

## Cigniti Technologies Ltd.

Ascending the value chain

Founded in 1998, Cigniti Technologies Ltd (Cigniti) has emerged as a global leader in delivering comprehensive quality assurance and software testing solutions. Within the digital assurance landscape, Cigniti stands among the leading industry players and holds a notable position within the global top 3 for independent testing. The Company has over 300 clients, spanning industries like BFSI, Retail, Travel, Healthcare, and Energy, across five continents. Cigniti specializes in Digital Assurance, Quality Engineering, and Quality Assurance services, playing a pivotal role in guiding enterprises toward delivering transformative digital experiences. In a strategic move, the Company has extended its footprint into the rapidly growing Digital Engineering segment, capitalizing on synergies with its existing digital assurance business, thereby also facilitating cross-selling opportunities. This strategic diversification aligns with Cigniti's commitment to innovation and staying at the forefront of the evolving technological landscape, becoming an AI & IP-led digital engineering and digital assurance services provider.

### Digital Engineering: Catalyst for the next growth phase

Cigniti's strategic shift to digital engineering has seen exponential growth, with revenues increasing ~13x in four years. The FY23 acquisition of Apaara Digital, a specialist in AI/ML, blockchain and product engineering positions Cigniti as a leader, expanding its capabilities and service offerings and aligning with the evolving digital landscape. The cloudification of data across industries drives demand for tailored user experiences, defining the rise of digital engineering and ensuring Cigniti's prominence in a \$450Bn and growing market.

### Client-Centric Growth Strategy: Nurturing Relationships for Value Expansion

Cigniti's strategic focus on wallet share optimization and growing higher value accounts has yielded significant results. The 'hunting' and 'farming' approach, implemented over the past 18-24 months, has strengthened long-term client relationships, particularly within the Top-5 and Top-10 clients. In FY23, the Top-5 clients contributed 23% of total revenue, up from 17% in FY19. Positive client responses to discussions on additional digital services indicate Cigniti's innovative growth strategy. The recent Apaara acquisition further underscores the commitment to nurturing client relationships, with a focus on cross-selling engineering offerings and expanding digital assurance services to untapped clients.

### View & Valuation

We believe that Cigniti's shift towards moving up the value chain and integrating new offerings along with the strategy of client mining and cross selling can result in significant growth. Therefore, we initiate a coverage on Cigniti, with a BUY rating at 16x PE multiple and estimating a target price of Rs. 1,401, indicating a ~24% upside.

19<sup>th</sup> December 2023

**BUY**

CMP Rs. 1,130

TARGET Rs. 1,401 (+24%)

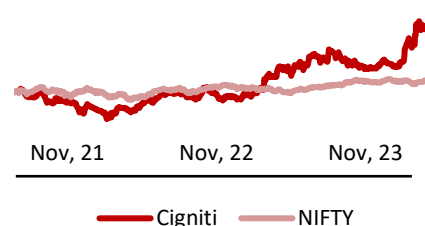
#### Company Data

Bloomberg Code	CIGN IN
MCAP (Rs. Mn)	31,075
O/S Shares (Mn)	28.1
52w High/Low	1,204/522
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	209

#### Shareholding Pattern %

	Sep-23	Jun-23	Mar-23
Promoters	33.46	34.59	34.61
FIIIs	6.32	6.22	5.13
DIIIs	0.17	0.00	0.00
Non-Institutional	60.04	59.18	60.25

#### Cigniti vs Nifty



Source: Keynote Capitals Ltd.

#### Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	16,480	18,600	21,576
EBITDA	2,381	2,790	3,398
Net Profit	1,696	1,977	2,409
Total Assets	8,400	10,416	12,828
ROCE (%)	32%	34%	33%
ROE (%)	34%	29%	27%

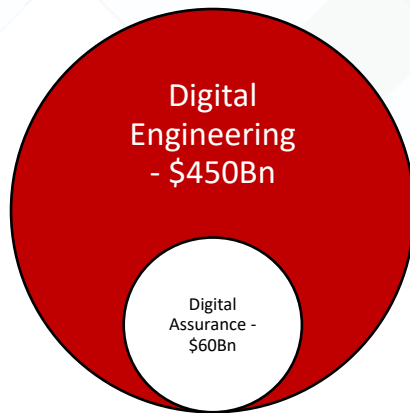
Source: Company, Keynote Capitals Ltd.

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### Industry

The global software testing services market size in 2023 is ~\$42Bn. NelsonHall expects spending will reach ~\$52Bn in 2027, representing a ~6% CAGR in the period 2022-2027. Digital Engineering services market is worth \$450Bn in 2023. Digital Assurance is a ~\$60Bn market that constitutes both QE and emerging assurance market.



Source: Company, Keynote Capitals Ltd.

Digital engineering integrates product and software engineering, enabling enterprises to proficiently adopt established digital technologies and emerging industrial advancements. This cohesive integration establishes an overarching digital link across the entire production lifecycle, facilitating a comprehensive approach to the end-to-end design and development of interconnected products.

Software testing and digital engineering operate within the expansive domain of ER&D, which encompasses organizations and activities dedicated to the research, design, and development of innovative products, technologies, and solutions that support the entire lifecycle of various products or systems, spanning from concept to disposal. The Global ER&D Pulse Survey (NASSCOM and Deloitte, 2022) underscores that this landscape is currently undergoing significant transformations. Key sectors, including industrial, energy, oil & gas, hardware & electronics, and automotive, are taking centre stage. Traditional ER&D is gradually making way for the Digital ER&D era. The industry is shifting its focus towards cloud-based initiatives for cost-effectiveness and enhanced business agility. Additionally, AI-driven initiatives for pricing optimization, targeted customer acquisition, and promotional effectiveness, as well as automation to streamline operations, are gaining prominence.

### Software Testing

The Software Testing Industry is characterized by intense competition and fragmentation featuring a diverse mix of regional and international vendors exists. Leading System Integrators (SIs) such as Accenture, Infosys, TCS, and Cognizant have established Independent Validation Services (IVS) practices, making significant contributions to revenue streams. There is a notable surge in demand, driven by the imperative need for responsive and user-friendly software solutions. Testing represents a substantial portion of both overall software and IT expenditure (~25%). This domain can be broadly categorized into Traditional Testing Services (TTS) and Specialized Testing Services (STS), with the prevailing trend favouring a shift from TTS to STS due to the need for impartial, specialized expertise.

In TTS, testing activities are performed by the team responsible for developing the software. This approach often entails developers or business analysts within the same organization conducting the testing. TTS may lack specialization in testing, and there can be a perceived conflict of interest since the testing team is closely tied to the development process.

STS entails using independent testing teams or experts with specific and advanced testing skills. These specialists focus exclusively on testing and are separate from the development team.

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STS is known for its unbiased approach for assessing software quality and its dedication for using advanced testing techniques. This specialization results in a higher level of expertise and precision in ensuring the reliability and quality of software products. It includes UI, Performance, Security testing, Test automation etc. Instead of executing performance test scripts, the emphasis is on analysing how all elements of the system such as hardware, software, configuration, security, usability, business values customer perform together.

### Quality Engineering

The Quality Engineering (QE) market, intricately linked with software testing and quality assurance, is currently experiencing an extended growth phase. This momentum is powered by the concept of 'Continuous Testing,' marked by the application of agile methodologies, development and operations (DevOps) tools, and automation. AI is facilitating selective and informed testing, in a way that amplifies productivity. The industry is on a trajectory towards embracing the Next Gen QA paradigm, with a clear emphasis on holistic optimization encompassing testing efforts, costs, and timelines. Testing has evolved from being a mere post-development process to becoming an integral element that directly influences the user experience. These trends in testing closely mirror the dynamic advancements in software development, embracing automation, open-source frameworks, agile methodologies, DevOps practices, and the integration of cutting-edge technologies.

### Trends

The global landscape has witnessed a significant transformation after the COVID-19 pandemic, propelling the world further into digital tech. This transition has paved the way for substantial growth in software-related sectors, inevitably giving rise to the critical facet of software testing.

Within software testing, there had been a noteworthy shift—a decline in the traditional testing market. The emphasis has historically been on functional testing, which validates individual functions of a software application to ensure they align with specified requirements.

As functional testing gradually becomes more standardized and commoditized, the market is poised for a transformation towards specialized, high-end automated services. Organizations are increasingly seeking avenues to enhance productivity, and in this pursuit, test automation tools have garnered considerable attention.

The prevailing trend underscores a heightened demand for specialized testing domains, including test automation, as well as the incorporation of cutting-edge digital technologies such as AI, ML, IoT, and a focus on non-functional testing.

**1. Supply:** There is an unprecedented demand for software testing resources, reaching an all-time high. However, this surge is met with a shortage of skilled professionals. The industry places a greater emphasis on skilled testers over tenured ones.

**2. DevOps and Agile Integration:** DevOps and Agile methodologies have become integral components of software development, offering tangible benefits and efficiency improvements. The "shift left" approach, emphasizing continuous testing, has gained prominence.

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In particular, DevOps plays a pivotal role in streamlining software development and delivery processes, optimizing cloud resource consumption, and enhancing software development issue detection and prevention. These methodologies extend the advantages of agility and DevOps, enabling businesses to create and deliver applications rapidly.

**3. In Automation Ascendancy:** Automation, especially in the form of test automation, is on the rise. Continuous testing has become increasingly crucial in software development, driven by the need for faster releases and improved quality. Test automation tools are in high demand, with a growing interest in scriptless test automation. The latest trend in this domain is codeless automation, offering a powerful interface for developing automation suites.

**4. Codeless Testing Tools Emergence:** Beyond traditional IT organizations, there's a growing demand for customized software solutions, leading to the emergence of codeless testing tools. The rise of low-code and no-code platforms is expected to be a prominent trend, with an estimated 70% of new enterprise applications by 2025 utilizing these technologies. These tools empower both IT and non-IT personnel, fostering digital competence and agility.

**5. AI and ML Advancements:** Breakthroughs in natural language processing and computer vision are propelling the growth of AI and ML. This growth is anticipated to continue, especially in AI-led testing. Digital Assurance Players are leveraging AI-powered test automation, intelligent test case generation, and predictive analytics for defect detection, AI-powered exploratory testing, and AI-driven test environment management. By 2024, an estimated 70% of enterprises are expected to leverage cloud-based AI infrastructure for operationalizing AI, as per Gartner's insights.

