

Cigniti Technologies Ltd.

7th February 2024

Well positioned for growth

In Q3 FY24, Cigniti Technologies Ltd (Cigniti) reported a ~9% and ~4% growth in revenue on a YoY and QoQ basis respectively, totalling Rs. 4680 Mn. This growth was primarily driven by the Retail, Travel and Energy sectors. The Company has added 6 new clients during the quarter which are expected to contribute significantly to the topline in the next year. EBITDA margin showcased a decline of ~116 bps driven by one off increase in other expenses and the investments made in resources leading to a flat EBITDA at Rs. 646 Mn in Q3 FY24 as compared to Rs. 640 Mn in Q3 FY23. The Company recorded a PAT of Rs. 480 Mn, which grew by ~3% on a YoY and ~5% on a QoQ basis.

Focus on Digital Engineering

Cigniti continues to grow the Digital Engineering segment, which currently accounts for 10-11% of the total revenue, representing the developmental aspect within the broader digital revenue, which includes quality engineering also. The management expects this segment to sustain its high double digit growth resulting in an ~18% contribution in FY25, and over the next 4-5 years, contribute ~55% to total revenue. Moreover, the Company has garnered recognitions from various industry bodies and analysts for its Digital Engineering prowess. Notably, IDC positioned Cigniti as a major player in worldwide software and digital engineering landscape, while Everest has positioned the Company as a major contender in data and analytics segment.

Client Concentration strategy shows effectiveness

Cigniti's strategy to gain more wallet share from its existing clients and acquiring bigger clients is yielding promising results. The Top 10 and Top 20 clients now contribute ~42% and ~56% to the revenue as compared to ~36% and ~50% in Q3 FY23. Over the last year, the average size of a client that Cigniti has acquired, has quadrupled. Furthermore, within the 6 new clients acquired in Q3 FY24, one of them is one of the largest railroad transportation companies in North America, another is one of the largest retailers in the European region and one is a large BFSI client with ~\$80 Bn in AUM; and all of the new client acquisitions are expected to grow into the Top 10 – Top 20 clients for Cigniti in FY25.

Room for margins to improve

In Q3 FY24 the Company had to undertake certain one off legal expenses which impacted the margins adversely. However these costs are not expected to reoccur in the future. The management expects the margins to rise by 150-200 bps going forward.

View & valuation

We believe that the Company's strategy to scale up Digital Engineering and the acquire larger clients along with wallet share expansion from existing clients places the Company for revenue growth and margin improvement going forward. We have revised our estimates and maintain a BUY rating on Cigniti Technologies Ltd with a target price of Rs. 1,326 (16x FY25E PE).

BUY

CMP Rs. 1,005

TARGET Rs. 1,326 (32%)

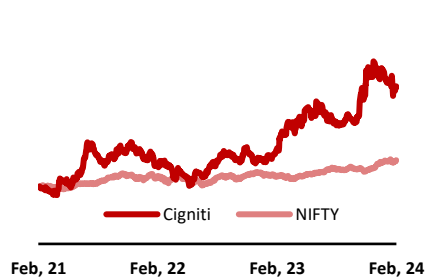
Company Data

Bloomberg Code	CIGN IN
MCAP (Rs. Mn)	27,633
O/S Shares (Mn)	28
52w High/Low	1204 / 590
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	201

Shareholding Pattern %

	Dec 23	Sept 23	Jun 23
Promoters	32.77	33.46	34.59
FII's	6.04	6.32	6.22
DII's	0.07	0.17	0.00
Non-Institutional	61.11	60.04	59.18

Cigniti vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	16,480	18,392	21,151
EBITDA	2,381	2,586	3,173
Net Profit	1,696	1,882	2,280
Total Assets	8,400	10,315	12,593
ROCE (%)	32%	32%	31%
ROE (%)	34%	28%	26%

Source: Company, Keynote Capitals Ltd.

