

Coforge reported an in-line 1.9% cc QoQ growth (JMFe: 1.8%). Margins missed while deal wins (USD 750mn; 2.7x book-to-bill) picked up. Coforge's execution-focus helps it win deals consistently (TTM TCV: USD 1.9bn; 1.8x BTB) while protecting current book of business. 17% YoY growth in 12-M executable order book (EOB), higher than revenue growth (13%) reflect the trend while undergirding a healthy revenue visibility. Surprisingly however, management refrained from providing a quantitative guidance for FY25, citing elevated uncertainty. A 1.3x year-beginning EOB to NTM revenue conversion (lowest in past 5 years) in FY24 was at the lower bound of historical range, indicating higher leakage. 1.2x conversion, assuming leakages deteriorate further, would imply c.10% FY25E USD revenue growth. That forms the basis of our FY25 estimates. Coforge also announced acquisition of Cigniti Tech (CIGN IN; NR), an assurance (testing) company. Management believes Cigniti complements Coforge's verticals, geo footprint and client relationships. Coforge has done comprehensive audit (financial and forensic) of the target and finds comfort in scaled relationships and in-place contracts (MSAs over SOWs). We estimate that at current price, the acquisition will be EPS accretive (Exhibit 1). Synergies are difficult on realise, especially in large acquisitions. But we are willing to give benefit of doubt to Coforge's clinical execution track-record. We have not merged the financials yet pending merger process. But we cut Coforge's FY25/26E EPS by 24/25% on lower growth/margin assumptions. c.20% correction YTD seems to price this in already. Maintain BUY with a revised TP of INR 5,570 (from INR 6,940).

- **4QFY24 – mixed bag:** Revenues grew 1.9% cc QoQ, meeting expectations (JMFe: 1.8%). Growth was led by BFS (+6.4%) while Insurance (-0.1%) and Transportation (0.6%) dragged. Management indicated that Transportation vertical has been impacted by softness in the top travel-tech account, which now appears to have plateaued. EBITDA margin expanded 103bps QoQ to 18%, missing our 18.5% est. Better utilisation (+230bps QoQ) and higher offshore (+70bps QoQ) drove margin improvement. PAT came in at INR 2.2bn, 17%/18% below JMFe/Cons est. Company reduced its debt by USD 65mn. The company expects to turn net-cash by FY25 end (current net debt: USD 10mn).
- **Cigniti Tech acquisition:** Coforge agreed to acquire Cigniti Tech, a listed assurance company, for an equity valuation of c.USD 465mn. The merger has two legs – 1) 54% share purchase in cash; 2) share swap post shareholders' approval. Coforge believes the acquisition will help it scale its retail vertical to USD 100mn ARR while Healthcare and Hi-Tech vertical to USD 50mn each. Further, it adds South-West, Mid-West and Western regions of US to Coforge's footprint. Merger will also give Coforge access to 28 new Fortune 500 accounts. We estimate that as things stand today, merger is earnings accretive. A single service line (testing) means Coforge has plenty of cross-sell options.
- **Outlook and EPS changes:** In the absence of revenue guidance, we now est. 9% USD FY25 revenue growth (vs 15.7% earlier) – at 1.2x EOB-Rev. Management indicated a flattish margin for FY25 due to higher ESOP cost. We build these driving 24/25% cuts to our FY25/26E EPS. Our TP is down 20% to INR 5,570. Recent correction limits downside.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	80,392	92,060	1,01,651	1,13,686	1,28,981
Sales Growth (%)	25.4	14.5	10.4	11.8	13.5
EBITDA	14,053	15,073	16,603	19,905	23,038
EBITDA Margin (%)	17.5	16.4	16.4	17.5	17.8
Adjusted Net Profit	8,264	8,362	10,282	12,834	15,144
Diluted EPS (INR)	133.9	131.6	157.0	196.0	231.3
Diluted EPS Growth (%)	24.7	-1.7	19.3	24.8	18.0
ROIC (%)	33.1	28.5	26.3	30.3	32.8
ROE (%)	28.4	24.9	26.2	27.7	27.6
P/E (x)	37.2	37.9	31.8	25.4	21.6
P/B (x)	9.9	8.5	7.4	6.3	5.3
EV/EBITDA (x)	21.5	20.3	18.3	15.0	12.7
Dividend Yield (%)	1.0	1.2	1.4	1.7	1.9

Source: Company data, JM Financial. Note: Valuations as of 02/May/2024

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#### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	5,570
Upside/(Downside)	11.7%
Previous Price Target	6,038
Change	-7.8%

#### Key Data – COFORGE IN

Current Market Price	INR4,986
Market cap (bn)	INR308.2/US\$3.7
Free Float	93%
Shares in issue (mn)	61.1
Diluted share (mn)	65.5
3-mon avg daily val (mn)	INR2,335.3/US\$28.0
52-week range	6,847/4,055
Sensex/Nifty	74,611/22,648
INR/US\$	83.5

#### Price Performance

%	1M	6M	12M
Absolute	-10.3	-1.4	20.7
Relative*	-11.2	-14.9	-1.0

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Cigniti Tech acquisition: A Cigni-ficant bet

Coforge, in its 2023 Analyst Day, had laid out its roadmap to scale USD 2bn revenues by FY27. The plan included USD 150mn revenues from new verticals. Retail and Healthcare were identified. It also talked of USD 150mn of revenues from tuck-in acquisitions. The management had also indicated the geographical gap in the portfolio, especially US West coast. Coforge's Cigniti Tech acquisition takes care of these three growth vectors in one stroke. Coforge believes Cigniti will not only help it reach USD 2bn of revenues by FY27, but also ensuing synergies will ensure the operating margins expand by 150-250bps. Coforge has conducted extensive due diligence (financial and forensic) and assured investors of the quality of earnings/relationships of Cigniti. Cigniti Tech's board of directors also boast of some of the well-respected professionals as independent director e.g Mr Srinath Batni, ex-Infosys leader.