**6. Cloud Revolution:** The widespread adoption of cloud computing has facilitated the democratization of emerging technologies like AI, augmented reality, and blockchain.

**7. Data and Analytics:** Effective data and analytics operations necessitate governance, collaboration, and sharing, all enabled by scalable architectures. AI and machine learning enable businesses to analyse vast data sets, extract insights, and drive informed decision-making. By 2024, it is projected that 75% of organizations will establish centralized data and analytics data centres of excellence.

### Key Sectors in India

**1. BFSI:** The BFSI sector remains a pivotal industry for testing services, with a strong focus on cybersecurity. This emphasis is driven by the need to enhance regulatory governance, decision-making processes, fraud prevention, and the development of innovative banking services and partnership models. The widespread adoption of mobile wallets, supported by regulatory policies and expanding smartphone access, exemplifies the changing landscape in the banking sector. Banks are working diligently to provide consistent services across various channels, necessitating rigorous connected testing across devices and platforms to ensure a seamless customer experience.

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**2. Telecom and Media:** The rise of online billing and payment systems, underscores the importance of testing and quality assurance to ensure a seamless user experience. Similarly, the media industry is undergoing a significant shift towards online platforms, with the proliferation of online and mobile streaming services like Netflix. With the surge in OTT content consumption, the quality of the viewing experience has become paramount for customer engagement and retention. As a result, testing frameworks are being developed to cater to multiple platforms and devices.

**3. Retail:** The adoption of an omni-channel retailing model is central to the retail sector's success. This model relies on the seamless integration of digital and non-digital channels, emphasizing security and performance. Given the substantial size of India's retail market, the increasing mobile penetration, and the competition posed by e-commerce giants like Amazon and Flipkart, testing has gained significant prominence in this sector.

**4. Government:** The GOI's initiatives, including Digital India, Make in India, Skill India, Startup India, Aadhar, GST, Smart Cities, Direct Benefits Transfer, and Digitalized Public Distribution System, have established technology as a foundational element. These initiatives create unprecedented opportunities for the software testing industry, potentially setting new global standards.

### The India Advantage

India's abundant, cost-competitive software testing workforce cements its position as the preferred choice for both global and emerging local testing firms. With over 2Mn STEM graduates, a substantial portion possesses sought-after skills in AI/ML, cloud computing, cybersecurity, and 5G technologies.

Apart from companies, both central and state governments in India are actively investing in technical skill development programs. Initiatives such as Digital India and Skill India are carried out in partnership with private sector companies. These efforts extend to establishing nationwide centres of excellence and accelerator programs, exemplified by the FinTech Center of Excellence and Bharat Virtual Accelerator. The promotion of tech clusters, including BioValley and Medivalley for medical device manufacturing and testing, along with the Mumbai FinTech Hub, further underscores India's commitment to technological advancement.

While India was once primarily seen as a destination for cost-effective labour arbitrage in outsourcing, its delivery landscape has rapidly evolved. Today, it has emerged as a technology and innovation hub for numerous global organizations. The concept of 'digital transformation' has taken center stage as a catalyst for growth and competitiveness.

The pandemic underscored the imperative for organizational agility and deeper customer engagement, resulting in India's Digital Engineering sector experiencing remarkable growth at 20%. This trajectory positions India firmly within the fourth industrial revolution.

*STEM stands for a degree in the fields of science, technology, engineering, or mathematics. The surge in STEM graduates enhances global competitiveness, fuels technological innovation, and addresses complex challenges, positioning economies to thrive in high-growth sectors of the future.*

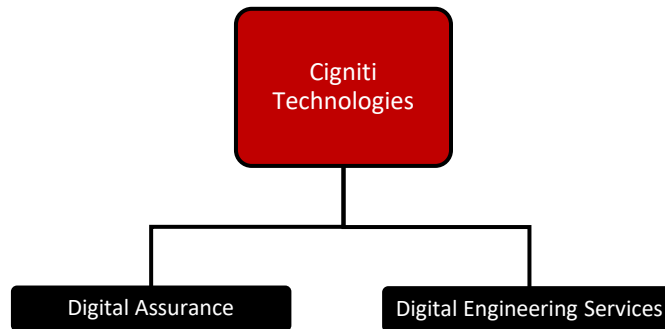


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### About the Company

Cigniti Technologies Ltd (Cigniti), formerly known as Chakkilam Infotech Ltd, is a prominent player in the Digital Assurance and Quality Engineering services industries. Founded in 1998 in Hyderabad, Cigniti has established itself as a leader that assists global businesses from various industries in accelerating their digital transformation journeys. Operating across 24 countries and 5 continents, Cigniti helps some of the world's foremost companies expedite their time-to-market and boost profitability through the creation of modern, robust, intuitive, secure, and future-ready software solutions.

The Company offers a comprehensive suite of services, ranging from IP led Digital Assurance and Digital Engineering to Software Quality Engineering, Software Testing, Automation, and Consulting services. At the heart of their operations lies an in-depth expertise in various testing services, encompassing functional testing, performance testing, test automation, and security testing. Their dedication to software testing extends to providing extensive support to global clients, covering test management, automation, functional and non-functional testing, as well as test environment management.



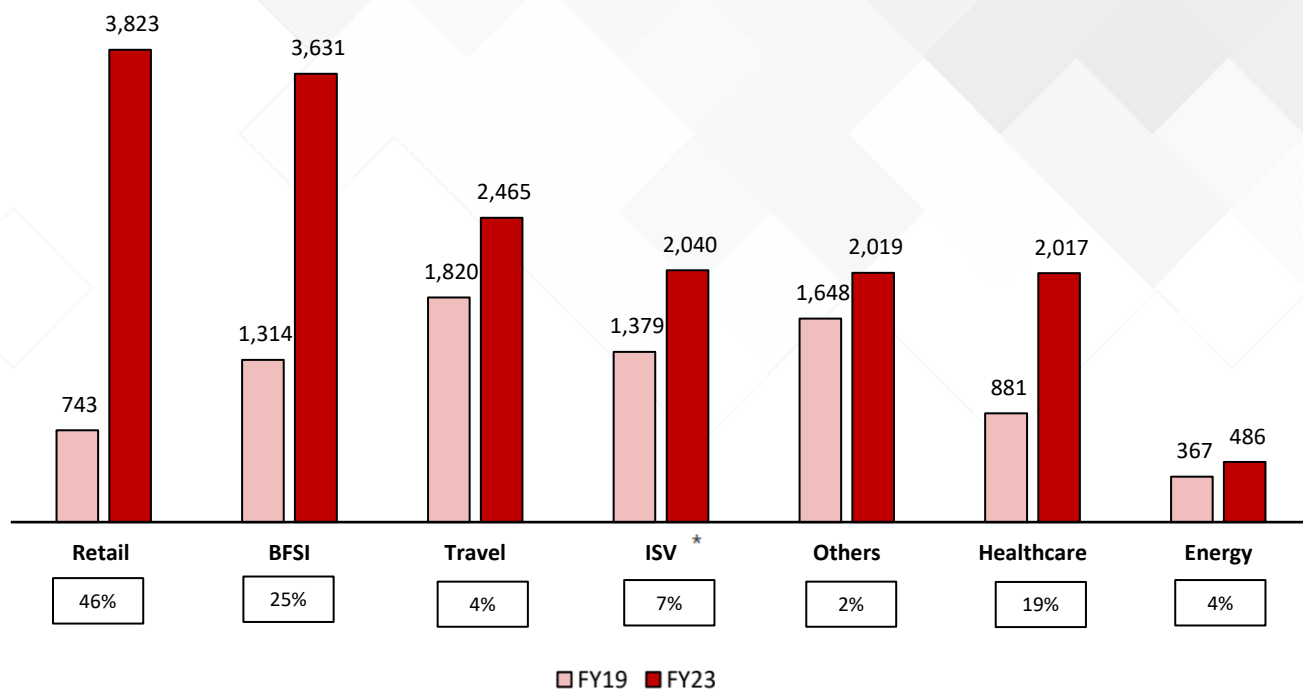
**Digital Assurance** – Consider a scenario where a global e-commerce company is introducing a new mobile app. In such cases, Cigniti's Quality Assurance services come into play by rigorously testing the app's functionality, usability, performance, and security, all geared towards ensuring it aligns with the company's stringent quality benchmarks.

The Company has consistently delivered top-tier engineering and software testing services across diverse industries, specializing in Next-Gen Testing, Digital Assurance, Quality Engineering, Advisory & Transformation, Digital Engineering, IP & Innovation. Their portfolio further extends to encompass Data engineering services, Software product and Digital platform engineering, AI and ML engineering services, and blockchain development.

In FY23, Cigniti acquired Apaara, expanding its capabilities into engineering services. This strategic move places a particular emphasis on CAD/CAM/CAE solutions tailored to the engineering industry. These engineering services include digitizing drawings into vector formats, 3D modelling, design, and analysis.

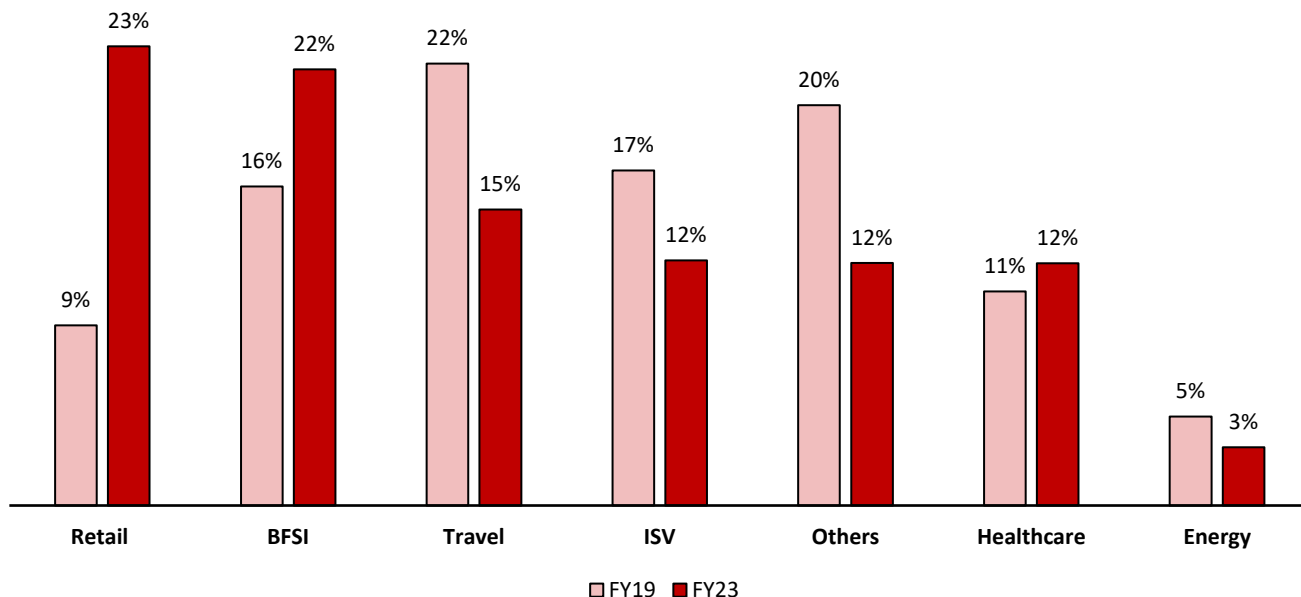
**Digital Engineering** – If a financial services company wants to create a digital banking platform, Cigniti can design the platform's user interface, develop the software components, ensure scalability to handle a large user base, and optimize the platform's performance. Additionally, if the platform incorporates AI for personalized financial recommendations, Cigniti's AI/ML engineering services would ensure the AI algorithms are accurate and reliable, enhancing the overall user experience.

