

January 20, 2018

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Rating	<b>BUY</b>
Price	Rs728
Target Price	Rs875
Implied Upside	20.2%
Sensex	35,512
Nifty	10,895

(Prices as on January 19, 2018)

### Trading data

Market Cap. (Rs bn)	43.9
Shares o/s (m)	60.2
3M Avg. Daily value (Rs m)	318.9

### Major shareholders

Promoters	30.68%
Foreign	39.54%
Domestic Inst.	16.82%
Public & Other	13.00%

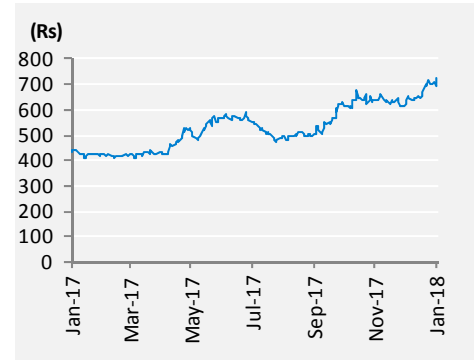
### Stock Performance

(%)	1M	6M	12M
Absolute	16.9	32.4	66.1
Relative	11.9	21.3	36.1

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	52.5	51.7	1.6
2020	62.0	57.5	7.8

### Price Performance (RIC: NITT.BO, BB: NITEC IN)



Source: Bloomberg

**NIIT Tech's Q3FY18 results beat our estimates on Revenues, EBIDTA margin and PAT. Revenues at USD115.2mn were up 2% QoQ above our estimates (USD113.2mn). EBIDTA margin at 17.1% was up 90bps QoQ was above our estimate (PL: 16.6%). Adjusted EBIDTA Margin (excluding Forex hedge gains) stood at 16.1% for 3QFY18 up 140bps QoQ. NIIT Tech has elevated Mr Sudhir Singh as the CEO of the company with immediate effect. Mr Arvind Thakur has been elevated to the role of Vice Chairman and MD. NIIT Tech has delivered the third consecutive quarter of revenue beat which is positive. Management cited winning three large deals during the quarter competing against Tier I IT peers. NIIT tech cited that it remains positive on winning another two large deals in 4QFY18. Management guided for strong revenue growth in 4QFY18 as well as margin expansion. Aided by strong deal momentum, NIIT Tech anticipates scope for double digit revenue growth for FY19E (Despite headwinds from ramp down in Morris). NIIT tech also cited that there have been several new additions to front end sales team and Digital practice.**

**NIIT Tech's organic USD revenue growth was tepid for the past four consecutive years (FY13-FY17). However, steady execution over past three consecutive quarters raises optimism. Post 3Q revenue beat, we upgrade NIIT Tech USD revenues to grow by 10.4/11.5% for FY18/FY19E (vs 9/8.5% modelled earlier). Organic USD revenue growth for FY18 would be at 9% and rest owing to RuleTek acquisition. Hence, FY18 marks a strong turnaround in revenue growth. Management remained confident on revenue growth momentum for FY19E as well led by new deal wins. We are optimistic on the expansion in order book executable over next twelve months which stood at USD329mn up 5.8% YoY. Led by 3Q margin beat, we build EBIDTA margins at 16.8/16.3% for FY18/FY19E (vs 16.5/16% modelled earlier). We upgrade FY18/FY19E/FY20E EPS by 5/5/7% for FY18/FY19E/FY20E. Our EPS estimates are at Rs45/52.5/62/sh for FY18/FY19E/FY20E. NIIT Tech trades at 11.8x FY20E EPS which is cheaper than midcap peers (Mindtree/Hexaware trading at 16/17x FY20E EPS respectively). Strong revenue momentum and steady margin execution coupled with reasonable valuations leads us to remain positive. Revise TP upwards by 30% to Rs875/sh (14x FY20E EPS vs 12.5x Sep19E EPS earlier). Upgrade to BUY (vs Accumulate earlier). Our P/E upgrade is driven steady revenue beats, margin execution and strong deal signing.**

