7	3.5	3.0	2.7
EV/ EBITDA (x)	38.5	29.3	21.1	18.1	16.5
EV/ OCF (x)	64.7	47.3	33.3	22.8	16.7
FCF Yield	1.0	1.0	1.9	3.2	4.6
Price to BV (x)	14.4	8.7	8.0	7.1	6.3
Dividend yield (%)	0.9	0.9	1.3	1.5	1.8

Note: Pricing as on 26 December 2025; Source: Company, Elara Securities Estimate

### Pro-forma financials and Encore's headline numbers

The combined entity is projected to report USD 2.5bn revenues in FY26. The split of this is as follows: i) AI and product engineering may generate USD 1.5bn, ii) data engineering may post USD 250mn, iii) Cloud USD 500mn and iv) BPO USD 250mn.

Encora's revenue is expected to grow from USD 481mn in FY24 to USD 600mn in FY26, at a CAGR of 11.7% (organic growth of 7-10% in FY24 and FY25). Adjusted EBITDA margin (adjusted for one-time integration and transaction expenses related to prior acquisitions) is 19% for FY25. It was in the range of 17-19% historically while COFORGE is planning to improve margin by a couple of percentage points in the future.

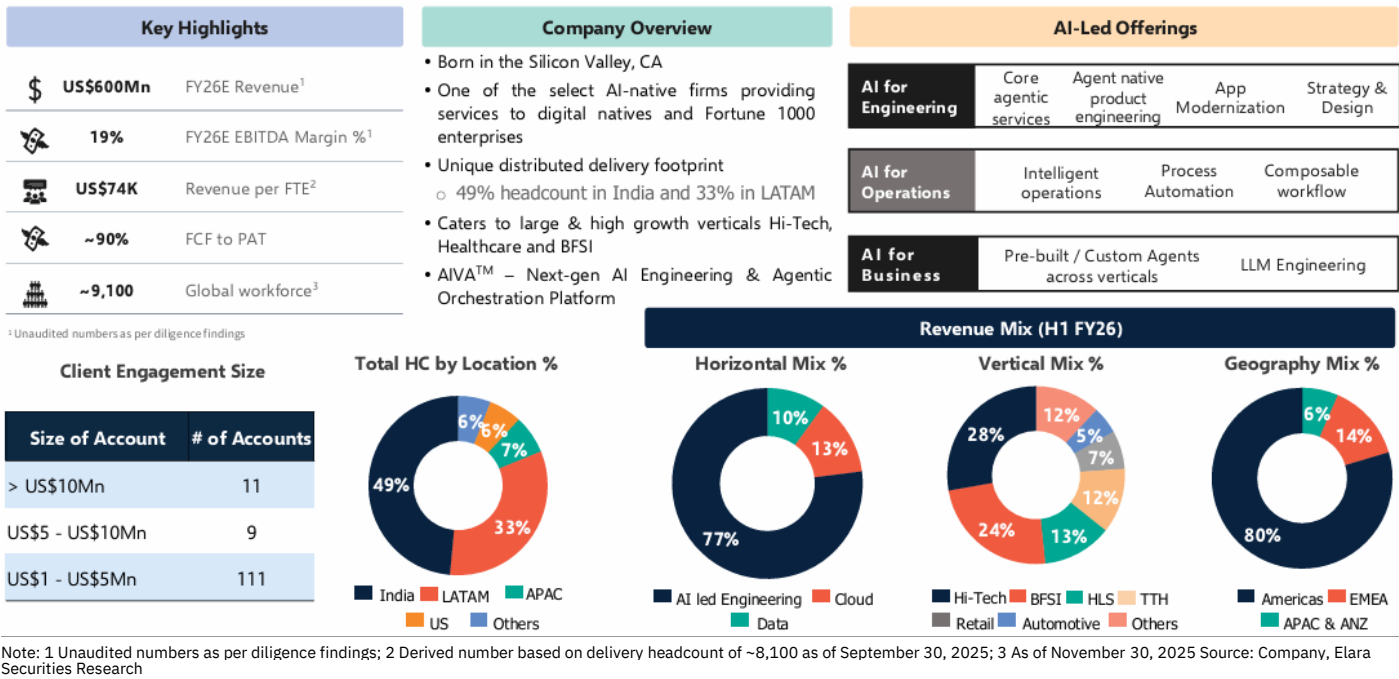
#### Exhibit 1: FY27 Proforma Financials

Particulars (in US\$Mn)	Coforge	Encora	Combined
Revenue	2,136	690	2,826
EBITDA	384	148	533
EBITDA%	18.0%	21.5%	18.9%
Depreciation	86	9	95
Amortization of Intangibles		39	39
EBIT	298	100	399
EBIT%	14.0%	14.5%	14.1%
Interest Cost	20	0	20
PBT	278	100	379
PBT%	13.0%	14.5%	13.4%
Tax	70	21	91
Minority Interest	5		5
PAT	203	79	283
PAT%	9.5%	11.5%	10.0%
Outstanding Shares (# Mn)**	347.7		468.7
EPS (US\$)	52.1	58.2	53.7