Revenue Mix (Rs Mn) and 4 year CAGR (%)



\* ISV stands for Independent Software Vendors  
 Source: Company, Keynote Capitals Ltd.

Revenue Mix (%)



The Company's revenue is diversified across various sectors. Key segments contributing to its revenue include Retail (24%), BFSI (21%), Travel (16%), Healthcare (13%), ISV (Independent Software Vendors) (12%), other sectors (12%), and Energy (4%). This diversified sector mix allows the Company to reduce dependency on any single industry.

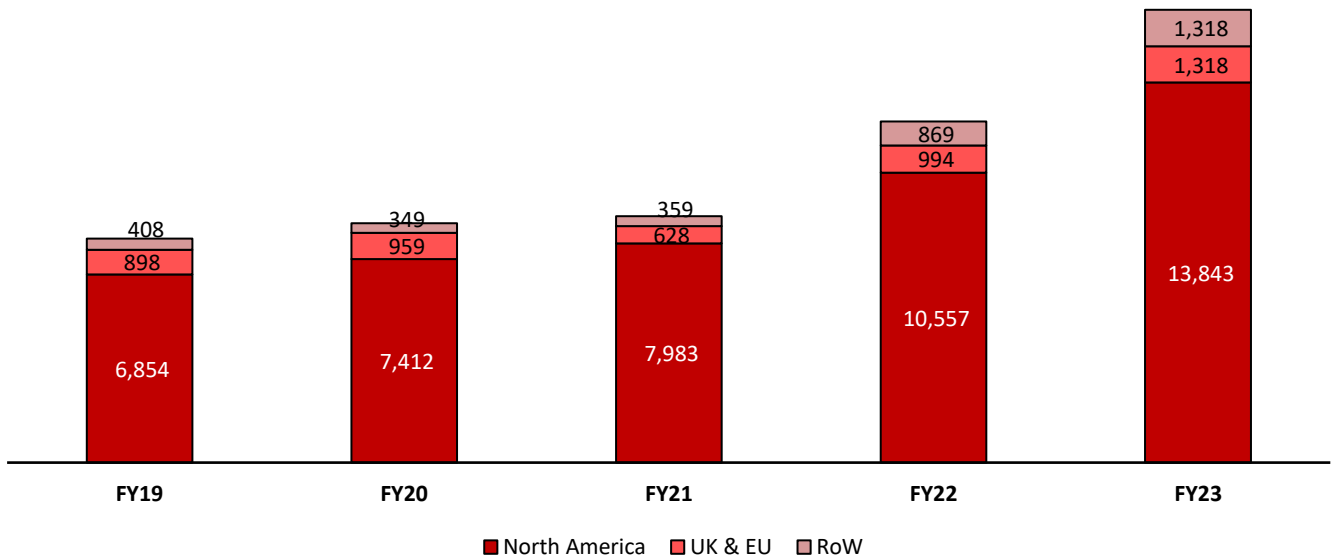
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The segment mix within the Company has evolved over the years, influenced by strategic decisions as well as external factors. The Retail and BFSI sectors have experienced substantial growth, mainly driven by the increasing significance of digital experiences in consumer preferences, heightened emphasis on cyber security and the demand for user-friendly interfaces. In contrast, the Travel sector faced challenges during the COVID-19 pandemic, resulting in reduced spending by travel companies. This dynamic shift underscores the Company's adaptability to changing market conditions and its commitment to capitalizing on growth opportunities.

In terms of geographical distribution, a significant portion of the Company's revenue, 81%, is generated from the USA, while the rest, 19%, is from the Rest of the World (ROW). This distribution reflects the US market's dominance as the tech capital of the world and signals its potential for continued growth. The Company's strategy is to maintain the strong foothold in US and keep exploring different market opportunities. It has expanded its global footprint with offices in promising markets such as Singapore, Dubai, Prague, and most recently, Brazil in Q2FY24.

Cigniti envisions a future where software platforms are inherently intelligent, capable of making real-time decisions and is prepared to support its clients, enabling them to experiment, employ lean and agile support its clients in this transformative methodologies, identify novel value propositions, and deliver digital outcomes through programmatic innovation.

Geographic Mix (Rs in Mn)



Source: Company, Keynote Capitals Ltd.



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### Case Studies:

**Banking** – In Canada, a prominent bank aimed to enhance the stability and efficiency of its testing practices to ensure a seamless banking experience for its customers. Cigniti's services led to the identification of 30% of application defects and a remarkable 25% reduction in the overall test life cycle.

In another case, a bank sought to validate its credit risk model framework. Initially, understanding the concept and its applicability across consumer segments took time, leading to a surge in validation requests and backlogs. Cigniti's digital engineering and digital insights expertise played a pivotal role in formulating an assessment strategy to pinpoint potential gaps and streamline the credit risk model validation process. This resulted in a substantial reduction in credit-loss rates and significant efficiency gains.

**Retail** – An omni-channel video game retailer grappled with significant internal functionality gaps in its outdated ecommerce platform. Cigniti stepped in to orchestrate a seamless transition to a modern architecture, leveraging a test automation framework. This comprehensive revamp resulted in enhanced performance and efficiency for the retailer's ecommerce operations.

For a prominent airline on-board retail services provider, the imperative was to modernize legacy systems. This initiative aimed to curb delays and bolster agility while mitigating the high costs associated with maintenance and support. Additionally, discrepancies in inventory management created urgency. Cigniti played a pivotal role in the digital transformation journey by developing a mobile application that not only reduced costs by 30% but also slashed time and effort by an impressive 50%. This transformation significantly enhanced overall efficiency.

**Healthcare** – A prominent Healthcare IT solution provider sought an automated regression suite to rigorously test its management application. With Cigniti's expertise, maintenance costs were remarkably reduced by 90%, project costs saw a substantial drop of 30%, and the necessity for manual testing efforts decreased by a significant 20%.

A leading provider of communication systems in healthcare aimed to enhance the functionality and compatibility of its channels for improved service quality. Cigniti's support resulted in a 40% reduction in post-production defects, contributing to greater credibility and an enhanced brand value.

**Travel** – Travel agencies increasingly turned to QTP for automated testing to guarantee the optimal usability of their platforms across diverse environments. Travelocity faced the challenge of migrating from WinRunner to QTP to enhance the execution of its development environment and automation tests. With Cigniti's dedicated migration tool, the company witnessed a remarkable reduction in manual regression efforts by 50% and implementation efforts by a staggering 70%.

A leading passenger and vehicle ferries operator placed a premium on ensuring the availability and operability of its network, applications, and infrastructure. Cigniti's testing expertise played a pivotal role in achieving an impressive 98% uptime for their infrastructure, enhancing operational reliability.

### Key Clients

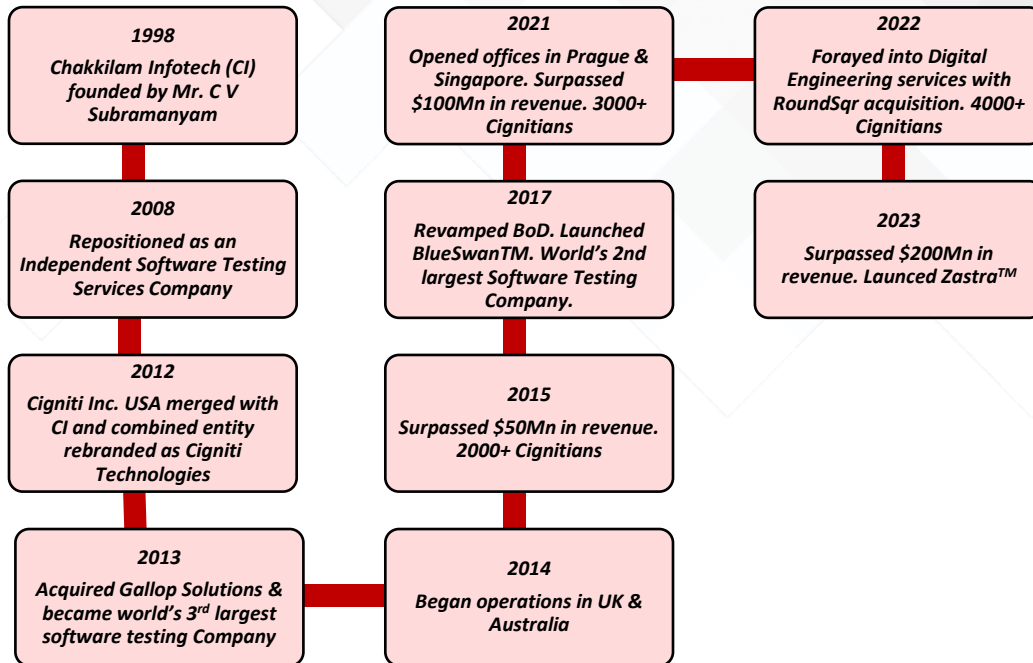


*QTP is a software that provides functional and regression test automation for software applications and environments.*

*Source: Company, Keynote Capitals Ltd.*

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### Timeline and Transformation Journey



Source: Company, Keynote Capitals Ltd.

Cigniti has remarkably transformed from software testing to quality engineering and now towards digital engineering.