Specifically, the rationales identified by the company are as follows:

- Three new scaled up industry will be added to Coforge:** The merged firm's Retail vertical will reach c.USD 100mn/year size while the Hi-Tech and Healthcare verticals will be operating at around USD 50mn/year size immediately post-merger.
- Geographically complimentary:** Coforge currently derives c.48% of its global revenues from North America. This is because Coforge's presence has largely been East Coast centric in the USA. The acquisition of Cigniti will expand Coforge's North America revenue by ~33% and help it establish a significant beachhead in the West, South-West and Mid-West markets.
- Cross-sell opportunities:** Cigniti is a testing focussed firm. That means there are a lot of white spaces in the services that could be offered to Cigniti Tech's clients. Importantly, Cigniti Tech has a complementary set of client. The acquisition could add 28 new Fortune 500 accounts to Coforge. Coforge could see 9-10 additional services to these accounts, thus helping scale them faster. Coforge also drew comfort from the fact that Cigniti has a master service agreement (MSA) already in place with these accounts, indicating depth of engagement.

Also, the acquisition will likely be earnings accretive, per our calculation. See below:

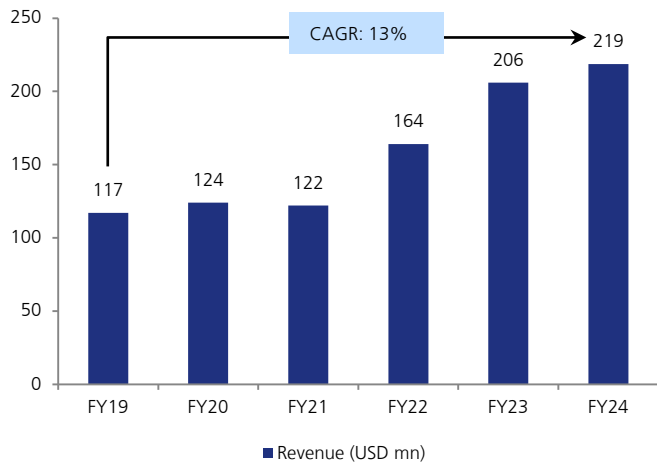
Exhibit 1. We estimate that acquisition, when completed, will be earnings accretive		
Parameters	Value	Remarks
<b>Share calculation</b>		
Acquisition Price (INR)	1,415	Assumed entire transaction happens at this price
No. of Cigniti Diluted Shares O/S (mn)	27.4	Derived from reported diluted EPS
Total Equity Value at acquisition price (INR mn)	38,793	c.USD 465mn
Coforge CMP (as of 01 May, 2024)	5,000	Assumed the shares will move in lock-step now
Number of Coforge Shares to be issued for acquisition (mn)	7.8	Assumed for both cash purchase and share-swap
Current Coforge Fully Diluted Shares O/S (mn)	62.4	Derived from reported diluted EPS
Total Coforge Shares O/S post dilution (mn)	70.1	
<b>EPS Calculation</b>		
Coforge FY24 reported PAT (INR mn)	8,080	Without adjusting USD 1bn celebration expenses
Coforge FY24 reported Diluted EPS (INR)	129.6	
Cigniti Tech FY24 reported PAT (INR mn)	1,656	Without adjusting for one-time long service award
Cigniti FY24 reported Diluted EPS (INR)	60.4	
<b>Merge-co FY24 PAT (INR mn)</b>	<b>9,736</b>	
Merge-co FY24 Diluted EPS (INR mn)	138.9	
<b>Accretion</b>	<b>7.2%</b>	

Source: Company, JM Financial

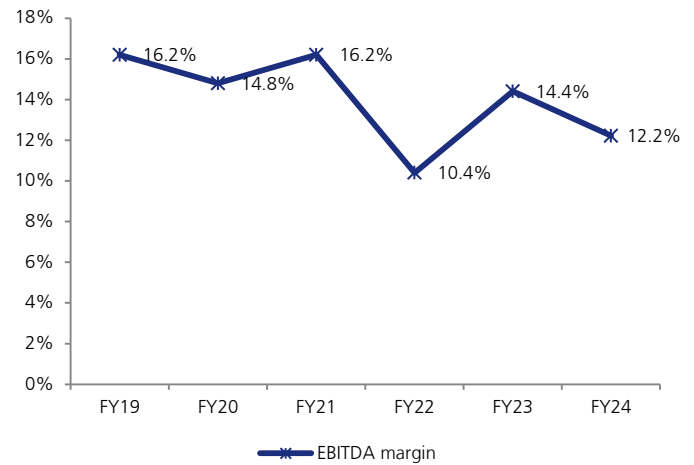
Management reiterated its FY27 goal of USD 2bn Revenues and 150-250bps operating margin expansion, including the acquisition