### Key financials (Y/e March)

	2017	2018E	2019E	2020E
Revenues (Rs m)	28,021	29,838	32,905	36,941
Growth (%)	4.5	6.5	10.3	12.3
EBITDA (Rs m)	4,846	5,001	5,356	6,189
PAT (Rs m)	2,281	2,768	3,222	3,810
EPS (Rs)	37.1	45.1	52.5	62.0
Growth (%)	(18.8)	21.4	16.4	18.2
Net DPS (Rs)	12.5	10.8	12.6	14.9

### Profitability & Valuation

	2017	2018E	2019E	2020E
EBITDA margin (%)	17.3	16.8	16.3	16.8
RoE (%)	14.0	15.2	15.2	15.4
RoCE (%)	14.3	15.4	15.0	15.2
EV / sales (x)	1.5	1.3	1.1	0.9
EV / EBITDA (x)	8.4	7.7	6.7	5.3
PE (x)	19.6	16.1	13.9	11.7
P / BV (x)	2.7	2.3	2.0	1.7
Net dividend yield (%)	1.7	1.5	1.7	2.0

Source: Company Data; PL Research

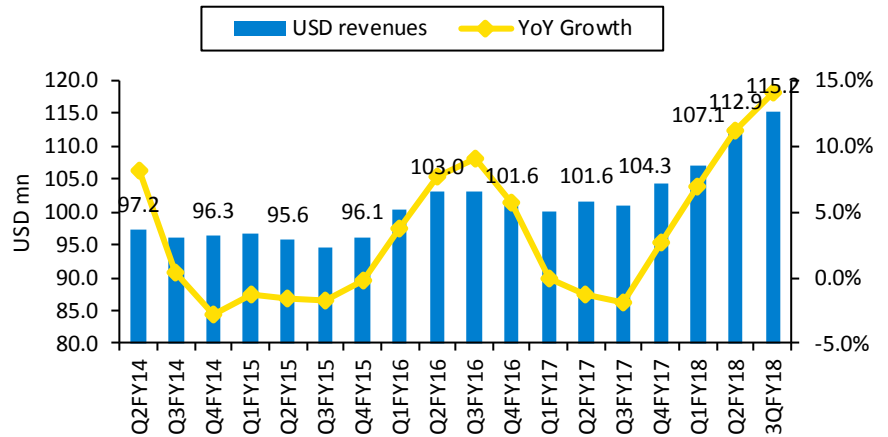
**Exhibit 1: Q3FY18: Consolidated P&L**

(Rs m)	Q3FY18	Q2FY18	QoQ gr.	Q3FY17	YoY gr.	PLe	Var (PL VS ACTUAL)
Revenue (USDmn)	115.2	112.9	2.0%	101.0	14.0%	113.5	1.5%
Revenue	7565	7373	2.6%	6938	9.0%	7340	3.1%
EBITDA	1296	1191	8.8%	1162	11.5%	1226	5.7%
<i>EBITDA Margin</i>	<i>17.1%</i>	<i>16.2%</i>	<i>98 bps</i>	<i>16.7%</i>	<i>38 bps</i>	<i>16.7%</i>	<i>43 bps</i>
Adj. PAT	757	672	12.6%	624	21.3%	695	8.9%
EPS (Rs)	12.3	10.9	12.6%	10.2	21.3%	11.4	8.1%