The Company's evolution can be delineated into three distinct phases:

- From 2000 to 2010, it established itself as a pure-play software testing player.
- From 2010 to 2020, it transitioned into an IP-led quality engineering player.
- Now, from 2020 to 2030, it is poised to be an AI-led digital transformation enabler, assuring digital transformation outcomes.

Initially, it navigated the competitive IT services market but sought a strategic shift in 2008. Recognizing the potential in niche areas, the Company repositioned itself as an independent software testing services provider.

In 2011, Cigniti acquired Cigniti Inc, a US-based software testing and services Company followed by the acquisition of Gallop Solutions Inc, a specialized US-based software testing services Company, in 2013. These strategic acquisitions granted the Company critical mass and a robust presence in the global market, particularly in the US, the world's largest market with the vision to become the world's largest and most respected independent software testing services Company.

#### Acquisitions

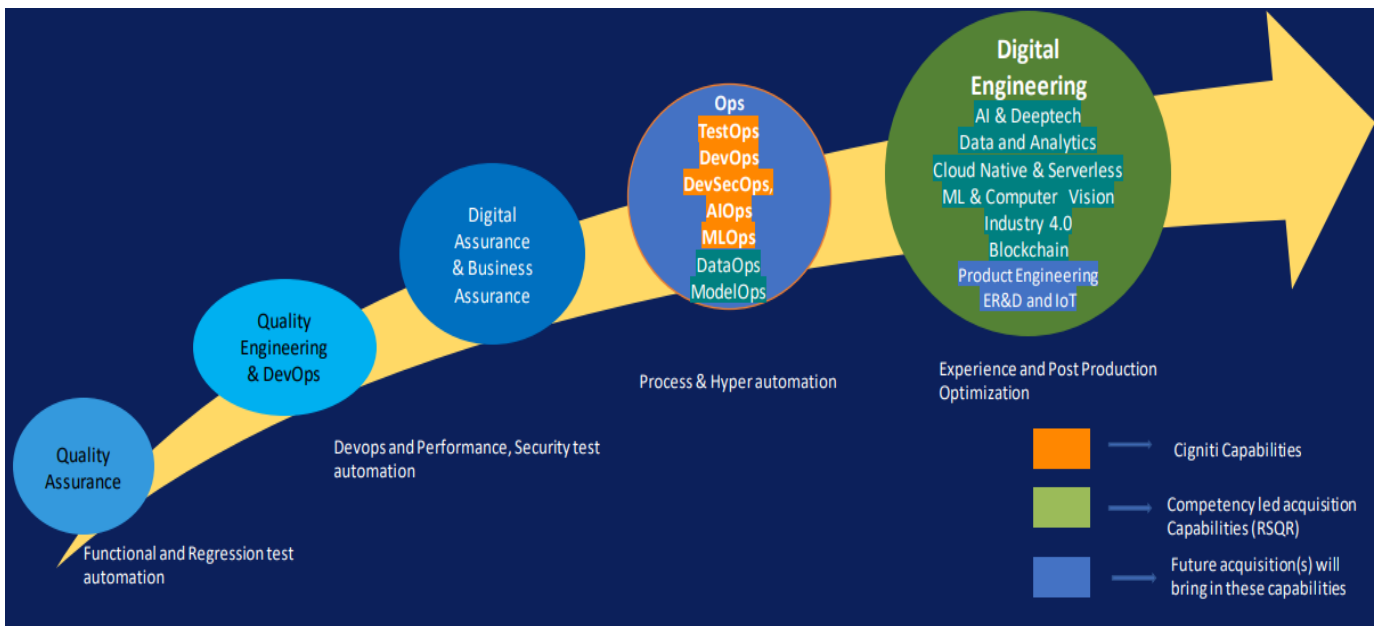
- 2011 – Cigniti Inc (USA)
- 2013 – Gallop Solutions Inc
- 2023 – Apaara Digital

In FY23, Cigniti achieved another milestone with the strategic acquisition of Apaara, a specialist in AI, ML, data, and blockchain engineering services. This acquisition has enabled Cigniti to foray into the digital engineering market, expanding its service offerings significantly further solidifying Cigniti's position as a leader in the field.

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Apaara's integration into Cigniti has significantly broadened its service offerings, providing clients with an extensive spectrum of capabilities. Cigniti's existing strengths lie in TestOps, DevOps, DevSecOps, AIOps, and MLOps. With the addition of Apaara's expertise, the combined portfolio now encompasses AI & Deeptech, Data and Analytics, Cloud Native & Serverless, ML & Computer Vision, Industry 4.0, and Blockchain.

This integration not only complements Cigniti's digital assurance capabilities but also strengthens its position to offer specialized data-first digital transformation solutions. The Company's ability to walk the digital path is now more comprehensive, with a solid foundation in Digital Assurance, Digital Test Ops, and Quality Engineering. This synergy allows Cigniti to significantly enhance its cross-selling and up-selling capabilities, making Digital Engineering a full-cycle play that encompasses Digital Assurance.



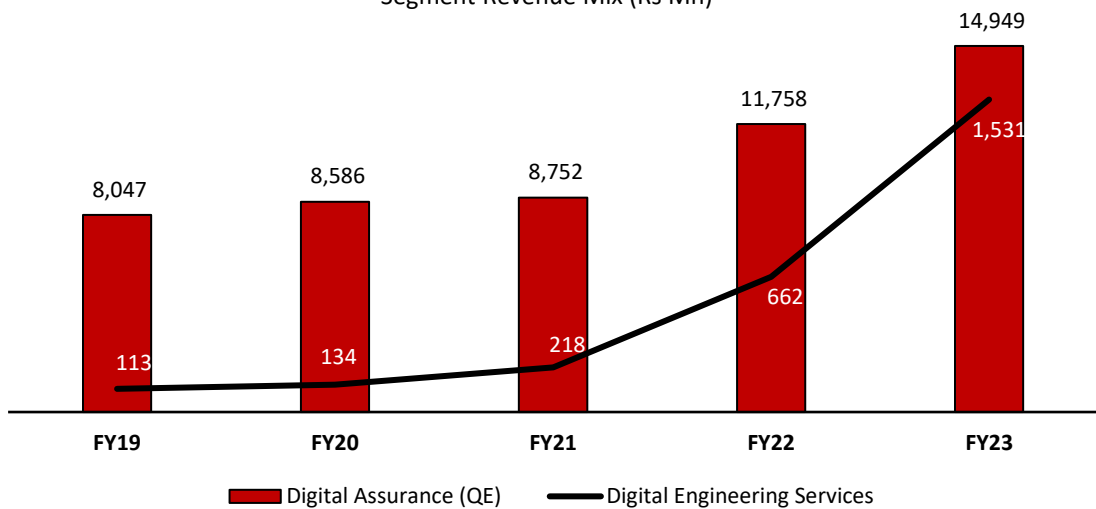
Source: Company, Keynote Capitals Ltd.

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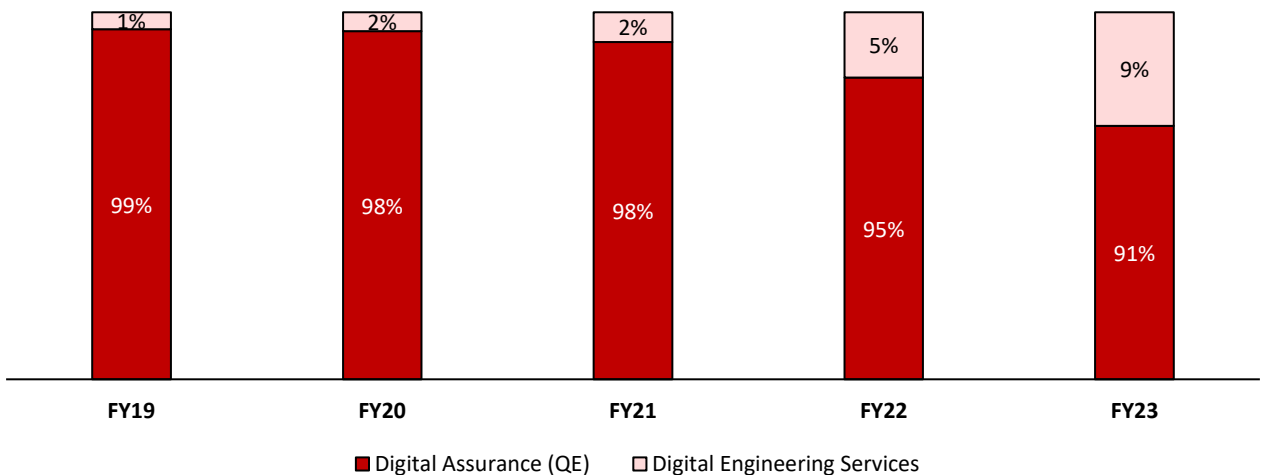
### Service Suite

Cigniti operates in two key business dimensions: quality engineering and digital assurance. The sector, valued at ~\$60Bn places Cigniti as a significant player. In digital assurance, Cigniti ranks among the leading industry players and is among the global top 3 in independent testing. According to Nelson Hall, the digital testing market is expected to grow by 10% CAGR, reaching \$17.3Bn by 2027, with an estimated growth rate of 9.4% in 2023. Cigniti's strong focus on digital assurance is evident, especially when the overall testing industry is growing at ~6%. Additionally, the inclusion of the digital engineering portfolio positions Cigniti in a broader market valued at ~\$450Bn, offering significant growth opportunities. IDC predicts a robust 15.1% CAGR growth for the digital product engineering market over the next 4 years, confirming Cigniti's position in the thriving digital engineering and assurance landscape.