## Key takeaways on Acquisition

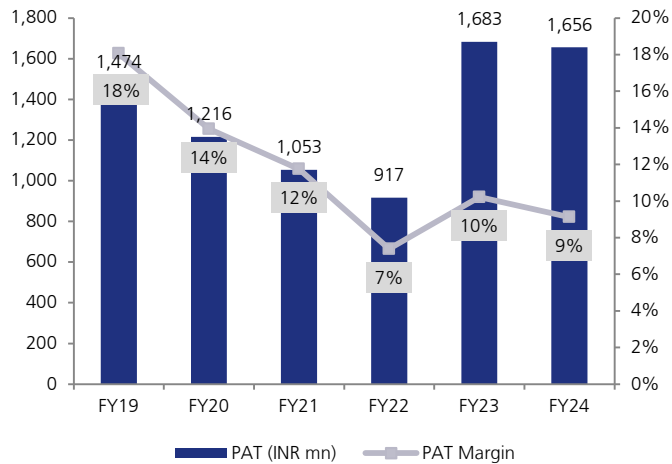
- **Deal Structure:** Coforge intends to purchase ~54% of Cigniti's stakes from the promoter group (holding ~33%) and the public through an open offer. Initially, the deal involves selling 10%-15% of the promoters' stake. Additionally, a group of public investors seeking exits will participate in the SPA, resulting in a further dilution of 10% to 15%. If the open offer fails, the promoters will intervene to defend their position.
- **Timeline:** Coforge expects CCI approval within the next 45 to 50 days, around mid-June. After CCI approval, Coforge will take control of the board of Cigniti. The open offer has already been triggered, and the document will be filed with SEBI. Approval from SEBI is anticipated within the next 60 to 65 days, potentially by mid to late July. Completion of the open offer is expected by mid-August, resulting in a 51% stake in Cigniti. After the completion of the open offer, the next step is to seek shareholder approval for the merger. The merger will involve a share swap, where existing shareholders, including Cigniti promoters, will exchange their shares for shares in Coforge. This demonstrates a commitment from Cigniti promoters to remain invested in the merged entity rather than cashing out entirely.
- **Financing:** Management plans to launch and close the QIP before obtaining CCI approval. \$250 million in debt financing will serve as a form of insurance or bridge finance. Ideally, the debt financing will not be utilized, acting as a precautionary measure during the acquisition process.
- **Strong Client Connects:** Despite having a single service line, Cigniti maintains several relationships generating revenue of \$5 mn+, with some even exceeding \$10 mn+. Coforge currently has 24 clients generating revenue of \$10 mn+ or more. It anticipates a significant increase in this number within the next twelve months by leveraging Cigniti's client base and relationships. One of top airline operator, which Coforge has been pursuing for over a decade, is already a client of Cigniti. Similarly, despite being the second-largest vertical, BFSI remains a significant area of interest for Cigniti. They boast relationships with marquee clients, some of whom are not currently clients of Coforge.
- **Cigniti Capabilities:** Cigniti specializes primarily in non-functional testing, encompassing UI/UX testing, performance testing, security testing, and other AI-specific testing domains. Their Blue Swan AI testing framework, developed over nine years, comprises eight modules dedicated to AI testing. While acknowledging potential disruptions in functional testing due to AI advancements, Coforge remains confident in the significant upside of non-functional testing areas such as performance, security, and UI/UX testing.
- **Organic growth intact:** Coforge is confident that the acquisition of Cigniti will have no adverse impact on its organic growth. Management emphasizes the importance of solid organic growth before pursuing acquisitions, ensuring a position of strength rather than weakness.
- **No further dilution:** Coforge emphasizes that there will be no additional equity dilution for future acquisitions. Instead, the company plans to rely on debt financing or internal accruals for any future acquisitions. The decision to opt for a cash purchase rather than an immediate merger was influenced by several factors. Firstly, there were public shareholders seeking an exit, and promoters who preferred a cash payment upfront. Additionally, the merger process would have been lengthy, taking up to twelve months for integration. Therefore, prioritizing the interests of both parties, the decision was made to proceed with a cash purchase first, followed by a merger.