Source: Company Data, PL Research

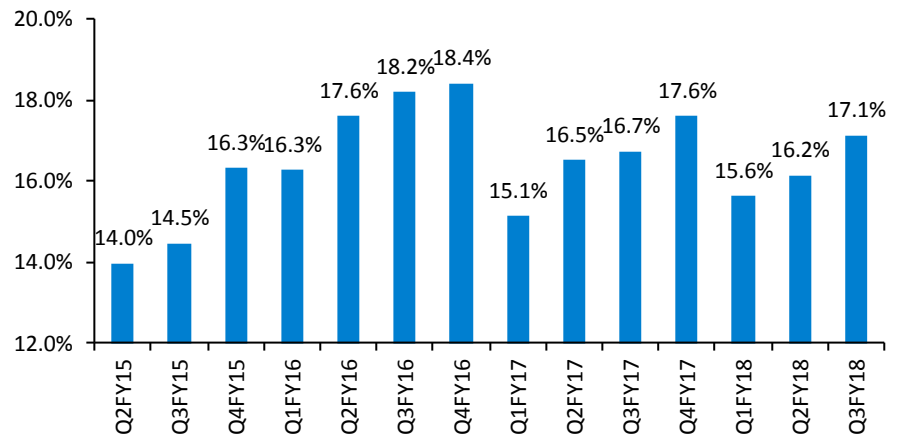
\*Please note to compare financials on QoQ basis we have taken adjusted figures of Q4FY17 (ex govt settlement figures)

- Revenues above our estimates:** Revenues for the quarter came at USD115.2mn up 2% QoQ and 14% YoY and above our estimates. (PLe: USD113.5mn). Robust growth in BFSI vertical (up 4.4% QoQ) drove growth for the quarter. Ramp up in top accounts in US and Digital engagements in EMEA aided growth in BFSI vertical.
- NIIT tech cited strong deal wins in Insurance vertical led by its sub vertical competency. Insurance vertical (26% of total revenues) have grown at 5% CQGR over the past seven quarters.

**Exhibit 2: Revenue (USD mn) and revenue growth YoY**


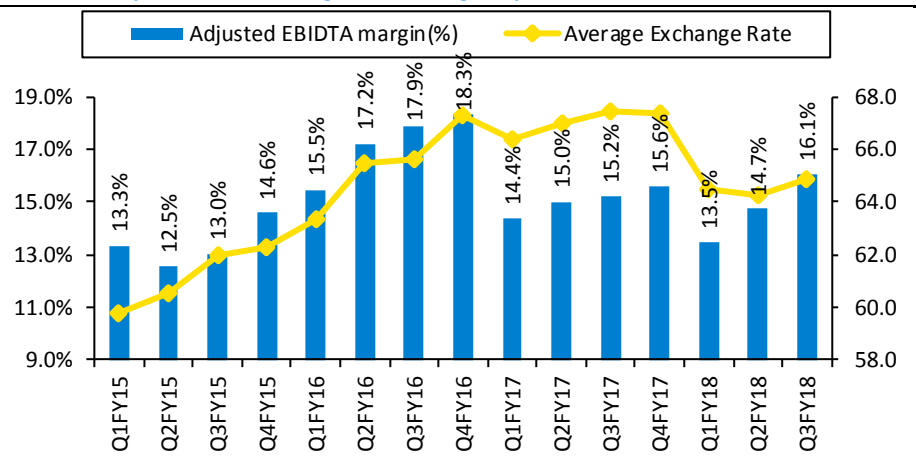
Source: Company Data, PL Research \*Q4FY17 revenues is excluding settlement amount

- Margins beat estimates:** EBIDTA margin came at 17.1% were up 90bps QoQ and above our estimates (PLe: 16.6%). Management guided for 4QFY18 EBIDTA margin at 18% which indicates further sequential expansion on the margin front.