Segment Revenue Mix (Rs Mn)



Segment Revenue Mix (%)



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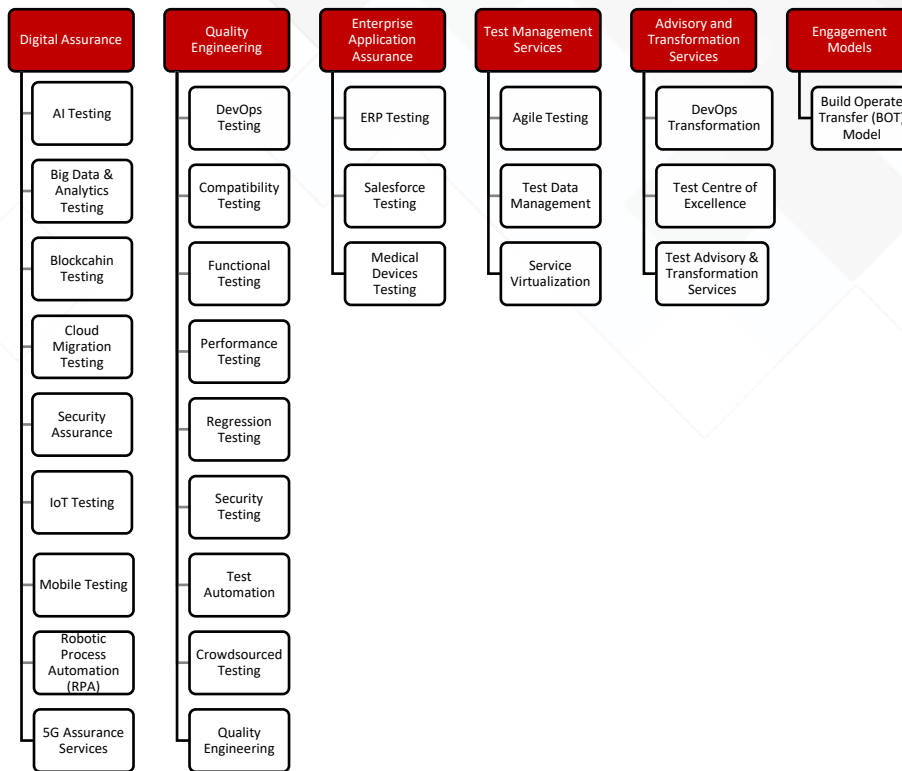
**Digital assurance** is a comprehensive approach to ensuring the quality, reliability, security, and performance of digital products and services, including software applications, websites, mobile apps, and other digital solutions. It encompasses activities aimed at verifying that digital assets meet desired standards and deliver a positive user experience. Digital assurance provides confidence in the reliability, security, and performance of digital solutions, enabling organizations to meet customer expectations and comply with industry standards and regulations.

Key aspects of DA include:

- **Quality Assurance:** It involves rigorous testing and validation processes to identify and eliminate defects, bugs, and issues in digital products ensuring that software and applications function as intended and meet user expectations.
- **Security Testing:** It involves evaluating the vulnerability of digital systems to cyber threats and ensuring that adequate measures are in place to protect sensitive data and prevent security breaches.
- **Performance and Usability Testing:** Assessing how digital solutions behave under various conditions and if they are user-friendly to identify bottlenecks, optimize speed, ensure that applications perform well under heavy user loads and identify design flaws and usability issues.
- **Compliance and Regulatory Testing:** Digital assurance ensures that products adhere to the required standards and regulations.
- **Automation and Continuous Testing:** Automation allows for faster and more efficient testing processes. Continuous testing ensures that quality and security checks are integrated throughout the development and deployment lifecycle.
- **AI and Machine Learning:** Leveraging AI and ML in digital assurance can enhance testing by using predictive analytics, intelligent test case generation, and defect detection.
- **Digital Transformation:** Digital assurance plays a pivotal role in ensuring that new digital initiatives and technologies are implemented smoothly and effectively.

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### Services provided by Cigniti under Digital Assurance:



Source: Company, Keynote Capitals Ltd.

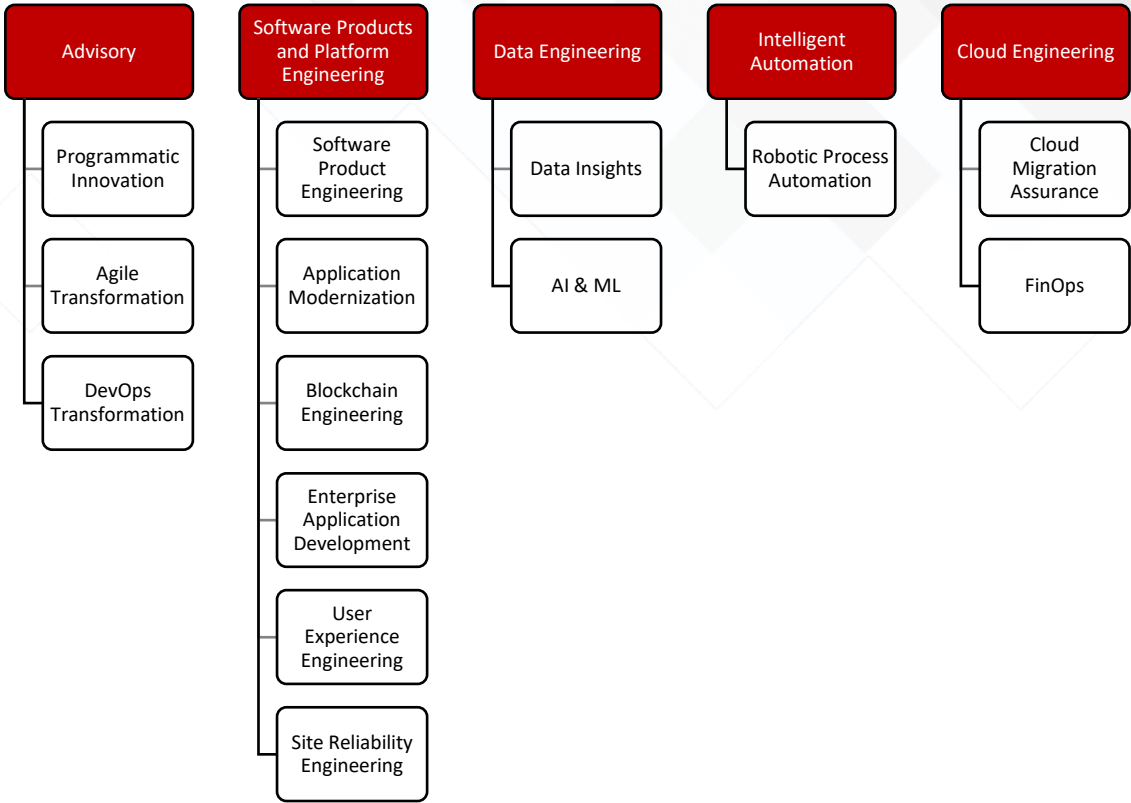
**Digital engineering** is an integrated approach to designing, developing, and managing complex systems, products, and solutions using digital tools, processes, and methodologies such as digital twins, simulation, automation and data driven decision making. DE and DA are the missing links in enterprise transformation for both digital and physical industries. For the digital segment, it is digital or software product engineering, which is the backbone of all software platform development.

Companies in BFSI, healthcare, retail & e-commerce, travel & hospitality rely on a multitude of software applications which are typically legacy systems. In response to today's business and tech trends, companies are migrating these applications to cloud, resulting in vast repositories of data, sourced from both internal and external interfaces. The strategic utilization of this data enables predictive decision-making, enhancing overall operational efficiency. The core dimension in these organization is shifting towards productizing themselves, moving away from conventional standard applications to create a more tailored and versatile experience for their users. This transformation encompasses the development of voice and conversation-driven applications and building such new age experiences for customers is digital engineering. It encompasses DA, ensuring security, seamlessness, and optimal performance.



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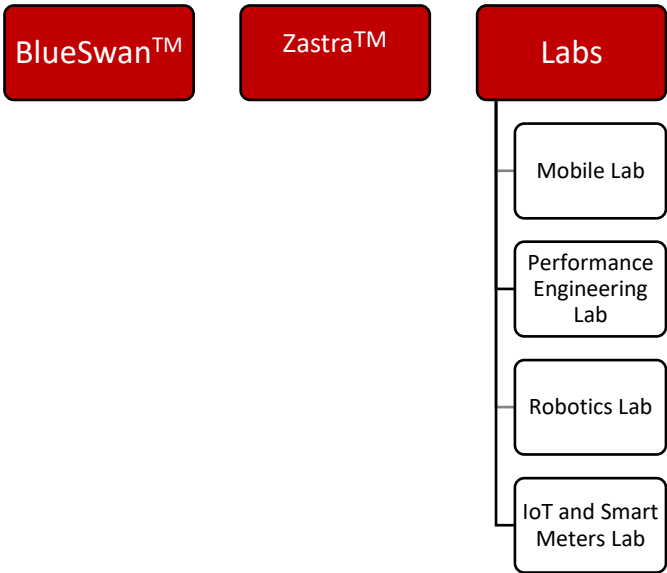
### Services provided by Cigniti under Digital Engineering:



Source: Company, Keynote Capitals Ltd.

### IP and Innovations

The Company's unwavering commitment to innovation has led to the creation of two remarkable IPs, BlueSwan™ and Zastra™ showcasing Cigniti's dedication to delivering transformative digital experiences and providing immense value to clients globally.



Source: Company, Keynote Capitals Ltd.

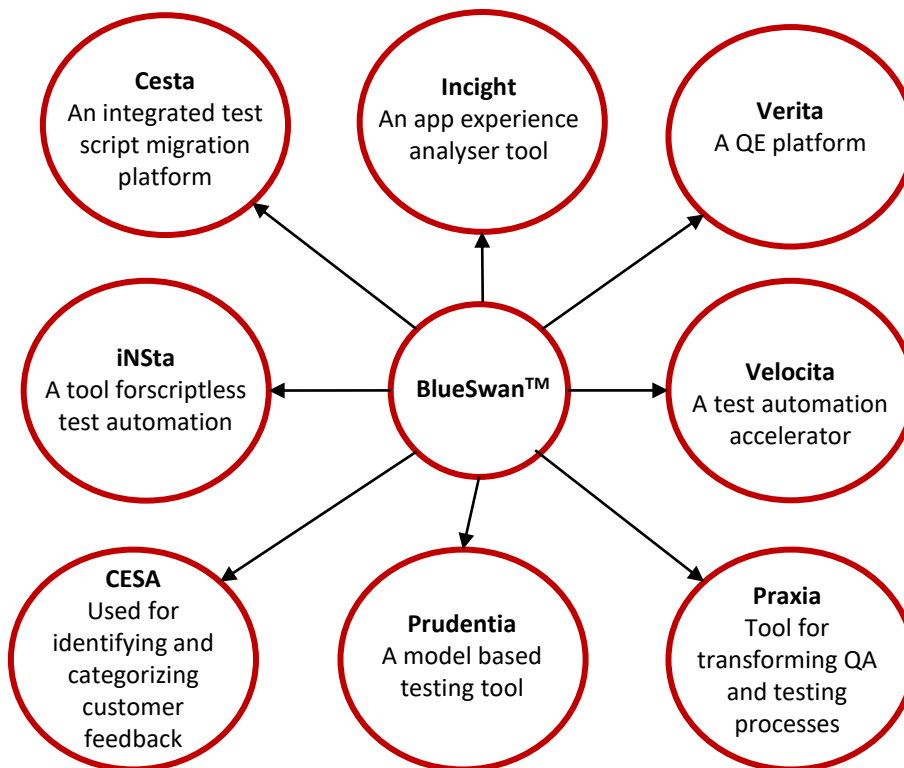
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### BlueSwan™

Next-gen quality engineering platform, BlueSwan™ accelerates the quality engineering initiatives of global companies with assured acceleration and outcomes. It helps assure digital next by predicting and preventing unanticipated application failures, thereby assisting clients in accelerating their adoption of digital. The core features of BlueSwan™ are as follows:

- Helps accelerate Quality Engineering for the Digital Enterprises globally by solving their test engineering problems as they try to align with the needs of digital transformation.
- Assures impeccable software quality and helps clients deliver applications that are truly reliable, robust, scalable, and highly secure.
- Fortifies the Company's IP led quality engineering and software testing services and Domain centric approach for offering world class digital transformation to businesses across different verticals.