**Exhibit 2. Cigniti Tech: Revenue (USD mn)**

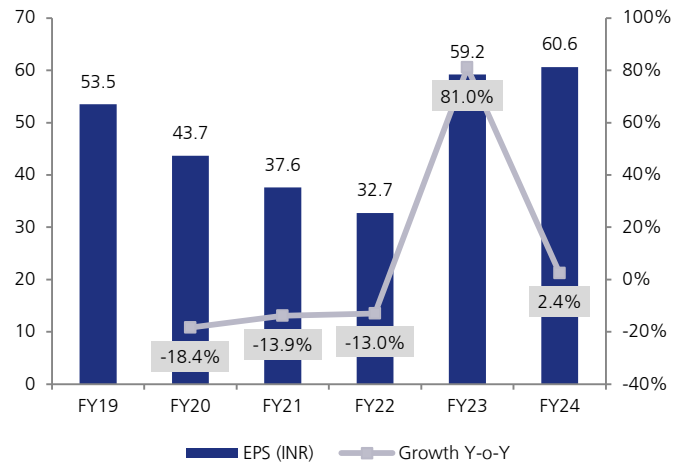
Source: Company, JM Financial

**Exhibit 3. Cigniti Tech: Margin Profile**

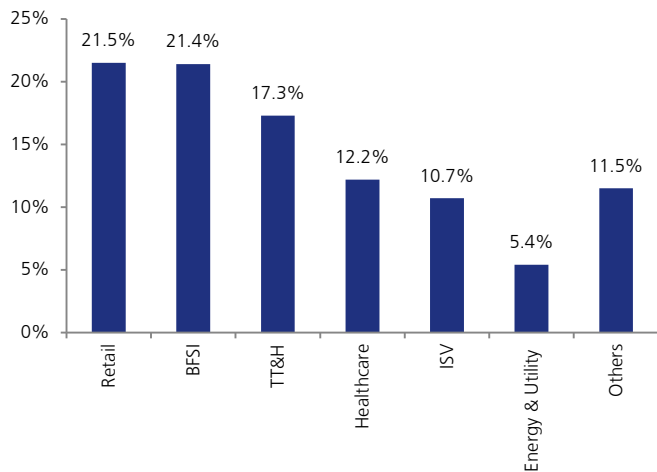
Source: Company, JM Financial

**Exhibit 4. Cigniti Tech: PAT and Net Profit margin**

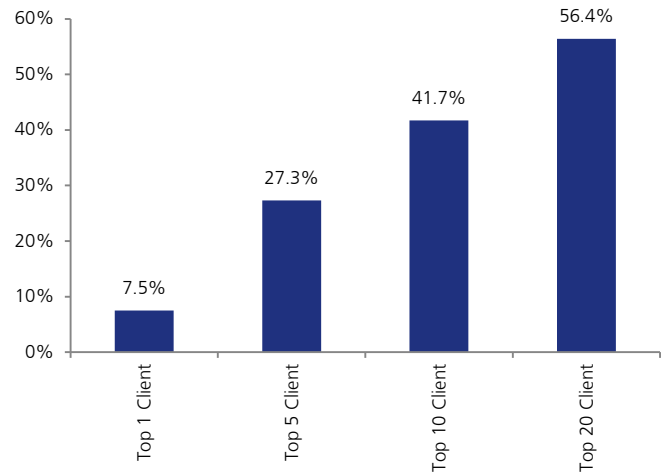
Source: Company, JM Financial

**Exhibit 5. Cigniti Tech: EPS and EPS growth**

Source: Company, JM Financial

**Exhibit 6. Cigniti Tech: Revenue contribution by sector**

Note: for 3QFY24. Source: Company, JM Financial

**Exhibit 7. Cigniti Tech: Client contribution to revenue**

Note: for 3QFY24. Source: Company, JM Financial

## Other Key Highlights from the call

- **Outlook:** Management refrained from quantifying revenue guidance for FY25, but indicated towards 12-M executable order book as a lead indicator. Per management, strong growth opportunities have been identified in the public sector, particularly with elections underway, such as in the UK. Despite challenges with a major client, the airline sector shows potential for an uptick. Expansion into newer verticals like retail and automotive in Europe presents significant growth prospects.
- **Deal wins:** Order intake for the quarter was \$774 mn, bringing the 12M executable order book to over \$1 bn. Coforge closed two large deals in 4QFY24, each exceeding \$300 mn. One was a vendor consolidation deal within the BFS domain, valued at over \$400 mn with a six-year tenure. The other was a transformation deal won against a major IT service player. Additionally, several other deals with a TCV of over \$30 mn each were closed, including a mix of Existing Enterprise (EE), Existing Niche (EN), and Net New (NN) contracts. Factors driving deal success included leveraging indirect channels like advisors, analysts, and alliance partners. The company's consulting and solutioning capabilities, led by John Speight, played a pivotal role in crafting compelling propositions and responses to Requests for Proposals (RFPs).
- **Margins:** Coforge has guided for a flat EBITDA margin for FY25 due to a 50-60 bps impact from ESOP costs. However, this increased ESOP cost is expected to be margins tailwinds in FY26 by 70-80 bps. Combined with gross margin expansion, this will lead to an 80-100 bps YoY expansion in EBITDA margin. Despite the common anticipation of lower margins in new accounts, especially with large deals, Coforge has effectively mitigated this impact. The company has achieved this by implementing strategies to enhance cost structures, not only limited to personnel costs but also encompassing various operational expenses. This proactive approach to cost management has enabled Coforge to maintain its gross margins.
- **Supply side:** The Company reported a net headcount addition of 119 employees during the quarter. Utilization improved by 200 bps to 81.7%. . Salary hikes will continue to be implemented from April 1st. The hikes will maintain consistency with previous years, neither higher nor lower, aligning with the average pattern observed over the last seven years. Management indicated that existing ESOPs will be utilized for issuing equity to senior leaders and valued employees from Cigniti, with no additional costs or allocations planned in the near term.

### Exhibit 8. 4QFY24 result summary

	4Q24 A	3Q24 A	Change (QoQ)	Estimate (JMFe)	Variance (vs. JMFe)	Estimate (Consensus)	Variance (vs. consensus)	QoQ estimate	
								JMFe	Consensus
USD-INR	82.24	82.39	-0.2%	82.84	-0.7%	82.84	-0.7%	0.5%	0.5%
CC Revenue Growth (QoQ)			1.9%		10bp	2.1%	-19bp	1.8%	2.1%
Revenue (USD mn)	287	282	1.7%	287	-0.2%	287.89	-0.4%	1.9%	2.1%
Revenue (INR mn)	23,585	23,233	1.5%	23,813	-1.0%	23,848	-1.1%	2.5%	2.6%
EBIT (INR mn)	3,405	3,263	4.3%	3,651	-6.7%	3,722	-8.5%	11.9%	14.1%
EBIT margin	14.4%	14.0%	39bp	15.3%	-90bp	15.6%	-117bp	129bp	156bp
PAT - adjusted (INR mn)	2,237	2,392	-6.5%	2,698	-17.1%	2,729	-18.0%	12.8%	14.1%
EPS - adjusted(INR)	36.2	38.3	-5.5%	43.8	-17.4%	44.2	-18.0%	14.4%	15.3%

