

# Cigniti Technologies Ltd.

17<sup>th</sup> May 2024

## Coforge Announces Acquisition of Cigniti Technologies

In Q4 FY24, Cigniti Technologies Ltd (Cigniti) reported a modest revenue growth of ~7% on a YoY basis and a degrowth of ~3% on a QoQ basis amounting to ~Rs. 4560 Mn. Ebitda declined by ~56% on a YoY basis, leading to a ~953 bps fall in Ebitda margins. This underperformance was driven by the one time employee benefit expense increase of ~Rs. 203 Mn for rewarding certain employees on completion of 25 years with the Company and a ~41% increase in other expenses (excluding Hired Contractors costs). PAT registered a fall of ~45% on a YoY basis to ~Rs. 271 Mn. Cash flow from operations was healthy at ~Rs. 1.2 Bn with a slight increase in short term borrowings.

### Coforge to acquire Cigniti

Coforge Ltd. (Coforge) has agreed to purchase up to ~54% of Cigniti Technologies Ltd.'s share capital at Rs 1,415 per share, initiating a mandatory open offer under SEBI SAST Regulations, 2011. This move aims to propel Coforge to a \$2 Bn revenue target by FY27, with a projected margin expansion of 150-200 Bps. The acquisition rationale includes: i) Creating three new verticals in Retail, Hi-Tech, and Healthcare, with immediate post-merger revenues estimated at \$100 Mn, \$50 Mn, and \$50 Mn respectively; ii) Expanding market presence across the southwest, midwest, and western US regions, complementing its predominantly east coast-centric footprint; and iii) Capitalizing on AI-driven opportunities for specialized assurance services, including model validation, performance testing, core algorithms, enterprise LLMs, and output validations.

### View & valuation

We believe that Cigniti will continue with its strategy of client mining and scaling up the Digital Engineering services. Based on the recent announcement of Coforge signing definitive agreements to take over Cigniti, we have put the stock under 'Under Review.'

## UNDER REVIEW

CMP Rs. 1,301

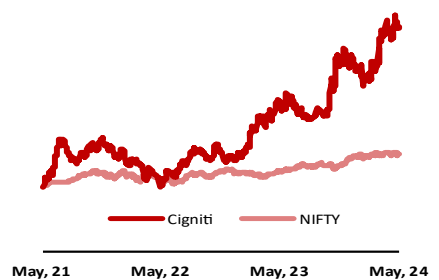
### Company Data

Bloomberg Code	CIGN IN
MCAP (Rs. Mn)	35,649
O/S Shares (Mn)	28
52w High/Low	1394 / 758
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	327

### Shareholding Pattern %

	Mar 24	Dec 23	Sept 23
Promoters	32.77	32.77	33.46
FIIIs	6.06	6.04	6.32
DIIIs	0.09	0.07	0.17
Non-Institutional	61.08	61.11	60.04

### Cigniti vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Mn)	FY23	FY24	FY25E
Revenue	16,480	18,150	20,873
EBITDA	2,381	2,218	2,609
Net Profit	1,696	1,656	1,864
Total Assets	8,400	9,968	11,894
ROCE (%)	32%	27%	27%
ROE (%)	34%	25%	23%

Source: Company, Keynote Capitals Ltd.