BlueSwan™ offers a variety of components tailored for specific use cases:



Source: Company, Keynote Capitals Ltd.

### Zastra™

Cigniti aimed to transition from a focus on quality engineering to a comprehensive digital assurance and engineering service provider. Its goal was to utilize these capabilities to benefit its existing clients, strengthen client relationships, and expand the services portfolio. Over the past 18 months, Cigniti has made significant investments in digital engineering, with over 100 resources dedicated to this field. It has been providing services like cloud migration and RPA and now in addition, Cigniti has added Apaara's Zastra™, an AI-based platform with active learning capabilities.

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Zastra™ is an active learning enabled Computer Vision-based annotation platform by Apaara which has multiple use cases that can truly enable AI-led digital outcomes of credible, measurable impact for clients.

Zastra™ stands out due to its ability to reduce annotation workloads by up to 70%. It excels in image and video data annotation, and its capabilities extend to video, audio, text, and point cloud data. Zastra™ fosters collaboration among different teams, streamlining AI development and deployment. This unified platform speeds up data labelling, enabling organizations to focus on their specific use cases and drive tangible business impact.

### Labs

**Mobile Lab** – Providing a unified environment for all the DevOps teams, it enables testing of a huge matrix of devices, operating system versions, and screen resolutions, and also assists in testing with varying network conditions, carriers, and servers.

**Performance Engineering Lab** – Used for conducting performance testing before releasing software application to ensure speed, scalability and stability

**Robotics Lab** – Used to design, execute and analyse test results to identify bugs and deal with unexpected results for hardware equipment such as hardware bricks, sensitive equipment like sensors, motors and other programming blocks.

**IoT and smart meter Lab** – Helps in managing demand and supply more effectively by utilizing near real-time consumption data.

### Client and Sales Strategy

In a proactive response to the pandemic, Cigniti separated its teams into 'hunting' and 'farming' groups. This strategic shift aimed to optimize processes, strengthen offerings, and focus on providing more to long-term accounts. Cigniti's strategic focus on enhancing client relationships and expanding its service portfolio is proving successful, especially within its Top-5 and Top-10 client base. This success can be attributed to a well-implemented sales strategy in effect for the past ~18-24 months.

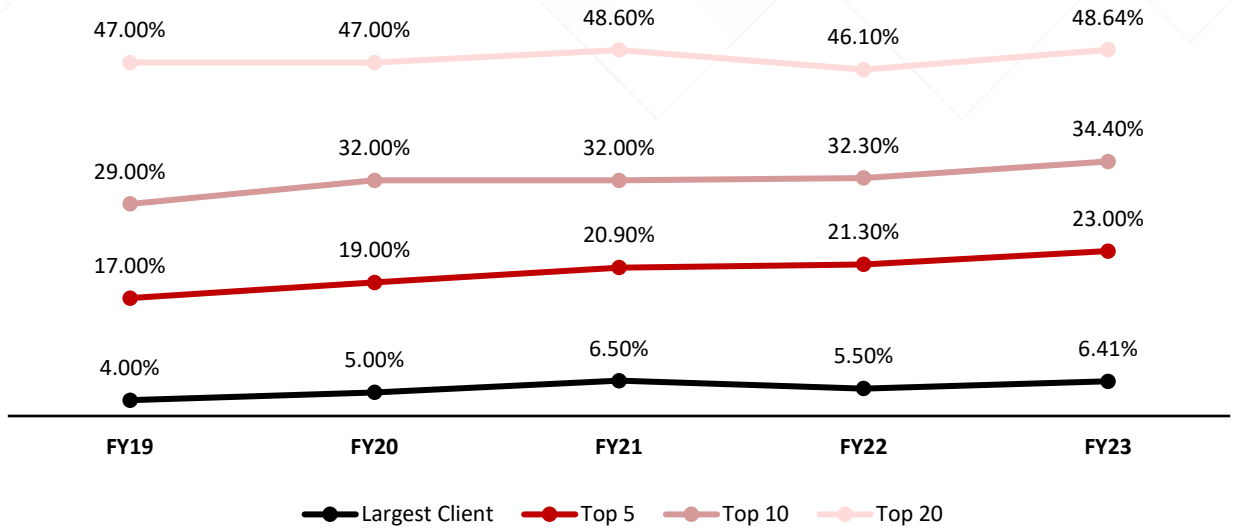
With investments in Cigniti's Digital Engineering offerings and the strategic acquisition of Apaara, a specialist AIML data and blockchain engineering service company, the strategy emphasizes nurturing and growing the wallet share of existing client relationships through cross-selling engineering solutions and offering digital assurance to Apaara's clients. This strategic shift towards key accounts not only strengthens strategic relationships but also enables the provision of high-value-added services, allowing Cigniti to move up the value chain. Cigniti's goal is to elevate its top accounts to the \$20-25Mn level.

In addition to its strategic initiatives to enhance client relationships and expand service offerings, Cigniti has demonstrated a keen focus on optimizing its client portfolio. The Company has strategically identified and shed clients that fall below a certain operating margin threshold. Simultaneously, Cigniti has actively pursued higher contract value deals, underscoring its strengthened capabilities in handling more complex and resource-intensive projects and to execute more substantial projects.

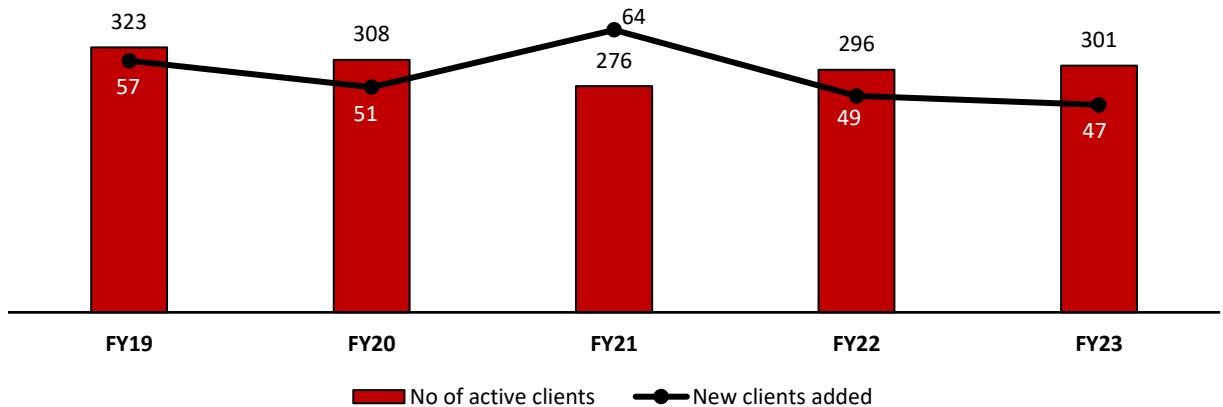
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The dedicated focus on nurturing existing client relationships has yielded encouraging results. As of FY23, Cigniti's Top-5 clients contribute ~23% of the Company's total revenue, compared to ~17% in FY19. Moreover, discussions with clients regarding additional digital services have garnered positive responses. The Company continues to invest in essential IP components, positioning itself as a full-cycle value-added service provider, further amplified by its leadership in digital assurance and augmented digital engineering.

Client Concentration (%)



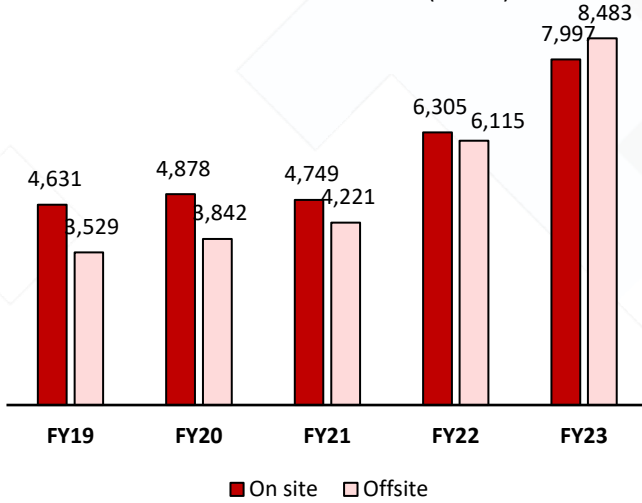
Active Clients & Gross Addition



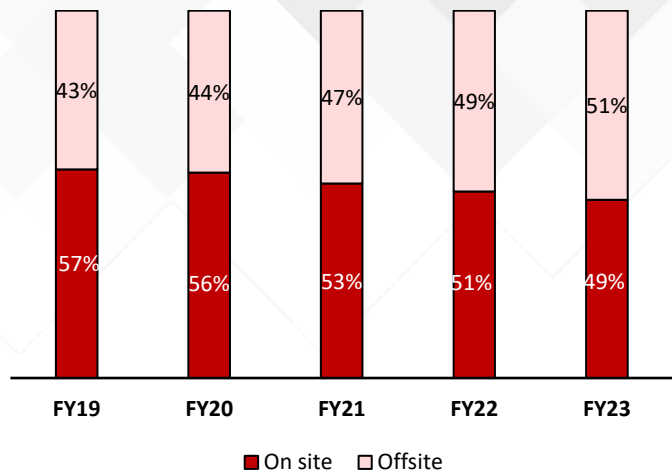
Source: Company, Keynote Capitals Ltd.

