

30th April 2024

Cigniti Technologies – BUY

CMP : Rs. 1,340.0
Target Price : Rs. 1,612.0
Upside : 20%+
Stop Loss : Rs. 1,158.0 (Closing basis)

Investment Thesis

- Cigniti Tech has emerged as a global leader in delivering comprehensive quality assurance and software testing solutions. Cigniti Tech is one of the top players in the business when it comes to digital assurance, ranking among the top 3 independent testing companies worldwide. Throughout five continents, Cigniti Tech serves more than 300 clients in the BFSI, Retail, Healthcare, Travel and Energy industries. By strategically expanding into the quickly expanding field of digital engineering, Cigniti Tech has taken advantage of chances for cross-selling by leveraging the synergies with its current digital assurance company. Cigniti Tech's strategic diversification aligns with Cigniti Tech's commitment to innovation and staying at the forefront of the evolving technological landscape, becoming an AI & IP-led digital engineering and digital assurance provider.
- Cigniti Tech has strategic shift to digital engineering which has given exponential growth with revenues increasing ~13x during past 4 years. In FY23, it has acquired Apaara Digital, a specialist in AI/ML, blockchain and product engineering. This acquisition has helped Cigniti Tech in 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 lead to rise of digital engineering and making Cigniti Tech a prominent player in a \$450bn growing market.
- The outcomes of Cigniti Tech's strategy focus on increasing higher value accounts and optimizing wallet share have been noteworthy. Over the last 18 to 24 months, the "hunting" and "farming" method has improved long-term customer connections, especially with the Top-5 and Top-10 clients. The Top 5 clients increased their revenue contribution to 23% in FY23 from 17% in FY19. Positive customer reactions to conversations about new digital offerings highlight Cigniti Tech's creative approach to expansion. The dedication to fostering client connections is further demonstrated by the recent purchase of Apaara, which focuses on growing digital assurance services to underserved markets and cross-selling engineering products.

Financials

- Cigniti Tech's revenue and PAT grew by CAGR of 18.9% and 39.2%, respectively during FY18-23 led by its focus on cross-selling engineering offerings and extending digital assurance services to clients previously untapped by the Company.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	8,965	12,418	16,476	18,535	21,130
EBITDA	1,453	1,285	2,377	2,681	3,083
EBITDA Margin (%)	16.2%	10.3%	14.4%	14.5%	14.6%
PAT	1,054	917	1,683	1,919	2,197
EPS (Rs.)	37.6	32.7	61.7	70.4	80.6
P/E (x)	35.6	41.0	21.7	19.0	16.6
RoE (%)	28.4%	20.0%	28.8%	29.9%	31.3%

Stock Data

Market Cap (Rs. Mn)	36,609
Market Cap (\$ Mn)	4,383.2
Shares O/S (in Mn)	27.3
Avg. Volume (3 month)	227,430
52-Week Range (Rs.)	1,351.75 / 758.05

Shareholding Pattern

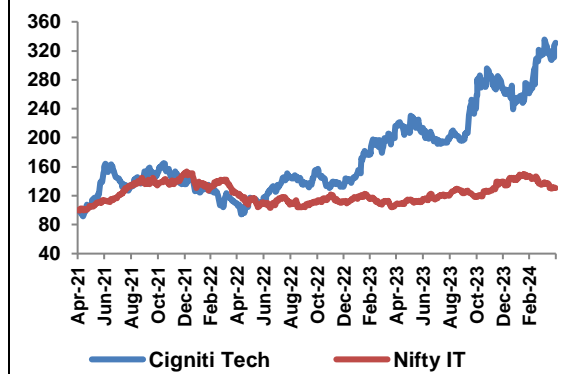
Promoters	32.77%
FIIs	6.06%
Institutions	0.09%
Others (incl. body corporate)	61.08%

Key Ratios

Div Yield	0.4%
TTM PE	19.5x
ROE	29.5%
TTM EPS (Rs.)	68.7/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	4.2%	33.2%	52.8%
NIFTY IT	-3.8%	-8.1%	21.2%



- Cigniti Tech has reported a revenue growth of 9.3% YoY and 3.6% QoQ in Q3FY24 to Rs.4,680mn mainly driven by the Retail, Travel and Energy sectors.
- EBITDA of Cigniti Tech improved by 0.9% YoY, but declined marginally by 0.3% QoQ in Q3FY24 to Rs.646mn. However, EBITDA margin decline by 116 bps to 13.8% driven by one off increase in other expenses and the investments made in resources. Management has stated that these costs are not expected to reoccur in the future and expect the margins to rise by 150-200 bps going forward.
- Cigniti Tech has added 6 new clients during the quarter which are expected to contribute significantly to the topline in the next year.

Key Business Highlights

- Cigniti Tech is a prominent player in the Digital Assurance and Quality Engineering services industries, which assists global businesses from various industries in accelerating their digital transformation journeys. It has in-depth expertise in various testing services, encompassing functional testing, performance testing, test automation and security testing.
- Cigniti Tech's dedication to software testing extends to provide extensive support to global clients, covering test management, automation, functional and non-functional testing as well as test environment management. Currently, it 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.
- Cigniti Tech 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.