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Cigniti Technologies Ltd | Quarterly Update

Q3 FY24 Result Update

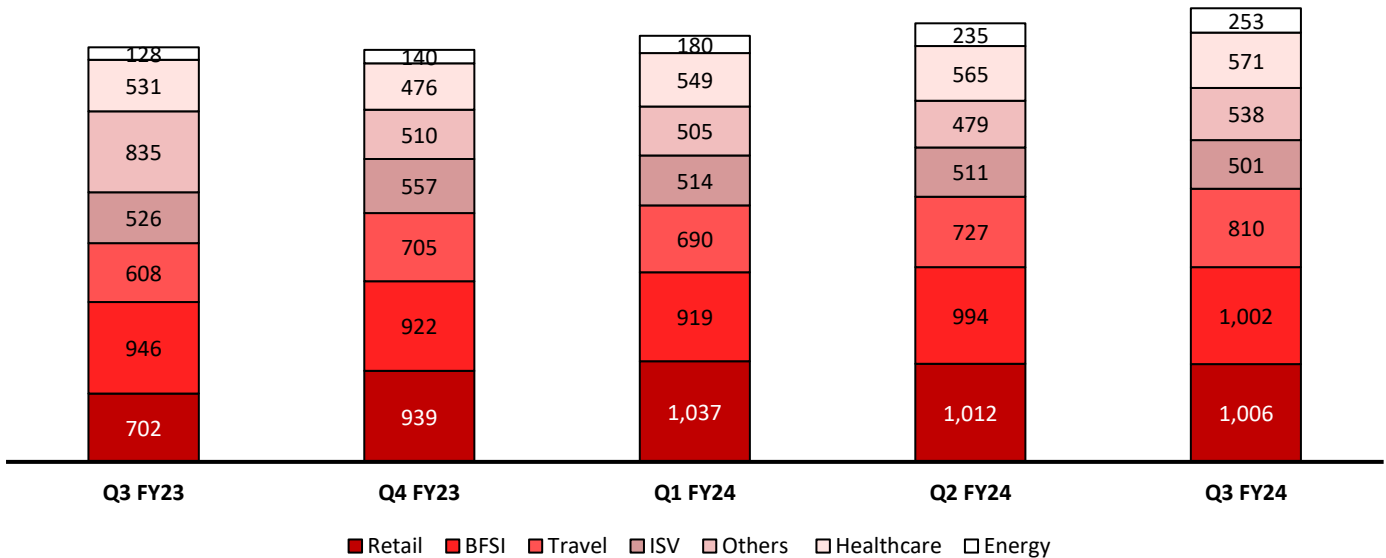
Result Highlight (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue from operations	4,680	4,280	9%	4,518	4%	13,594	12,226	11%	16,476
Employee Benefit Expenses	3,533	3,271	8%	3,429	3%	10,371	9,525	9%	12,720
Other Expenses	501	369	36%	441	14%	1,308	1,007	30%	1,379
EBITDA	646	640	1%	648	0%	1,915	1,693	13%	2,377
EBITDA Margin	14%	15%	-116 Bps	14%	-55 Bps	14%	14%	23 Bps	14%
Depreciation Expenses	78	72	10%	76	3%	225	194	16%	264
Ebit	567	569	0%	572	-1%	1,689	1,500	13%	2,113
Ebit Margin	12%	13%	-117 Bps	13%	-55 Bps	12%	12%	16 Bps	13%
Finance Cost	9	11	-20%	11	-19%	31	33	-5%	44
Other Income	73	78	-6%	53	38%	173	110	57%	147
PBT	631	635	-1%	614	3%	1,831	1,577	16%	2,216
Tax	151	169	-11%	156	-3%	447	387	16%	533
PAT	480	465	3%	459	5%	1,385	1,191	16%	1,683
EPS	17	17		17		50	43		61

Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

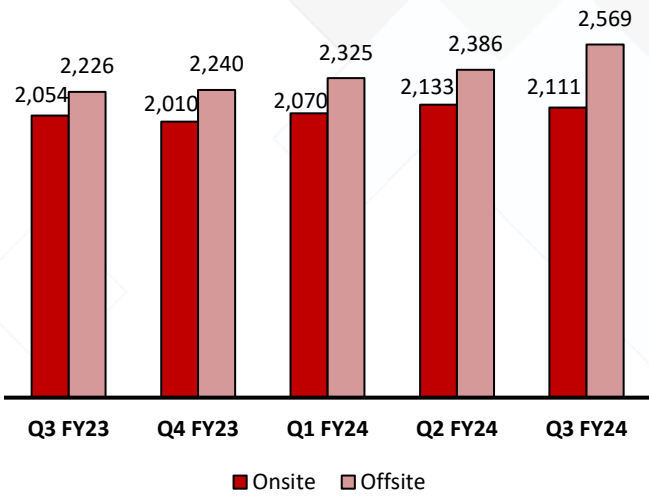
Sector Mix (Rs Mn)



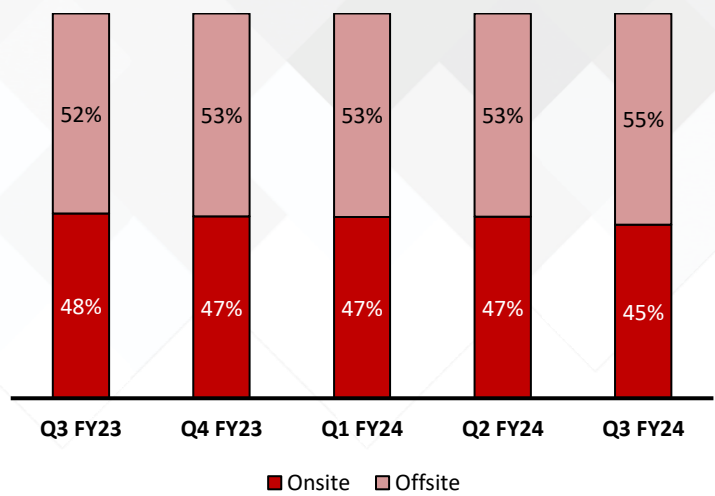
Source: Company, Keynote Capitals Ltd.

Cigniti Technologies Ltd | Quarterly Update

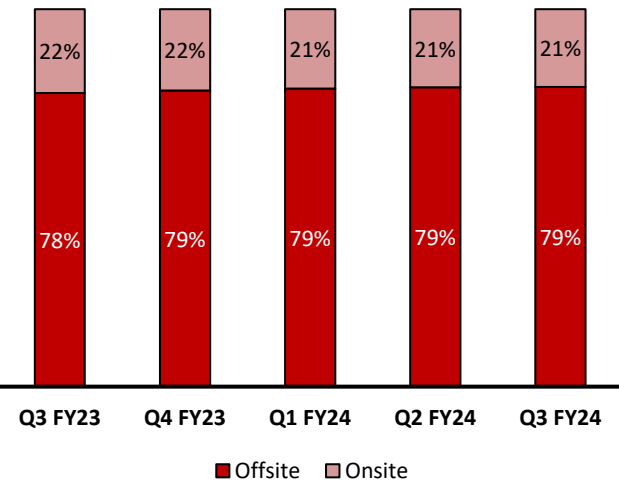
Revenue Mix (Rs. Mn)



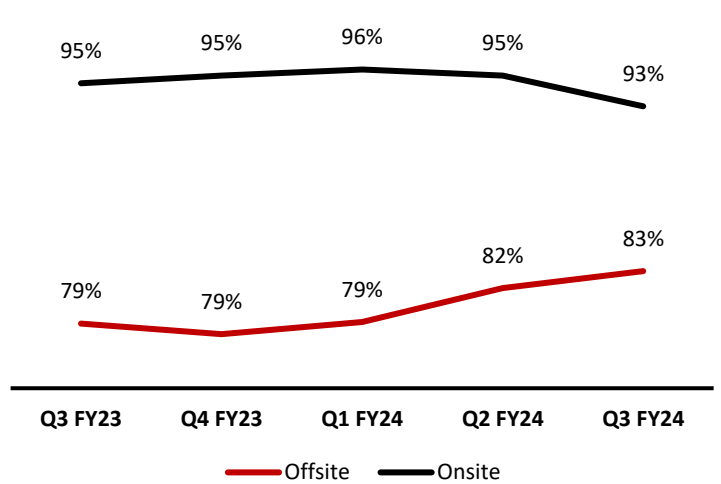
Revenue Mix (%)