Key Metrics

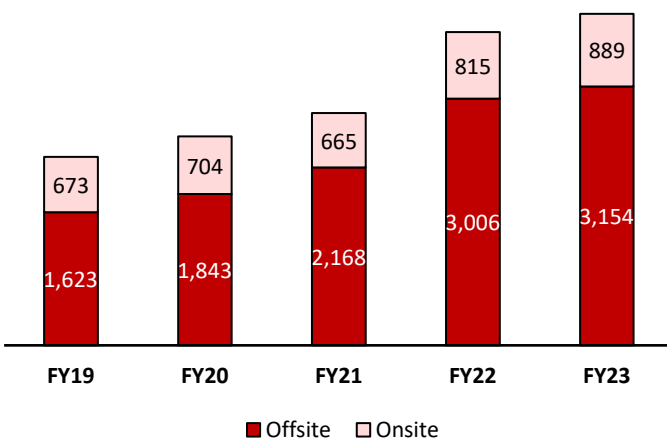
Onsite vs Offsite Revenue (Rs Mn)



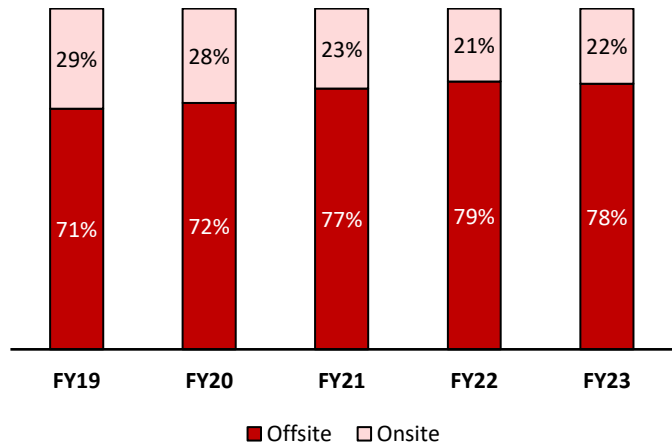
Onsite vs Offsite Revenue (%)



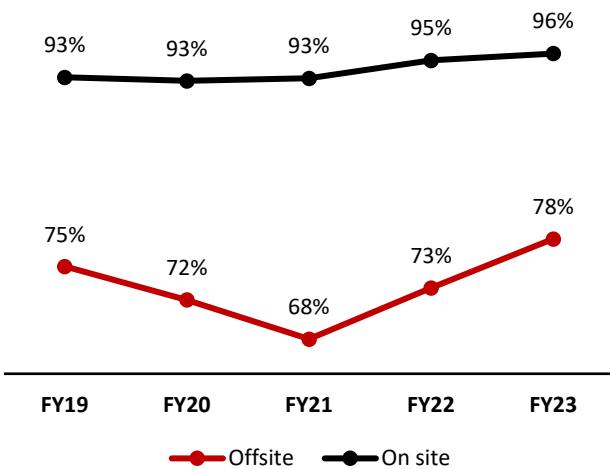
Resource Mix - Onsite vs Offshore



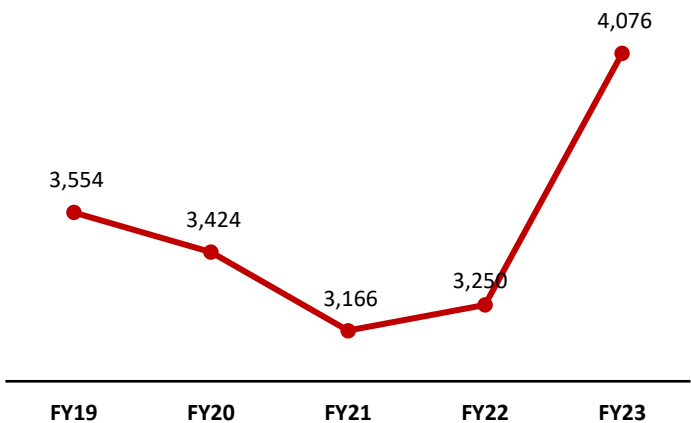
Resource Mix - Onsite vs Offshore



Utilization of Resources (%)

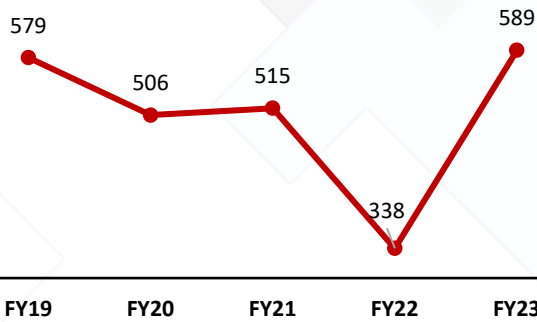


Revenue per Employee (in '000s)

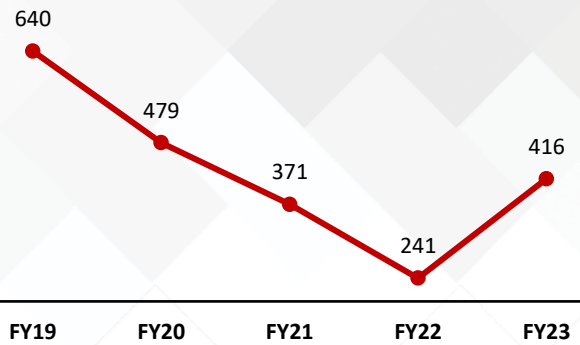


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EBITDA per Employee (in '000s)



PAT per Employee (in '000s)



## Management Analysis

The Management team of Cigniti consists of industry veterans who bring immense expertise and experience.

Name & Designation	Experience with Cigniti (Yrs.)	Profile
Srikanth Chakkilam (CEO & Director)	15	Mr. Srikanth is an alumni of the University of Southern California. Previously, as an Executive Director, he spearheaded Cigniti's expansion into diverse geographies including U.K., EU, ANZ, SA, Middle East and APAC regions. Under his leadership, the revenues from these regions grew exponentially over the years.
Krishnan Venkatachary (CFO)	8	Mr. Krishnan is a qualified ACA, ACS and FCMA and brings with him >25 years of experience spanning global financial operations with strategic, operational leadership experience across IT & ITES, Pharma & Healthcare and FMCG & Allied sectors
Jaya Raghuram K (Executive VP, Delivery)	9	With >25 years of experience, Mr. Raghuram has held different leadership positions in areas of Digital Engineering & Quality Assurance, Project & Program Management, and has helped several Fortune 500 and Global 2000 companies to accelerate & assure their digital transformation journeys. Prior to joining Cigniti, he held leadership positions with Accenture, AppLabs, IRIS Digital & NIIT.
Sairamprabhu Vedam (Chief Marketing officer)	2	Mr. Vedam led the widely-acclaimed rebranding and re-positioned Cigniti from a pure-play software testing and quality assurance services Company to the world's leading AI and IP-led Digital Assurance and Digital Engineering services Company, within 9 months of re-joining Cigniti in 2022 (he was at Cigniti from 2012-17 as VP & Global Head of Marketing and Inside Sales). He has previously consulted as an external advisor with Bain & Company and held the role of Global CMO at Innominds.
Vinay Rawat (Chief Revenue Officer)	2	Mr. Vinay focuses on identifying new revenue opportunities and pioneer new markets for the company. He has a strong track record of developing new markets, driving account-based growth, and managing strategic and large accounts. Vinay, formerly Senior VP & Global Head - Network Equipment & Consumer Electronics BU at Wipro Technologies, joined Cigniti after a successful stint at Infogain as the CRO.

## Promoter Holding and Management Compensation

Particulars	FY19	FY20	FY21	FY22	FY23
% Promoter Holding (~)	36%	37%	37%	34%	35%
MD's salary (Rs Mn)	24	33	31	29	72
As a % of PAT (~)	2%	3%	3%	3%	4%



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### Opportunities

#### Exploring New Avenues: Digital Engineering's Growth Potential

Cigniti's strategic pivot towards digital engineering aligns perfectly with its commitment to providing high-value-added services to clients, allowing the Company to move up the value chain and continue offering innovative and cutting-edge solutions. The foray has positioned it as a key player in the value chain of digital transformation. The revenue from this segment has grown exponentially (~13x) over the last four years highlighting strong demand as well as ability of Cigniti to provide those services. Furthermore, the acquisition of Apaara in FY23, a specialist in AI/ML, data, and blockchain engineering services is poised to significantly enhance Cigniti's prospects. This strategic move not only expands the scope and size of the services it provides but also aligns with the evolving landscape of digital transformation. Apaara's expertise will empower Cigniti to offer more comprehensive solutions, tapping into emerging technologies and further solidifying its position as a leader in the digital engineering space.

Businesses across BFSI, healthcare, retail, e-commerce, and travel and hospitality are in the process of migrating legacy software applications to the cloud, generating substantial data repositories. This strategic shift responds to evolving technology trends, fostering predictive decision-making and enhancing operational efficiency. The move towards tailored user experiences, including voice-driven applications, smart, connected, and intelligent products, defines the rise of digital engineering, complemented by digital assurance for security and optimal performance.

With a vast market valued at ~\$450Bn and an impressive 15.1% CAGR predicted for the digital engineering market over the next four years by IDC, Cigniti's strategic foray into digital engineering presents enormous potential for growth and innovation.

#### Focus on Client Mining and Cross Selling

Cigniti has placed a strong focus on its wallet share strategy to optimize its existing client relationships further. The differentiation of teams into "hunting" and "farming" was a strategic move that aimed to streamline processes, strengthen offerings, and enhance long-term client relationships. This strategic realignment has demonstrated remarkable results, especially within the Top-5 and Top-10 client base, attributing its success to a well-executed sales strategy that has been in effect for the past 18-24 months.

Cigniti's dedicated efforts are evident, with the Top-5 clients now contributing ~23% of the Company's total revenue in FY23, as compared to 17% in FY19. Furthermore, discussions with clients regarding additional digital services have received positive responses, signifying Cigniti's innovative approach to client-centric growth.

The recent acquisition of Apaara has accentuated Cigniti's commitment to nurturing existing client relationships. The focus is on cross-selling engineering offerings and extending digital assurance services to clients previously untapped by the Company. The overarching goal is to elevate the value of top accounts to the \$20-25Mn range.