Source: Company, JM Financial

## 4QFY24 result review

## Exhibit 9. Key financial summary

	4Q23	FY23	1Q24	2Q24	3Q24	4Q23	FY24
<b>Cons. revenues (USD mn)</b>	<b>265.3</b>	<b>1,004.0</b>	<b>271.8</b>	<b>278.1</b>	<b>282.0</b>	<b>286.8</b>	<b>1,118.7</b>
Change (QoQ/YoY)	5.0%	16.3%	13.9%	12.5%	11.6%	1.7%	11.4%
<b>Cons. revenues (INR mn)</b>	<b>21,845</b>	<b>80,392</b>	<b>22,316</b>	<b>22,869</b>	<b>23,283</b>	<b>23,592</b>	<b>92,060</b>
Change (QoQ/YoY)	5.6%	25.4%	2.2%	2.5%	1.8%	1.3%	14.5%
Cost of revenues	14,306	54,059	15,414	15,374	15,543	15,543	61,873
<b>Gross profit</b>	<b>7,539</b>	<b>26,333</b>	<b>6,902</b>	<b>7,495</b>	<b>7,740</b>	<b>8,049</b>	<b>30,187</b>
<b>Gross margin</b>	<b>34.5%</b>	<b>32.8%</b>	<b>30.9%</b>	<b>32.8%</b>	<b>33.2%</b>	<b>34.1%</b>	<b>32.8%</b>
SG&A costs	3,318	12,034	3,480	3,915	3,666	3,783	14,844
<b>Operating profit (EBITDA)</b>	<b>4,221</b>	<b>14,299</b>	<b>3,422</b>	<b>3,580</b>	<b>4,074</b>	<b>4,266</b>	<b>15,343</b>
<b>Operating margin</b>	<b>19.3%</b>	<b>17.8%</b>	<b>15.3%</b>	<b>15.7%</b>	<b>17.5%</b>	<b>18.1%</b>	<b>16.7%</b>
Depreciation & amortization	717	2,585	757	772	811	846	3,186
<b>EBIT</b>	<b>3,504</b>	<b>11,714</b>	<b>2,665</b>	<b>2,808</b>	<b>3,263</b>	<b>3,420</b>	<b>12,157</b>
<b>EBIT margin</b>	<b>16.0%</b>	<b>14.6%</b>	<b>11.9%</b>	<b>12.3%</b>	<b>14.0%</b>	<b>14.5%</b>	<b>13.2%</b>
Other income	-632	-876	-258	-402	-307	-459	-1,426
Profit before tax	2,872	10,838	2,407	2,406	2,956	2,961	10,731
Income tax expense	379	2,061	485	528	516	564	2,093
<b>Net income from operations</b>	<b>2,493</b>	<b>8,777</b>	<b>1,922</b>	<b>1,878</b>	<b>2,440</b>	<b>2,397</b>	<b>8,638</b>
Share of minority interest	19	513	104	69	48	55	276
<b>PAT - Adjusted</b>	<b>2,474</b>	<b>8,264</b>	<b>1,818</b>	<b>1,809</b>	<b>2,392</b>	<b>2,342</b>	<b>8,362</b>
Change (QoQ/YoY)	8.4%	24.9%	-26.5%	-0.5%	32.2%	-2.1%	1.2%
Exceptional item (Adjusted for Tax)	1,326	1,326	165	0	0	96	261
<b>PAT - Reported</b>	<b>1,148</b>	<b>6,938</b>	<b>1,653</b>	<b>1,809</b>	<b>2,392</b>	<b>2,246</b>	<b>8,101</b>
<b>Adjusted Basic EPS</b>	<b>40.5</b>	<b>135.4</b>	<b>29.8</b>	<b>29.7</b>	<b>39.2</b>	<b>37.01</b>	<b>135.69</b>
Change (QoQ/YoY)	8.4%	24.4%	-26.5%	-0.3%	32.2%	-5.7%	0.2%

Source: Company, JM Financial

Growth led by BFS (+6.6% QoQ).

Gross and EBITDA margin expanded 102 bps each sequentially, led by improved utilization (+200bps QoQ)

## Exhibit 10. Vertical portfolio

	4Q23	1Q24	2Q24	3Q24	4Q24
<b>Distribution</b>					
BFS	31.0%	31.1%	31.6%	32.2%	33.7%
Insurance	22.2%	22.6%	22.6%	22.0%	21.6%
Travel and Transportation	18.8%	18.5%	18.5%	17.8%	17.6%
Others	28.0%	27.8%	27.3%	28.1%	27.1%
<b>Revenue (USD mn and QoQ growth)</b>					
<b>BFS</b>	<b>82.2</b>	<b>84.5</b>	<b>87.9</b>	<b>90.8</b>	<b>96.7</b>
Change	4.6%	2.8%	4.0%	3.3%	6.4%
<b>Insurance</b>	<b>58.9</b>	<b>61.4</b>	<b>62.9</b>	<b>62.0</b>	<b>61.9</b>
Change	5.4%	4.3%	2.3%	-1.3%	-0.1%
<b>Transportation</b>	<b>49.9</b>	<b>50.3</b>	<b>51.4</b>	<b>50.2</b>	<b>50.5</b>
Change	2.2%	0.8%	2.3%	-2.4%	0.6%
<b>Others</b>	<b>74.3</b>	<b>75.6</b>	<b>75.9</b>	<b>79.2</b>	<b>77.7</b>
Change	7.3%	1.7%	0.5%	4.4%	-1.9%