**Exhibit 3: EBITDA Margin trend**


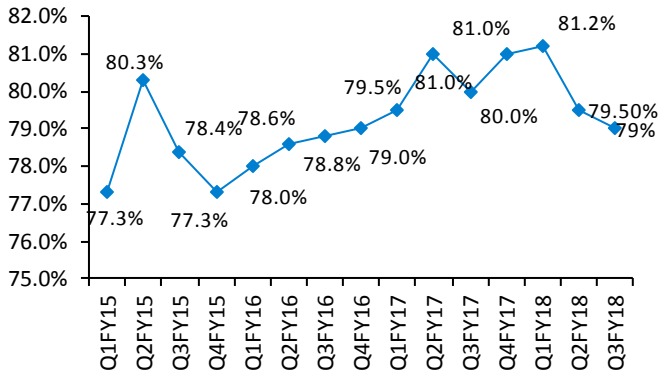
Source: Company Data, PL Research

We note that NIIT Tech reports hedge gains in revenues. Excluding the same, Adjusted EBIDTA margin came at 16.1% up 140bps QoQ. We see scope for further improvement in Adjusted EBIDTA margins over coming quarters. NIIT Tech has shown steady improvement in adjusted EBIDTA margin over the past three consecutive quarters. This was aided by delivery efficiency (Headcount as on 3QFY18 was up only 3% YoY while revenues were up 14% YoY) as well as G&A leverage (led by strong revenue trajectory).

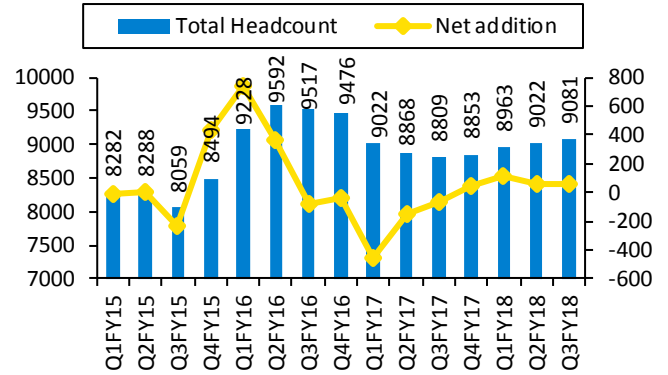
**Exhibit 4: Adjusted EBITDA Margins vs. Average Rupee dollar rate**


Source: Company Data, PL Research

Headcount at the end of the quarter stood at 9081 employees which represents a net addition of 59 employees. NIIT Tech's utilisation rate came at 79% down 50bps QoQ. Management indicated that it is focusing on automation initiatives through its "Tron Platform".