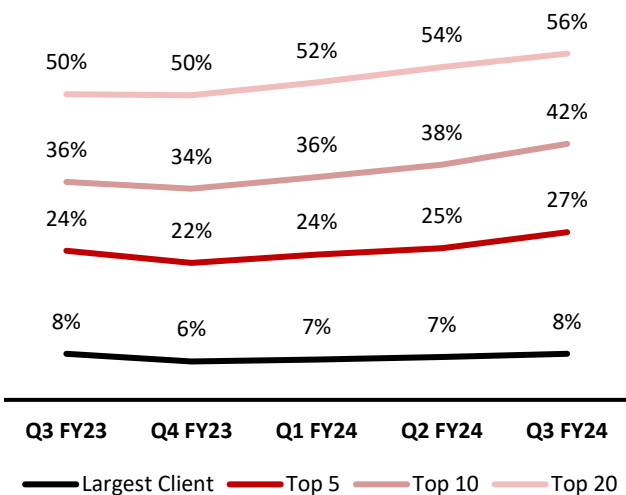
Resource Mix (%)



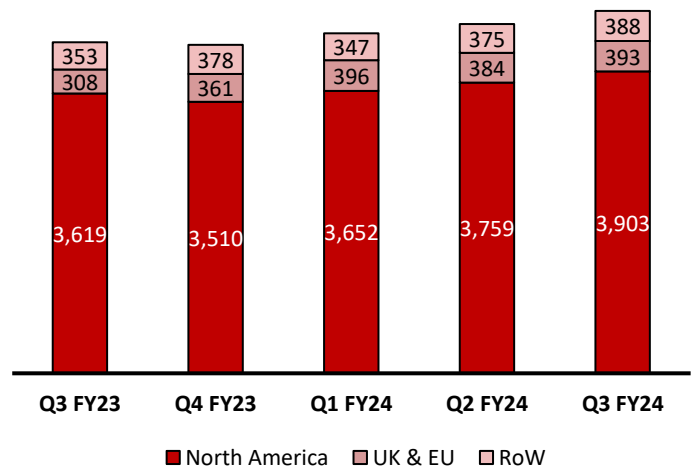
Utilization (%)



Client Concentration (%)



Geography Mix (Rs. Mn)



Q3 FY24 Conference Call Takeaways

- The Company acquired 6 new clients during the quarter. Though the sales cycle is elongated currently as the clients are still cautiously bringing back the discretionary spend along with a focus on cost optimization and consolidation, the Company continues to make investments to ensure the pipeline remains strong and it optimistic on possibility of signing some marquee clients for Digital Engineering in the upcoming quarters.
- As of Q3 FY24, the Company has a confirmed order book of \$205 Mn for FY25. The revenue realization of the order book is within the industry range and the management expects the order book to continue to improve going forward. Moreover, a strong order book acts as a leading indicator for performance and the multiyear order book wins in 9M FY24 assure of double digit growth for FY25.
- The decline in EBITDA margin is majorly on account of certain exceptional legal expenses which the Company does not anticipate to occur again.
- The strategy to increase wallet share from clients and acquire larger billing clients is yielding results as seen in the improvement in the size and the quality of revenue from clients and increasing client concentration from the top accounts. This has led to Cigniti becoming more and more strategic to those clients in their journey of digital transformation.
- The rise in employee expenses is attributed to strategic investments in expanding the workforce, particularly in bolstering the bench strength for Digital Engineering. While this incurs a higher cost differential, it instills confidence among clients and internal delivery teams by ensuring adequate resources for deployment. Additionally, investments in R&D further contributed to increased expenditure. Moreover, the current utilization rate of resources under Digital Engineering stands at ~70%, with anticipated improvements in the future, validating the returns on the investments made.
- The Company is aggressive on the lookout for opportunities in the inorganic growth.
- According to the management, the utilization of resources which stands at ~83% and ~93% for offsite and onsite respectively, is at an optimal level.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	12,420	16,480	18,392	21,151	24,535
Growth %		33%	12%	15%	16%
Employee Expenses	7,397	9,645	11,084	12,479	14,353
Other Expenses	3,733	4,454	4,722	5,499	6,379
EBITDA	1,291	2,381	2,586	3,173	3,803
Growth %		84%	9%	23%	20%
Margin %	10%	14%	14.06%	15.00%	15.50%
Depreciation	160	260	307	338	390
EBIT	1,131	2,121	2,280	2,835	3,413
Growth %		88%	7%	24%	20%
Margin %	9%	13%	12%	13%	14%
Interest Paid	50	40	40	41	41
Other Income & Exceptional	130	150	246	246	246
PBT	1,211	2,231	2,486	3,040	3,618
Tax	303	535	604	760	904
PAT	908	1,696	1,882	2,280	2,713
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	908	1696	1882	2280	2713
Growth %		87%	11%	21%	19%
Shares (Mn)	28	28	28	28	28
EPS	32.34	61.66	68.42	82.90	98.66