**\*Workings outlined assumes a year-on-year revenue growth of 15% in FY27 and cost synergies of US\$20Mn.**

Note: YoY growth of 15% used for illustration purpose and is not a management guidance; Source: Company, Elara Securities Research

Exhibit 2: Overview of Encora, a Silicon Valley-based AI-led engineering firm



Revenue Mix (H1 FY26)

Client Engagement Size

Size of Account	# of Accounts
> US\$10Mn	11
US\$5 - US\$10Mn	9
US\$1 - US\$5Mn	111

Total HC by Location %

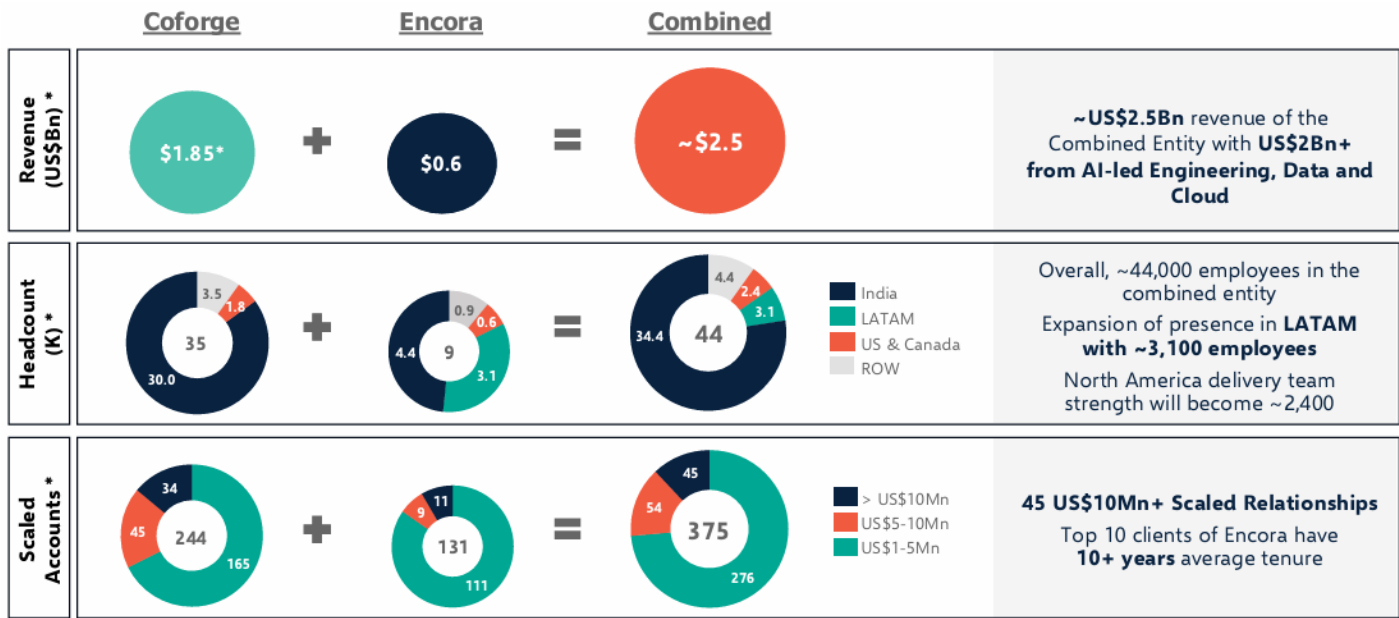
Horizontal Mix %

Vertical Mix %

Geography Mix %

Note: 1 Unaudited numbers as per diligence findings; 2 Derived number based on delivery headcount of ~8,100 as of September 30, 2025; 3 As of November 30, 2025 Source: Company, Elara Securities Research

Exhibit 3: The combined entity is projected to report USD 2.5bn revenues in FY26



**Exhibit 4: COFORGE trading at 32.5x, above its 10-year mean of 25.6x**



Note: Pricing as on 26 December 2025; Source: NSE, Company, Elara Securities Estimate

**Exhibit 5: Valuation**

(INR)	FY27E
Current trailing twelve months (TTM) EPS	35.0
Current Market Price (CMP)	1673.3
Target EPS	50.5
Target EPS period	FY27E
Target Multiple (x)	34
Target price	1,720
Upside (%)	3