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## Q4 FY24 Result Update

## Result Highlight (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue from operations	4556	4250	7%	4680	-3%	18150	16476	10%
Employee Benefit Expenses	3037	2448	24%	2816	8%	11242	9645	17%
Other Expenses	1221	1118	9%	1219	0%	4691	4454	5%
<b>EBITDA</b>	<b>299</b>	<b>684</b>	<b>-56%</b>	<b>646</b>	<b>-54%</b>	<b>2218</b>	<b>2377</b>	<b>-7%</b>
<b>EBITDA Margin</b>	<b>7%</b>	<b>16%</b>	<b>-953 bps</b>	<b>14%</b>	<b>-724 bps</b>	<b>12%</b>	<b>14%</b>	<b>-221 bps</b>
Depreciation Expenses	78	70	11%	78	-1%	303	264	15%
<b>Ebit</b>	<b>221</b>	<b>614</b>	<b>-64%</b>	<b>567</b>	<b>-61%</b>	<b>1914</b>	<b>2113</b>	<b>-9%</b>
<b>Ebit Margin</b>	<b>5%</b>	<b>14%</b>	<b>-959 bps</b>	<b>12%</b>	<b>-727 bps</b>	<b>11%</b>	<b>13%</b>	<b>-228 bps</b>
Finance Cost	10	11	-9%	9	12%	41	44	-6%
Other Income	162	37	341%	73	121%	331	147	125%
PBT	372	639	-42%	631	-41%	2204	2216	-1%
Tax	101	147	-31%	151	-33%	548	533	3%
<b>PAT</b>	<b>271</b>	<b>492</b>	<b>-45%</b>	<b>480</b>	<b>-44%</b>	<b>1656</b>	<b>1683</b>	<b>-2%</b>
<b>EPS</b>	<b>10</b>	<b>18</b>	<b>-45%</b>	<b>17</b>	<b>-44%</b>	<b>60</b>	<b>61</b>	<b>-2%</b>

Source: Company, Keynote Capitals Ltd.

## Cigniti Technologies Ltd | Quarterly Update

### Financial Statement Analysis

#### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>12,420</b>	<b>16,480</b>	<b>18,150</b>	<b>20,873</b>	<b>24,212</b>
Growth %		33%	10%	15%	16%
Employee Expenses	7,397	9,645	11,242	12,837	14,769
Other Expenses	3,733	4,454	4,691	5,427	6,295
<b>EBITDA</b>	<b>1,291</b>	<b>2,381</b>	<b>2,218</b>	<b>2,609</b>	<b>3,148</b>
Growth %		84%	-7%	18%	21%
Margin %	10%	14%	12%	13%	13%
Depreciation	160	260	303	336	385
<b>EBIT</b>	<b>1,131</b>	<b>2,121</b>	<b>1,914</b>	<b>2,273</b>	<b>2,763</b>
Growth %		88%	-10%	19%	22%
Margin %	9%	13%	11%	11%	11%
Interest Paid	50	40	41	34	34
Other Income & Exceptional	130	150	331	246	246
<b>PBT</b>	<b>1,211</b>	<b>2,231</b>	<b>2,204</b>	<b>2,485</b>	<b>2,974</b>
Tax	303	535	548	621	744
<b>PAT</b>	<b>908</b>	<b>1,696</b>	<b>1,656</b>	<b>1,864</b>	<b>2,231</b>
Others (Minorities, Associates)	0	0	0	0	0
<b>Net Profit</b>	<b>908</b>	<b>1,696</b>	<b>1,656</b>	<b>1,864</b>	<b>2,231</b>
Growth %		87%	-2%	13%	20%
Shares (Mn)	28	28	28	28	28
<b>EPS</b>	<b>32.34</b>	<b>61.66</b>	<b>60.22</b>	<b>67.77</b>	<b>81.12</b>

#### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	1,154	1,066	1,605	3,502	5,260
Current Investments	1,201	1,756	2,471	2,471	2,471
Debtors	2,268	2,552	3,186	3,289	3,816
Inventory	0	0	0	0	0
Short Term Loans & Advances	701	1,130	1,048	1,048	1,048
Other Current Assets	240	269	320	320	320
<b>Total Current Assets</b>	<b>5,564</b>	<b>6,774</b>	<b>8,631</b>	<b>10,631</b>	<b>12,915</b>
Net Block & CWIP	1,130	1,353	1,213	1,139	1,123
Long Term Investments	0	16	28	28	28
Other Non-current Assets	226	257	96	96	96
<b>Total Assets</b>	<b>6,919</b>	<b>8,400</b>	<b>9,968</b>	<b>11,894</b>	<b>14,163</b>
Creditors	939	1,155	1,139	1,351	1,567
Provision	239	280	347	347	347
Short Term Borrowings	470	304	349	349	349
Other Current Liabilities	322	417	516	516	516
<b>Total Current Liabilities</b>	<b>1,969</b>	<b>2,156</b>	<b>2,351</b>	<b>2,563</b>	<b>2,779</b>
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-58	-59	-91	-91	-91
Other Long-Term Liabilities	410	410	327	327	327
<b>Total Non-Current Liabilities</b>	<b>352</b>	<b>351</b>	<b>236</b>	<b>236</b>	<b>236</b>
Paid-up Capital	281	273	273	273	273
Reserves & Surplus	4,318	5,621	7,108	8,822	10,875
Shareholders' Equity	4,598	5,893	7,381	9,095	11,148
Non-Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>6,919</b>	<b>8,400</b>	<b>9,968</b>	<b>11,894</b>	<b>14,163</b>

#### Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	1,215	2,216	2,204	2,485	2,974
Adjustments	196	270	14	124	173
Change in Working Capital	-739	-340	-409	109	-310
Total Tax Paid	-290	-574	-548	-621	-744
<b>Cash flow from operating Activities</b>	<b>382</b>	<b>1,572</b>	<b>1,261</b>	<b>2,097</b>	<b>2,094</b>
Net Capital Expenditure	-205	-132	-163	-263	-369
Change in investments	-389	-251	726	0	0
Other investing activities	71	-182	331	246	246
<b>Cash flow from investing activities</b>	<b>-524</b>	<b>-565</b>	<b>894</b>	<b>-16</b>	<b>-123</b>
Equity raised / (repaid)	7	-463	0	0	0
Debt raised / (repaid)	5	-15	-84	0	0
Dividend (incl. tax)	-70	-67	-132	-149	-178
Other financing activities	-139	-142	-41	-34	-34
<b>Cash flow from financing activities</b>	<b>-197</b>	<b>-688</b>	<b>-257</b>	<b>-183</b>	<b>-213</b>
<b>Net Change in cash</b>	<b>-338</b>	<b>320</b>	<b>1,897</b>	<b>1,897</b>	<b>1,758</b>

#### Valuation Ratios

	FY22	FY23	FY24	FY25E	FY26E
<b>Per Share Data</b>					
EPS	32.34	61.66	60.22	67.77	81.12
Growth %		91%	-2%	13%	20%
Book Value Per Share	164	216	258	321	395
<b>Return Ratios</b>					
Return on Assets (%)	15%	23%	18%	17%	17%
Return on Equity (%)	23%	34%	25%	23%	22%
Return on Capital Employed (%)	22%	32%	27%	27%	26%
<b>Turnover Ratios</b>					
Asset Turnover (x)	2.0	2.2	1.98	1.91	1.86
Working Capital / Sales (x)	27%	25%	35%	39%	42%
Receivable Days	57	53	64	58	58
Payable Days	23	23	23	24	24
<b>Liquidity Ratios</b>					
Current Ratio (x)	2.8	3.1	3.7	4.1	4.6
Interest Coverage Ratio (x)	25.1	51.4	46.4	66.2	80.4
Total Debt to Equity	0.1	0.1	0.1	0.1	0.1
Net Debt to Equity	-0.1	-0.1	-0.1	-0.3	-0.4
<b>Valuation</b>					
PE (x)	13.1	16.3	21.7	19.3	16.1
Earnings Yield (%)	8%	6%	5%	5%	6%
Price to Sales (x)	1.0	1.7	1.98	1.72	1.48
Price to Book (x)	2.6	4.6	5.1	4.1	3.3
EV/EBITDA (x)	8.9	11.6	16.1	13.7	11.3
EV/Sales (x)	0.9	1.7	2.0	1.7	1.5

Source: Company, Keynote Capitals Ltd.

### KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
19 <sup>th</sup> December 2023	BUY	1,130	24%
7 <sup>th</sup> February 2024	BUY	1,005	32%
17 <sup>th</sup> May 2024	UNDER REVIEW	1,301	NA

## 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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