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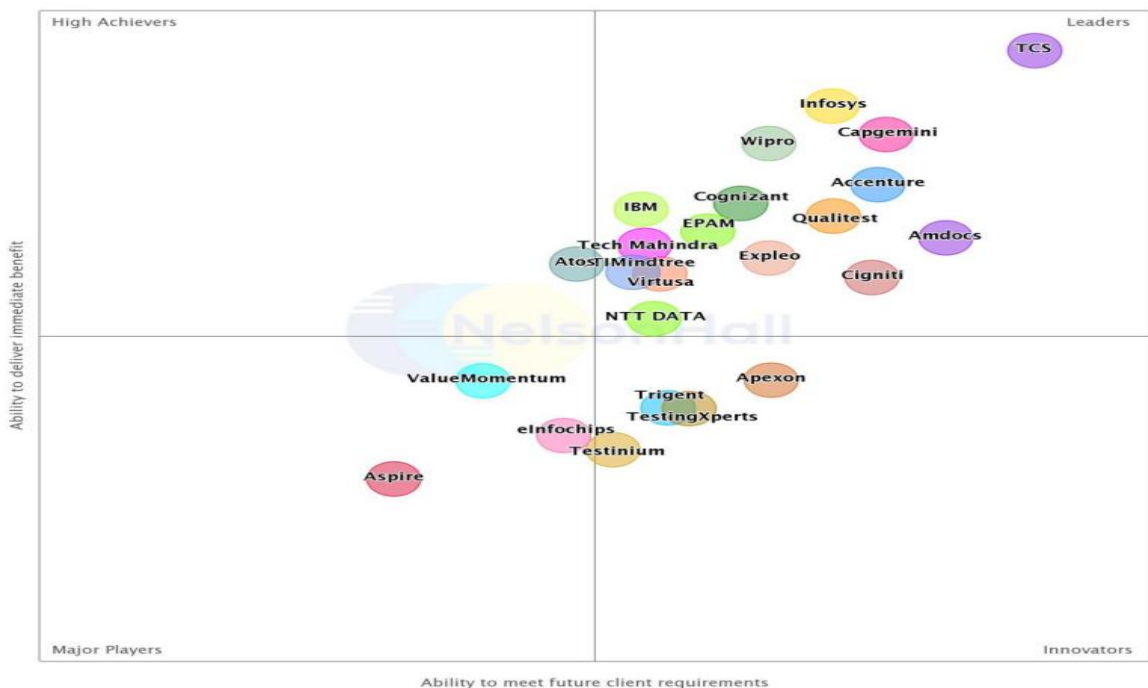
### Challenges

#### Client Concentration: A double edged sword

In pursuing the strategy of increasing wallet share and cultivating robust relationships with key clients, Cigniti aims to solidify its revenue streams and foster long-term partnerships. While this approach is strategic in enhancing the depth and breadth of services offered to existing clients, it concurrently exposes the Company to a potential risk. A heavy reliance on a limited pool of major clients accentuates the vulnerability to the departure of any significant client. Such an eventuality could trigger a sharp downturn in the Company's financial performance, affecting both the top line and future growth prospects.

#### Competitive Industry

Software testing, Digital Assurance, and ER&D are fiercely competitive industries with testing and digital assurance also being saturated markets. The existing large players such as TCS, Infosys, Accenture, LTTS, Tata Elxsi as well as emerging incumbents make it challenging to differentiate the offerings and capture a larger market share. The competitive landscape not only requires differentiation but also demands specialized skills in digital engineering and assurance. There's a constant risk of losing key talent to competitors, given the industry's competitiveness. Additionally, with technology evolving rapidly, ensuring that the existing workforce stays updated with necessary skills becomes a continuous and intricate task. These challenges emphasize the intense competition and ongoing efforts needed for companies in these industries.



Source: Nelson Hall, NEAT Evaluation for NTT DATA: Quality Engineering

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>12,420</b>	<b>16,480</b>	<b>18,600</b>	<b>21,576</b>	<b>25,028</b>
Growth %		33%	13%	16%	16%
Employee Expenses	7,397	9,645	10,881	12,460	14,454
Other Expenses	3,733	4,454	4,929	5,718	6,632
<b>EBITDA</b>	<b>1,291</b>	<b>2,381</b>	<b>2,790</b>	<b>3,398</b>	<b>3,942</b>
Growth %		84%	17%	22%	16%
Margin %	10%	14%	15%	16%	16%
Depreciation	160	260	310	343	398
<b>EBIT</b>	<b>1,131</b>	<b>2,121</b>	<b>2,480</b>	<b>3,055</b>	<b>3,544</b>
Growth %		88%	17%	23%	16%
Margin %	9%	13%	13%	14%	14%
Interest Paid	50	40	43	43	43
Other Income & Exceptional	130	150	200	200	200
<b>PBT</b>	<b>1,211</b>	<b>2,231</b>	<b>2,637</b>	<b>3,212</b>	<b>3,700</b>
Tax	303	535	659	803	925
<b>PAT</b>	<b>908</b>	<b>1,696</b>	<b>1,977</b>	<b>2,409</b>	<b>2,775</b>
Others (Minorities, Associates)	0	0	0	0	0
<b>Net Profit</b>	<b>908</b>	<b>1,696</b>	<b>1,977</b>	<b>2,409</b>	<b>2,775</b>
Growth %		87%	17%	22%	15%
Shares (Mn)	28	28	28	28	28
<b>EPS</b>	<b>32.34</b>	<b>61.66</b>	<b>71.91</b>	<b>87.59</b>	<b>100.92</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	1,154	1,066	2,928	4,899	7,167
Current Investments	1,201	1,756	1,756	1,756	1,756
Debtors	2,268	2,552	2,929	3,397	3,941
Inventory	0	0	0	0	0
Short Term Loans & Advances	701	1,130	1,130	1,130	1,130
Other Current Assets	240	269	269	269	269
Total Current Assets	5,564	6,774	9,013	11,452	14,264
Net Block & CWIP	1,130	1,353	1,130	1,102	1,069
Long Term Investments	0	16	16	16	16
Other Non-current Assets	226	257	257	257	257
<b>Total Assets</b>	<b>6,919</b>	<b>8,400</b>	<b>10,416</b>	<b>12,828</b>	<b>15,607</b>
Creditors	939	1,155	1,219	1,414	1,641
Provision	239	280	280	280	280
Short Term Borrowings	470	304	400	400	400
Other Current Liabilities	322	417	452	452	452
Total Current Liabilities	1,969	2,156	2,351	2,546	2,772
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-58	-59	-59	-59	-59
Other Long-Term Liabilities	410	410	412	412	412
Total Non-Current Liabilities	<b>352</b>	<b>351</b>	<b>353</b>	<b>353</b>	<b>353</b>
Paid-up Capital	281	273	273	273	273
Reserves & Surplus	4,318	5,621	7,440	9,656	12,210
Shareholders' Equity	4,598	5,893	7,713	9,929	12,483
Non-Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>6,919</b>	<b>8,400</b>	<b>10,416</b>	<b>12,828</b>	<b>15,607</b>

### Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,215	2,216	2,637	3,212	3,700
Adjustments	196	270	153	187	241
Change in Working Capital	-739	-340	-182	-274	-317
Total Tax Paid	-290	-574	-659	-803	-925
<b>Cash flow from operating Activities</b>	<b>382</b>	<b>1,572</b>	<b>1,948</b>	<b>2,322</b>	<b>2,700</b>
Net Capital Expenditure	-205	-132	-87	-315	-365
Change in investments	-389	-251	0	0	0
Other investing activities	71	-182	200	200	200
<b>Cash flow from investing activities</b>	<b>-524</b>	<b>-565</b>	<b>113</b>	<b>-115</b>	<b>-165</b>
Equity raised / (repaid)	7	-463	0	0	0
Debt raised / (repaid)	5	-15	1	0	0
Dividend (incl. tax)	-70	-67	-158	-193	-222
Other financing activities	-139	-142	-43	-43	-43
<b>Cash flow from financing activities</b>	<b>-197</b>	<b>-688</b>	<b>-200</b>	<b>-236</b>	<b>-265</b>
<b>Net Change in cash</b>	<b>-338</b>	<b>320</b>	<b>1,862</b>	<b>1,971</b>	<b>2,269</b>

### Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	32.34	61.66	71.91	87.59	100.92
Growth %		91%	17%	22%	15%
Book Value Per Share	164	216	271	351	444
<b>Return Ratios</b>					
Return on Assets (%)	15%	23%	21%	21%	20%
Return on Equity (%)	23%	34%	29%	27%	25%
Return on Capital Employed (%)	22%	32%	34%	33%	31%
<b>Turnover Ratios</b>					
Asset Turnover (x)	2.0	2.2	1.98	1.86	1.76
Working Capital / Sales (x)	27%	25%	36%	41%	46%
Receivable Days	57	53	57	57	57
Payable Days	23	23	24	24	24
<b>Liquidity Ratios</b>					
Current Ratio (x)	2.8	3.1	3.8	4.5	5.1
Interest Coverage Ratio (x)	25.1	51.4	57.1	70.3	81.6
Total Debt to Equity	0.1	0.1	0.1	0.1	0.1
Net Debt to Equity	-0.1	-0.1	-0.3	-0.4	-0.5
<b>Valuation</b>					
PE (x)	13.1	18.3	15.7	12.9	11.2
Earnings Yield (%)	8%	5%	6%	8%	9%
Price to Sales (x)	1.0	1.89	1.67	1.44	1.24
Price to Book (x)	2.6	5.2	4.2	3.2	2.5
EV/EBITDA (x)	8.9	12.9	11.0	9.0	7.8
EV/Sales (x)	0.9	1.9	1.6	1.4	1.2

Source: Company, Keynote Capitals Ltd. Estimates

## Cigniti's Valuation

Valuation	
Expected (in Rs. Mn , otherwise stated)	FY25E
Revenue	21,576
Net Profit	2,409
Earnings Per Share (Rs.)	87.59
PE Multiple (x)	16
Expected Price Per Share (Rs.)	1,401
<b>% Upside/(Downside)</b>	<b>~24%</b>

Source: Company, Keynote Capitals Ltd. estimates

Cigniti's foray into Digital Engineering, coupled with a targeted approach to client mining and cross-selling, positions the Company for substantial growth along with operating margin increase as the focus shifts on offshoring with moving up the value chain. In light of these strategic initiatives, we initiate coverage on Cigniti with a BUY rating, applying a 16x PE multiple. Our estimated target price of Rs. 1,401 reflects a potential upside of ~24%.



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