Valuation

Over the last one year, the average size of a client that Cigniti Tech has acquired has quadrupled. Within the 6 new clients acquired in Q3FY24, 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 ~\$80bn in AUM. All the new client acquired has potential to grow into the Top 10 – Top 20 clients for Cigniti Tech in FY25.

Cigniti Tech continues to grow the digital engineering segment, which contributed 10-11% of the total revenue in Q3FY24, representing the developmental aspect within the broader digital revenue, includes quality engineering also. The management expects this segment to sustain its high double digit growth and guided for ~18% contribution in FY25 and over the next 4-5 years, management expect digital engineering segment to contribute ~55% to total revenue. Also, the Company has garnered recognitions from various industry bodies and analysts for its Digital Engineering prowess.

With a global leader in delivering comprehensive quality assurance and software testing solutions, strategic shift to digital engineering, focus on increasing higher value accounts and optimizing wallet share and management expect digital engineering segment to contribute ~55% to total revenue, we are assigning **BUY** rating to Cigniti Technologies Ltd. (Cigniti Tech) and value at 20.0x FY25E EPS of Rs.80.60 to arrive at target price of Rs.1,612.00, an upside of ~20.0%+.

Risk & Concern

- Cigniti Tech has heavy dependence on top-10 clients as it generates ~42% of the revenue from top-10 clients. Any business ramp-down with large client may impact significantly future growth of Cigniti Tech.
- Cigniti Tech engaged in Software testing, Digital Assurance and ER&D, which is highly competitive. The existing large players as well as emerging incumbents make it challenging to differentiate the offerings and capture a larger market share.

Graphs & Charts

Figure 1: Net Sales Trend

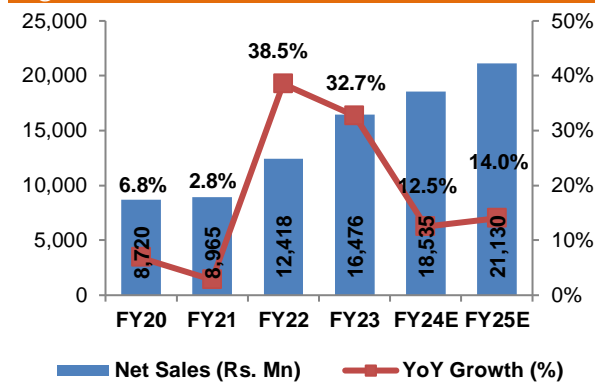


Figure 2: EBITDA & EBITDA Margin Trend

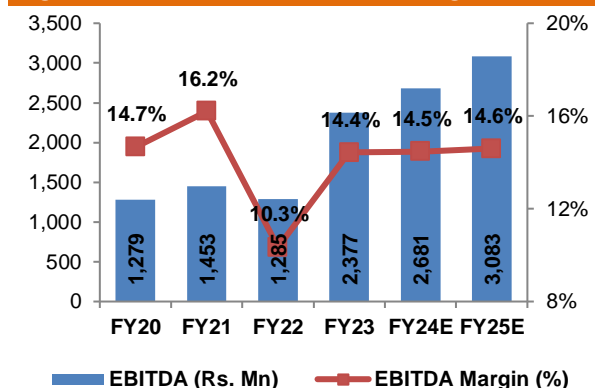


Figure 3: PAT Trend

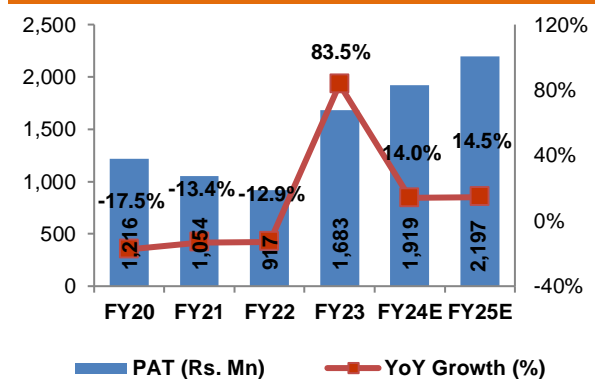
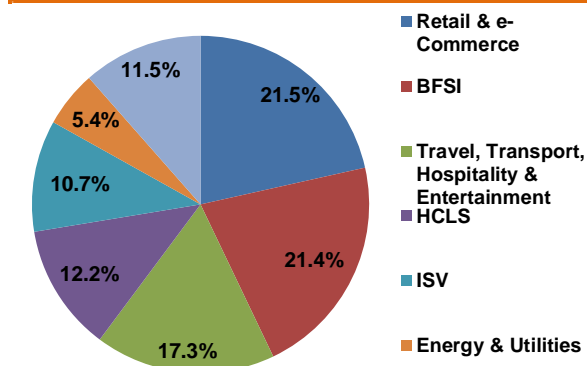


Figure 4: Sector-wise Revenue (Q3FY24)



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