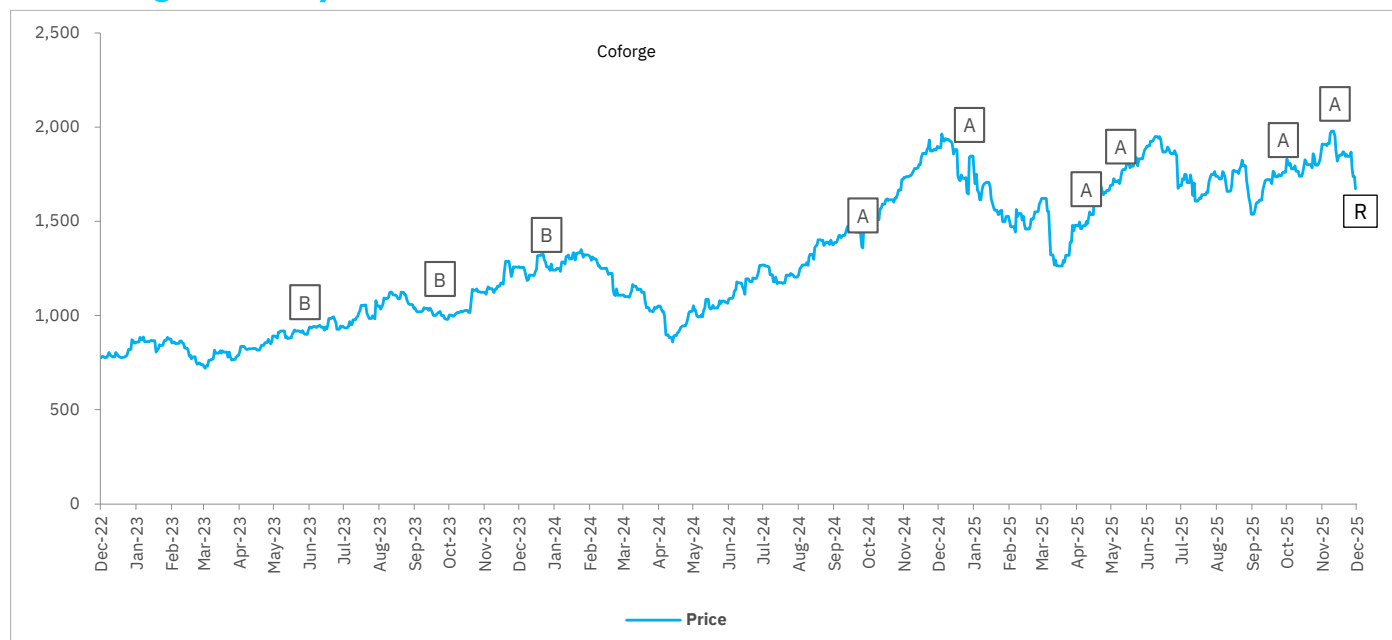
Note: Pricing as on 26 December 2025; Source: Elara Securities Estimate

**Exhibit 6: Change in estimates**

(INR mn)	Earlier estimates			Revised estimates			% change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue in USD	1,875	2,134	2,379	1,875	2,134	2,379	-	-	-
Revenue in INR	161,173	185,644	206,997	161,173	185,644	206,997	-	-	-
EBITDA	27,958	33,966	37,909	27,761	32,241	35,495	(0.7)	(5.1)	(6.4)
EBITDA margin (%)	17.3	18.3	18.3	17.2	17.4	17.1	(10) bps	(90) bps	(120) bps
PAT	14,564	18,451	22,144	14,414	17,133	20,279	(1.0)	(7.1)	(8.4)
EPS (INR)	42.9	54.4	65.2	42.5	50.5	59.7	(1.0)	(7.1)	(8.4)
<b>TP (INR)</b>	<b>2,120</b>			<b>1,720</b>			<b>(18.9)</b>		
<b>Rating</b>	<b>Accumulate</b>			<b>Reduce</b>					

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
23-Jun-2023	Buy	5,490	4,499
23-Jun-2023	Buy	6,000	4,819
19-Oct-2023	Buy	6,230	5,109
20-Jan-2024	Buy	8,100	6,278
22-Oct-2024	Accumulate	8,110	7,558
23-Jan-2025	Accumulate	9,950	9,196
05-May-2025	Accumulate	8,870	7,497
04-Jun-2025	Accumulate	1,770	1,499
24-Oct-2025	Accumulate	2,010	1,760
08-Dec-2025	Accumulate	2,120	1,951
26-Dec-2025	Reduce	1,720	1,673

## Guide to Research Rating

<b>BUY (B)</b>	Absolute Return >+20%
<b>ACCUMULATE (A)</b>	Absolute Return +5% to +20%
<b>REDUCE (R)</b>	Absolute Return -5% to +5%
<b>SELL (S)</b>	Absolute Return < -5%

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