Source: Company, JM Financial

**Exhibit 11. Key manpower metrics**

	4Q23	1Q24	2Q24	3Q24	4Q24
<b>Manpower Base</b>					
<b>Total</b>	<b>23,224</b>	<b>24,224</b>	<b>24,638</b>	<b>24,607</b>	<b>24,726</b>
Headcount additions	719	1,000	414	-31	119
- As % of opening base	3.2%	4.3%	1.7%	-0.1%	0.5%
<b>Operating metrics</b>					
Utilization - IT services (blended)	81.5%	81.0%	80.0%	79.4%	81.7%
Attrition - quarterly annualized	14.1%	13.3%	13.0%	12.1%	11.5%

Source: Company, JM Financial

**Exhibit 12. Key client metrics**

	4Q23	1Q24	2Q24	3Q24	4Q24
<b>Client wins and order book</b>					
New customer wins	10	6	8	7	8
Fresh order intake	301	531	313	354	775
Change (YoY)	0%	69%	3%	3%	157%
Orders executable over next 12 months	869	897	935	974	1019
Change (YoY)	21%	20%	17%	16%	17%
Pending order book	1899	2158	2193	2265	2753
Change (YoY)	16%	26%	24%	22%	45%
<b>Revenue concentration</b>					
Top 5 clients	23.1%	25.1%	23.5%	22.7%	23.0%
Next 5 clients	12.4%	12.6%	11.7%	11.6%	11.3%
Top 10 clients	35.5%	37.7%	35.2%	34.3%	34.3%
<b>Revenue growth (in USD terms)</b>					
Top 5 clients	1.0%	11.8%	-4.2%	-1.7%	2.7%
Next 5 clients	5.8%	3.3%	-5.0%	0.9%	-1.3%
Top 10 clients	2.7%	8.8%	-4.5%	-0.8%	1.3%

Source: Company, JM Financial

Signed two \$300mn+ deal during the quarter.

## Retain BUY; TP revised to INR 5,570

We lower our Revenue estimates by 6% to 9% to factor in soft FY25. We are lowering our margin estimates by 190 and 130 bps for FY25 and FY26. This translates into a sharp 25% and 24% cut to our EPS for FY25 and FY26. We continue to value the stock at 28x forward PER. We maintain BUY on Coforge with a revised TP of INR 5,570.

### Exhibit 13. What has changed

	Old			New			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Exchange rate (INR/USD)	83.20	83.20	-	83.20	83.20	83.20	0.0%	0.0%	-
Consolidated revenue (USD mn)	1,294.6	1,506.86	-	1,221.8	1,366.4	1,550.3	-5.6%	-9.3%	-
Growth in USD revenues (YoY)	15.7%	16.4%	-	9.2%	11.8%	13.5%	-644bp	-456bp	-
Consolidated revenue (INR mn)	1,08,158	1,25,571	-	1,01,451	1,13,886	1,29,181	-6.2%	-9.3%	-
EBITDA margin	18.3%	18.8%	-	16.4%	17.5%	17.8%	-194bp	-132bp	-
EBIT margin	15.3%	15.9%	-	12.8%	14.1%	14.4%	-251bp	-177bp	-
PAT (INR mn)	12,848	15,819.17	-	10,282	12,834	15,144	-20.0%	-18.9%	-
EPS	208.58	256.81	-	157.01	195.98	231.26	-24.7%	-23.7%	-

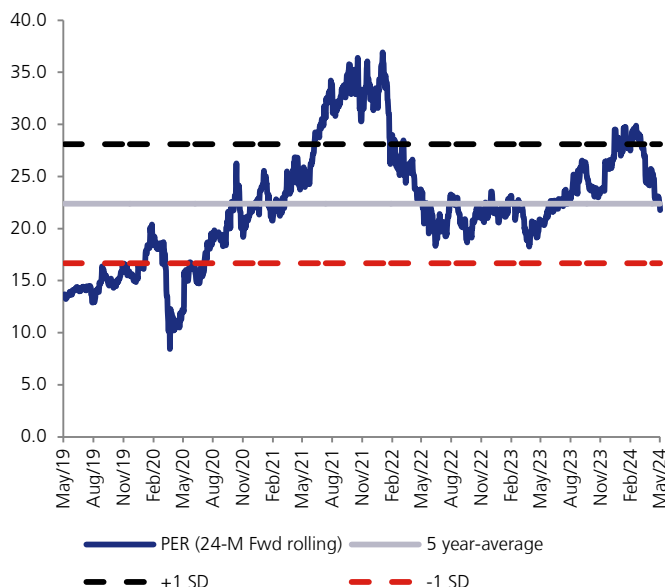
Source: JM Financial estimates

### Exhibit 14. JMFe vs. Consensus estimates

	Consensus estimates			JMFe			Difference		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales (INR mn)	1,05,853	1,22,597	1,36,078	1,01,451	1,13,886	1,29,181	-4.2%	-7.1%	-5.1%
EBITDA (INR mn)	18,935	22,341	24,746	16,603	19,905	23,038	-12.3%	-10.9%	-6.9%
EBITDA margin	17.9%	18.2%	18.2%	16.4%	17.5%	17.8%	-152bp	-75bp	-35bp
EBIT (INR mn)	15,592	18,622	20,239	13,193	15,860	18,424	-15.4%	-14.8%	-9.0%
EBIT margin	14.7%	15.2%	14.9%	13.0%	13.9%	14.3%	-173bp	-126bp	-61bp
Net Income (INR mn)	11,677	14,165	15,410	10,282	12,834	15,144	-11.9%	-9.4%	-1.7%
EPS (INR)	186.29	227.16	247.90	157.0	196.0	231.3	-15.7%	-13.7%	-6.7%

Note: Consensus estimates as of 2<sup>nd</sup> May and may not reflect changes in estimates post result. Source: Company, JM Financial estimates

