

Cigniti Technologies Ltd.

23rd July 2024

Modest topline growth and provision impacted PAT

In Q1 FY25, Cigniti Technologies Ltd (Cigniti) reported a modest revenue growth of ~7% on a YoY basis and a growth of ~3% sequentially, amounting to ~Rs. 4685 Mn. Ebitda declined by ~20% on a YoY basis, driven by ~15% increase in employee benefit expenses and ~32% increase in other expenses (excluding Hired Contractors costs). The costs also include one-time expenses attributable to TDS on ESOPs for prior arrears and long term service bonus to a few employees. PAT fell by ~76% on a YoY basis to ~Rs. 105 Mn primarily due to a Rs. ~300 Mn provision made for export incentives receivable pertaining to FY15-19, pursuant to receipt of rejection letters from the DGFT against such claims. The company has filed an appeal with DGFT. Excluding the impact of this provision, PAT fell by ~10% on a YoY basis.

Operational metrics

The Digital Engineering Services segment contributed ~11% to revenue in Q1 FY25 as compared to ~8% in Q1 FY24, showcasing a growth of 46% on a YoY basis. The Company demonstrated strong growth in the BFSI and Travel segments, which accounted for ~24% and ~18% of revenue in Q1 FY25, respectively. These segments grew by ~19% and ~23% on a YoY basis. In contrast, other sectors such as Retail, Healthcare, and Hi-tech experienced declines of ~12%, ~6%, and ~7% on a YoY basis, respectively. The "Other" segment revenue grew by ~14% on a YoY basis. The Company has 2 clients in the >\$10 Mn engagement size bracket, 6 clients in the \$5-10 Mn bracket, and 44 clients in the \$1-5 Mn bracket.

Client concentration has increased, with the Top 5 clients accounting for ~28% of revenue in Q1 FY25, up from ~23% in Q1 FY24, and the Top 10 clients accounting for ~41% in Q1 FY25, up from ~36% in Q1 FY24. This aligns with Cigniti's strategy to capture more wallet share from existing clients.

Geographically, Cigniti generated ~83% of its revenues from the Americas region, ~10% from EMEA, and ~7% from the RoW regions. During the quarter the utilization rate (including trainees), improved to 83.7% from 81.8% on a YoY basis, while attrition increased to 12.7% from 11.4% in Q1 FY24.

Updates on takeover by Coforge Ltd

Coforge Ltd has secured ~28% stake in Cigniti and plans to secure 51-54% ownership of Cigniti during Q2 FY25 itself. On July 5, 2024, Coforge assumed Cigniti's Board by appointing five directors, thereby taking operational control. Coforge is currently awaiting SEBI's approval for the open offer, which it expects to complete in Q2 FY25. Following this, Coforge will initiate the merger process, post approval from the Boards of both companies.

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. 1,355

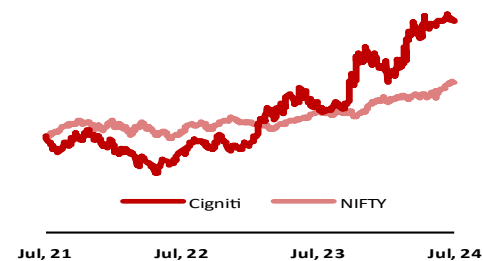
Company Data

Bloomberg Code	CIGN IN
MCAP (Rs. Mn)	37,265
O/S Shares (Mn)	28
52w High/Low	1,415 / 758
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	228

Shareholding Pattern %

	July 24	Jun 24	Mar 24
Promoters	22.61	32.77	32.77
FIIIs	5.92	5.73	6.06
DIIIs	2.19	2.12	0.09
Non-Institutional	69.30	59.37	61.08

Cigniti vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY24	FY25E	FY26E
Revenue	18,150	19,846	22,625
EBITDA	2,218	2,382	3,167
Net Profit	1,656	1,699	2,268
Total Assets	9,968	11,677	13,938
ROCE (%)	27%	24%	27%
ROE (%)	25%	21%	23%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue from operations	4,685	4,395	7%	4,556	3%	18,150
Employee Benefit Expenses	3,066	2,672	15%	3,037	1%	11,242
Other Expenses	1,122	1,103	2%	1,221	-8%	4,691
EBITDA	496	621	-20%	299	66%	2,218
EBITDA Margin (%)	11%	14%	-353 bps	7%	404 bps	12%
Depreciation Expenses	83	71	16%	78	6%	303
Ebit	414	550	-25%	221	87%	1,914
Ebit Margin (%)	9%	13%	-367 bps	5%	398 bps	11%
Finance Cost	7	10	-34%	10	-33%	41
Other Income	62	47	31%	162	-62%	331
Exceptional Item	300	N/A	N/A	N/A	N/A	N/A
PBT	168	586	-71%	372	-55%	2,204
Tax	63	140	-55%	101	-38%	548
PAT	105	446	-76%	271	-61%	1,656
EPS	4	16	-76%	10	-61%	60

Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	16,480	18,150	19,846	22,625	25,905
Growth %	33%	10%	9%	14%	15%
Employee Expenses	9,645	11,242	12,503	13,801	15,543
Other Expenses	4,454	4,691	4,962	5,656	6,476
EBITDA	2,381	2,218	2,382	3,167	3,886
Growth %	84%	-7%	7%	33%	23%
Margin %	14.45%	12.22%	12.00%	14.00%	15.00%
Depreciation	260	303	327	363	414
EBIT	2,121	1,914	2,054	2,805	3,471
Growth %	88%	-10%	7%	37%	24%
Margin %	13%	11%	10%	12%	13%
Interest Paid	40	41	34	34	34
Other Income & Exceptional	150	331	246	246	246
PBT	2,231	2,204	2,266	3,017	3,683
Tax	535	548	566	754	921
PAT	1,696	1,656	1,699	2,262	2,762
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	1696	1656	1699	2262	2762
Growth %	87%	-2%	3%	33%	22%
Shares (Mn)	28	28	28	28	28
EPS	61.66	60.22	61.80	82.27	100.45

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	1,066	1,605	3,551	5,430	7,718
Current Investments	1,756	2,471	2,471	2,471	2,471
Debtors	2,552	3186	3128	3566	4083
Inventory	0	0	0	0	0
Short Term Loans & Advances	1,130	1048	1,048	1,048	1,048
Other Current Assets	269	320	320	320	320
Total Current Assets	6,774	8,631	10,518	12,835	15,641
Net Block & CWIP	1,353	1213	1035	979	927
Long Term Investments	16	28	28	28	28
Other Non-current Assets	257	96	96	96	96
Total Assets	8,400	9,968	11,677	13,938	16,692
Creditors	1,155	1139	1284	1464	1677
Provision	280	347	347	347	347
Short Term Borrowings	304	349	349	349	349
Other Current Liabilities	417	516	516	516	516
Total Current Liabilities	2,156	2,351	2,497	2,677	2,889
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-59	-91	-91	-91	-91
Other Long-Term Liabilities	410	327	327	327	327
Total Non-Current Liabilities	351	236	236	236	236
Paid-up Capital	273	273	273	273	273
Reserves & Surplus	5,621	7108	8671	10753	13294
Shareholders' Equity	5,893	7,381	8,944	11,026	13,567
Non-Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	8,400	9,968	11,677	13,938	16,692

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	2,216	2,204	2,266	3,017	3,683
Adjustments	270	14	116	151	203
Change in Working Capital	-340	-409	204	-258	-305
Total Tax Paid	-574	-548	-566	-754	-921
Cash flow from operating Activities	1,572	1,261	2,019	2,155	2,660
Net Capital Expenditure	-132	-163	-149	-307	-363
Change in investments	-251	726	0	0	0
Other investing activities	-182	331	246	246	246
Cash flow from investing activities	-565	894	97	-61	-116
Equity raised / (repaid)	-463	0	0	0	0
Debt raised / (repaid)	-15	-84	0	0	0
Dividend (incl. tax)	-67	-132	-136	-181	-221
Other financing activities	-142	-41	-34	-34	-34
Cash flow from financing activities	-688	-257	-170	-215	-255
Net Change in cash	320	1,897	1,946	1,879	2,289

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	61.66	60.22	61.80	82.27	100.45
Growth %	91%	-2%	3%	33%	22%
Book Value Per Share	216	258	315	391	483
Return Ratios					
Return on Assets (%)	23%	18%	16%	18%	18%
Return on Equity (%)	34%	25%	21%	23%	22%
Return on Capital Employed (%)	32%	27%	24%	27%	28%
Turnover Ratios					
Asset Turnover (x)	2.2	1.98	1.83	1.77	1.69
Working Capital / Sales (%)	25%	35%	40%	45%	49%
Receivable Days	53	64	58	58	58
Payable Days	23	23	24	24	24
Liquidity Ratios					
Current Ratio (x)	3.1	3.7	4.2	4.8	5.4
Interest Coverage Ratio (x)	51.4	46.4	59.8	81.7	101.1
Total Debt to Equity	0.1	0.1	0.1	0.1	0.0
Net Debt to Equity	-0.1	-0.1	-0.3	-0.4	-0.5
Valuation					
PE (x)	22	23	22	16	13
Earnings Yield (%)	5%	4%	5%	6%	7%
Price to Sales (x)	2	2	2	2	1
Price to Book (x)	6	5	4	3	3
EV/EBITDA (x)	16	17	16	12	10
EV/Sales (x)	2	2	2	2	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%
17 th May 2024	UNDER REVIEW	1,301	NA
23 rd July 2024	UNDER REVIEW	1,355	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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