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	1,154	1,066	2,878	4,768	6,985
Current Investments	1,201	1,756	1,756	1,756	1,756
Debtors	2,268	2,552	2896	3331	3863
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	8,930	11,254	14,004
Net Block & CWIP	1,130	1,353	1111	1066	1034
Long Term Investments	0	16	16	16	16
Other Non-current Assets	226	257	257	257	257
Total Assets	6,919	8,400	10,315	12,593	15,311
Creditors	939	1,155	1206	1387	1608
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	2,337	2,518	2,740
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	352	351	353	353	353
Paid-up Capital	281	273	273	273	273
Reserves & Surplus	4,318	5,621	7352	9449	11946
Shareholders' Equity	4,598	5,893	7,625	9,722	12,219
Non-Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	6,919	8,400	10,315	12,593	15,311

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,215	2,216	2486	3040	3618
Adjustments	196	270	101	133	185
Change in Working Capital	-739	-340	-163	-254	-311
Total Tax Paid	-290	-574	-604	-760	-904
Cash flow from operating activities	382	1572	1819	2159	2587
Net Capital Expenditure	-205	-132	-65	-292	-358
Change in investments	-389	-251	0	0	0
Other investing activities	71	-182	246	246	246
Cash flow from investing activities	-524	-565	181	-46	-112
Equity raised / (repaid)	7	-463	0	0	0
Debt raised / (repaid)	5	-15	1	0	0
Dividend (incl. tax)	-70	-67	-151	-182	-217
Other financing activities	-139	-142	-40	-41	-41
Cash flow from financing activities	-197	-688	-189	-224	-258
Net Change in cash	-338	320	1,812	1,890	2,217

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	32.34	61.66	68.42	82.90	98.66
Growth %		91%	11%	21%	19%
Book Value Per Share	164	216	267	344	434
Return Ratios					
Return on Assets (%)	15%	23%	20%	20%	19%
Return on Equity (%)	23%	34%	28%	26%	25%
Return on Capital Employed (%)	22%	32%	32%	31%	30%
Turnover Ratios					
Asset Turnover (x)	2.0	2.2	1.97	1.85	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
Liquidity Ratios					
Current Ratio (x)	2.8	3.1	3.8	4.5	5.1
Interest Coverage Ratio (x)	25.1	51.4	56.7	68.5	82.5
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
Valuation					
PE (x)	13.1	16.3	14.7	12.1	10.2
Earnings Yield (%)	8%	6%	7%	8%	10%
Price to Sales (x)	1.0	1.7	1.5	1.3	1.1
Price to Book (x)	2.6	4.6	3.8	2.9	2.3
EV/EBITDA (x)	8.9	11.6	10.7	8.7	7.3
EV/Sales (x)	0.9	1.7	1.5	1.3	1.1

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
19 th December 2023	BUY	1,130	24%
7 th February 2024	BUY	1,005	32%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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