### Exhibit 15. Price-to-sales valuation chart



Source: Company, JM Financial

### Exhibit 16. Price-to-Earnings valuation chart



Source: Company, JM Financial



## Cigniti Technologies: A brief overview

Cigniti Tech is a leading AI & IP-led Digital Assurance and Digital Engineering services provider. Their services in Digital Assurance, Quality Engineering, Advisory & Transformation, and Quality Assurance help businesses implement effective digital transformation practices and launch secure applications faster. They specialize in using AI-driven solutions for Continuous Testing & Test Automation across various platforms and tools, ensuring a smooth customer experience. Their Digital Engineering expertise covers areas like Data & Insights, Business Intelligence/Visualization, AI/ML, Product & Platform Engineering, Blockchain, and Intelligent Automation. Company caters to clients across industry verticals like banking, healthcare, retail, travel, independent software vendors (ISVs) and Energy & Utility. Company has 215 active clients, including 50+ Fortune 500 clients and Global 2000 companies, in over 24 countries. Company has a workforce of ~4,200 employees.

### Exhibit 17. Cigniti Technologies: Timeline

2023	Surpassed \$200 Mn in revenue. Dividend of INR 3 & an additional special dividend of INR 2.50 on the company's successful completion of 25 years. Announced a Buyback.
2022	Expanded into Digital Engineering services with the <b>acquisition of Aparaa Digital (RoundSqr)</b> to reposition Cigniti as the world's leading AI & IP-led Digital Assurance & Digital Engineering services company. Unveiled our new brand identity in line with the repositioning. 4000+ Cignitians.
2021	Surpassed \$100 Mn in revenue. Started operations in Singapore to increase our footprint in the APAC region. Expanded global footprint to the Czech Republic with the opening of a new office to serve enterprises in Central and Eastern Europe. 3000+ Cignitians.
2019	Opened an office in Dubai to serve the Middle East.
2018	Received the first patent for 'Smart Migration / Remediation Engine'.
2017	Revamped the Board with industry leaders. Launched BlueSwan, IP-led Next-Gen Software testing platform.
2016	Launches Cloud enable Enterprise Mobile Lab.
2015	Surpassed \$50 Mn in revenue. 2000+ Cignitians.
2014	Opens the 3rd global test engineering center in Hyderabad (50,000sq.ft). Started operations in UK and Australia. 1000+ Cignitians.
2013	CMMI-SVC v 1.3 Maturity Level 3. Acquisition of Gallop Solutions Inc. Opens the 2nd global test engineering center in Hyderabad (33,000sq.ft).
2012	In Jan 2012, Cigniti Inc USA, founded by Mr. Sudhakar Pennam merged with Chakkilam Infotech and the combined entity was rebranded as Cigniti Technologies. Moves into its new global test engineering center in Hyderabad (33,000 sq.ft).
2004	Became a Public Limited Company in 2004.
1998	The journey started with the establishment of Chakkilam Infotech in 1998, founded by Mr. C V Subramanyam.

Source: Company, JM Financial

### Exhibit 18. Key Clients

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	80,392	92,060	1,01,651	1,13,686	1,28,981
Sales Growth	25.4%	14.5%	10.4%	11.8%	13.5%
Other Operating Income	-246	-270	-200	200	200
<b>Total Revenue</b>	<b>80,146</b>	<b>91,790</b>	<b>1,01,451</b>	<b>1,13,886</b>	<b>1,29,181</b>
Cost of Goods Sold/Op. Exp	54,059	61,873	67,551	75,728	85,925
Personnel Cost	0	0	0	0	0
Other Expenses	12,034	14,844	17,298	18,253	20,218
<b>EBITDA</b>	<b>14,053</b>	<b>15,073</b>	<b>16,603</b>	<b>19,905</b>	<b>23,038</b>
EBITDA Margin	17.5%	16.4%	16.4%	17.5%	17.8%
EBITDA Growth	26.0%	7.3%	10.1%	19.9%	15.7%
Depn. & Amort.	2,585	3,186	3,610	3,844	4,414
EBIT	11,468	11,887	12,993	16,060	18,624
Other Income	-634	-1,186	53	101	364
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	10,834	10,701	13,046	16,162	18,988
Excep. & Forex Inc./Loss(-)	4	30	0	0	0
PBT	10,838	10,731	13,046	16,162	18,988
Taxes	2,061	2,093	2,544	3,151	3,703
Extraordinary Inc./Loss(-)	-1,326	-261	0	0	0
Assoc. Profit/Min. Int.(-)	513	276	220	176	141
Reported Net Profit	6,938	8,101	10,282	12,834	15,144
<b>Adjusted Net Profit</b>	<b>8,264</b>	<b>8,362</b>	<b>10,282</b>	<b>12,834</b>	<b>15,144</b>
Net Margin	10.3%	9.1%	10.1%	11.3%	11.7%
Diluted Share Cap. (mn)	61.7	63.5	65.5	65.5	65.5
<b>Diluted EPS (INR)</b>	<b>133.9</b>	<b>131.6</b>	<b>157.0</b>	<b>196.0</b>	<b>231.3</b>
Diluted EPS Growth	24.7%	-1.7%	19.3%	24.8%	18.0%
Total Dividend + Tax	3,565	4,359	5,202	6,305	7,094
Dividend Per Share (INR)	48.5	58.3	68.3	82.8	93.1

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	9,512	10,731	13,046	16,162	18,988
Depn. & Amort.	2,585	3,186	3,610	3,844	4,414
Net Interest Exp. / Inc. (-)	722	1,426	147	-301	-564
Inc (-) / Dec in WCap.	-1,027	-3,830	-5,313	-2,236	-2,571
Others	513	0	0	0	0
Taxes Paid	-2,800	-2,093	-2,544	-3,151	-3,703
<b>Operating Cash Flow</b>	<b>9,505</b>	<b>9,420</b>	<b>8,946</b>	<b>14,317</b>	<b>16,565</b>
Capex	-1,582	-3,783	-4,684	-4,119	-5,591
Free Cash Flow	7,923	5,637	4,262	10,199	10,974
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-1,134	-5,046	-147	301	564
<b>Investing Cash Flow</b>	<b>-2,716</b>	<b>-8,829</b>	<b>-4,830</b>	<b>-3,817</b>	<b>-5,027</b>
Inc / Dec (-) in Capital	0	-276	-220	-176	-141
Dividend + Tax thereon	-3,534	-3,477	-4,178	-5,064	-5,697
Inc / Dec (-) in Loans	-180	0	0	0	0
Others	-1,886	0	0	0	0
<b>Financing Cash Flow</b>	<b>-5,600</b>	<b>-3,753</b>	<b>-4,398</b>	<b>-5,240</b>	<b>-5,838</b>
<b>Inc / Dec (-) in Cash</b>	<b>1,189</b>	<b>-3,162</b>	<b>-282</b>	<b>5,260</b>	<b>5,701</b>
Opening Cash Balance	4,718	6,025	3,548	3,062	8,322
Closing Cash Balance	5,907	2,863	3,266	8,322	14,023

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	30,825	36,266	42,370	50,141	59,588
Share Capital	611	618	618	618	618
Reserves & Surplus	30,214	35,648	41,752	49,523	58,970
Preference Share Capital	0	0	0	0	0
Minority Interest	874	1,003	1,003	1,003	1,003
Total Loans	3,382	4,366	1,038	1,038	1,038
Def. Tax Liab. / Assets (-)	-3,174	-5,117	-6,117	-7,117	-8,117
<b>Total - Equity &amp; Liab.</b>	<b>31,907</b>	<b>36,518</b>	<b>38,294</b>	<b>45,065</b>	<b>53,512</b>
Net Fixed Assets	23,165	23,762	24,836	25,110	26,287
Gross Fixed Assets	6,820	7,397	8,471	8,745	9,922
Intangible Assets	16,299	16,133	16,133	16,133	16,133
Less: Depn. & Amort.	0	0	0	0	0
Capital WIP	46	232	232	232	232
Investments	0	0	0	0	0
Current Assets	29,912	31,732	34,182	43,127	53,510
Inventories	0	0	0	0	0
Sundry Debtors	13,379	14,279	15,767	17,633	20,006
Cash & Bank Balances	6,025	3,548	3,062	8,322	14,023
Loans & Advances	0	0	0	0	0
Other Current Assets	10,508	13,905	15,354	17,171	19,482
Current Liab. & Prov.	21,170	18,976	20,927	23,376	26,488
Current Liabilities	17,305	18,731	20,682	23,131	26,243
Provisions & Others	3,865	245	245	245	245
Net Current Assets	8,742	12,756	13,255	19,751	27,022
<b>Total - Assets</b>	<b>31,907</b>	<b>36,518</b>	<b>38,091</b>	<b>44,861</b>	<b>53,309</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	10.3%	9.1%	10.1%	11.3%	11.7%
Asset Turnover (x)	2.3	2.4	2.3	2.3	2.3
Leverage Factor (x)	1.2	1.2	1.1	1.0	1.0
RoE	28.4%	24.9%	26.2%	27.7%	27.6%

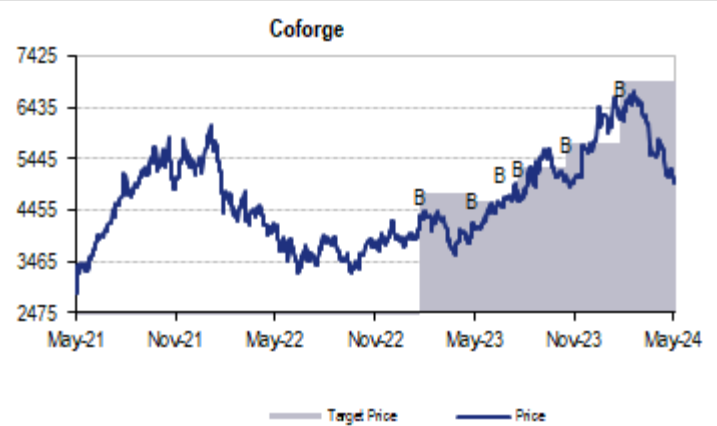
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	504.7	583.7	669.4	792.1	941.4
ROIC	33.1%	28.5%	26.3%	30.3%	32.8%
ROE	28.4%	24.9%	26.2%	27.7%	27.6%
Net Debt/Equity (x)	-0.1	0.0	0.0	-0.1	-0.2
P/E (x)	37.2	37.9	31.8	25.4	21.6
P/B (x)	9.9	8.5	7.4	6.3	5.3
EV/EBITDA (x)	21.5	20.3	18.3	15.0	12.7
EV/Sales (x)	3.8	3.3	3.0	2.6	2.3
Debtor days	61	57	57	57	57
Inventory days	0	0	0	0	0
Creditor days	96	89	89	90	90

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
21-Jan-23	Buy	4,790	
27-Apr-23	Buy	4,620	-3.5
20-Jun-23	Buy	4,620	0.0
21-Jul-23	Buy	5,300	14.7
19-Oct-23	Buy	5,730	8.1
23-Jan-24	Buy	6,940	21.1

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

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Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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