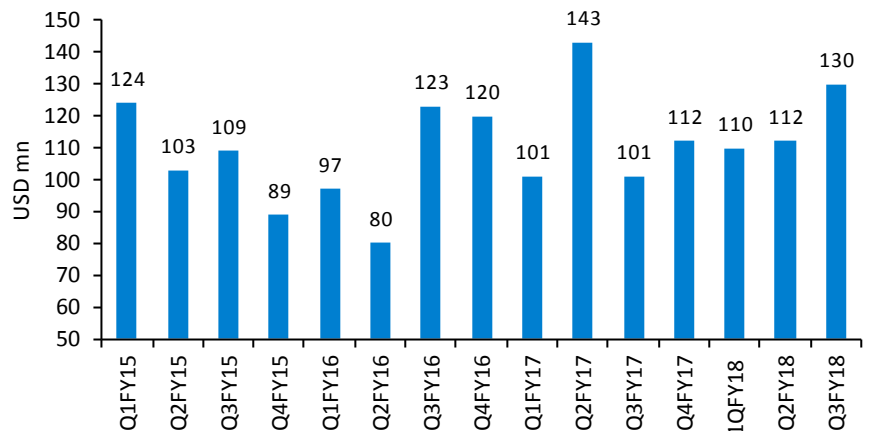
**Exhibit 5: Utilization rates (%)**


Source: Company Data, PL Research

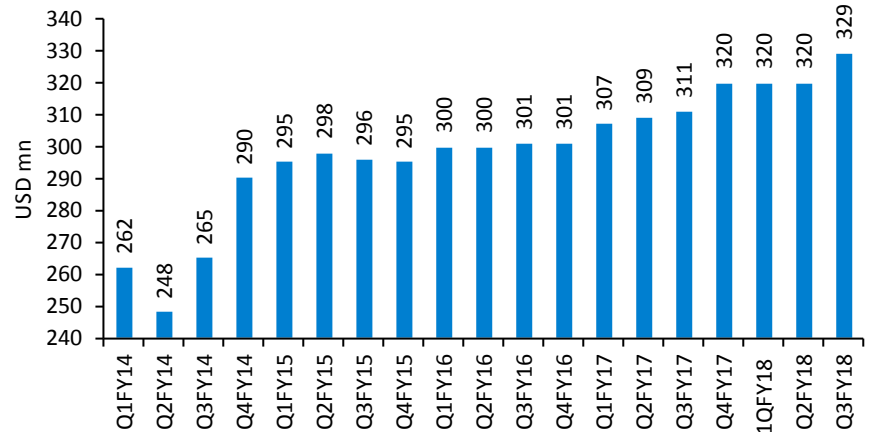
**Exhibit 6: Total Headcount vs. net addition/deletion in employees**


Source: Company Data, PL Research

- Order booking:** Order book executable over next 12 months came at USD329mn up 2.8% QoQ and up 5.8% YoY. Fresh order intake for the quarter came at USD130mn (vs. USD101mn in 3QFY17).

**Exhibit 7: Fresh Order Intake (USD mn)**


Source: Company Data, PL Research

**Exhibit 8: Executable order book in the last few quarters (USD mn)**


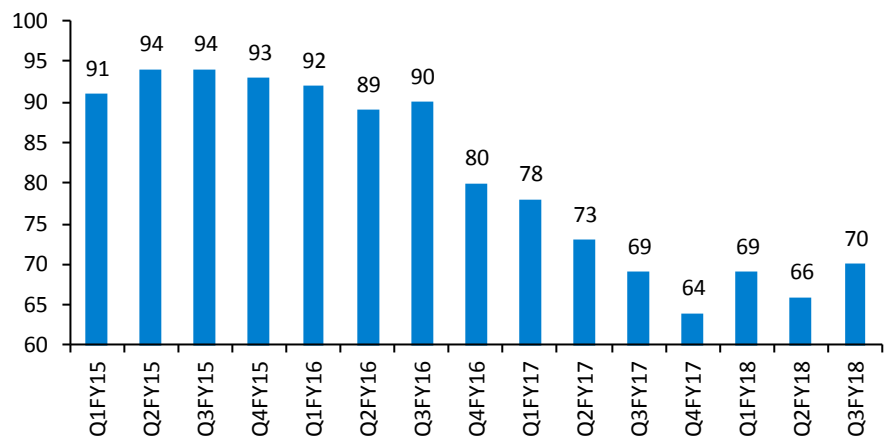
Source: Company Data, PL Research

**Exhibit 9: Geographical Break up of Fresh Order Intake (USD mn)**

Fig in USD mn	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
USA	43	29	50	30	42	85	38	40	60	64	82
Europe	31	34	55	61	30	45	51	47	23	32	25
ROW	23	17	18	28	29	13	12	25	27	26	23
Fresh Order Intake	97	80	123	120	101	143	101	112	110	112	130

Source: Company Data, PL Research

- **DSO's drop modestly:** DSO for 3QFY18 stood at 70 days (vs. 66 days in 2QFY18).

**Exhibit 10: DSO days**


Source: Company Data, PL Research

## Operating Metrics

### Exhibit 11: Geography-wise revenues (%)

Geography Mix (%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	3QFY18
Americas	46	46	45	48	49	48	48	49	50	50
EMEA	35	34	33	32	34	34	33	32	29	30
RoW	19	20	22	20	18	18	19	19	21	20

Source: Company Data, PL Research

### Exhibit 12: Vertical-wise revenues (%)

Vertical Mix (%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	3QFY18
BFS	16	17	19	19	19	18	18	17	17	17	17
Insurance	21	21	21	22	23	24	24	25	25	25	26
Transport	37	36	32	32	33	32	31	29	29	27	27
Manu, Media, Others	26	26	28	26	25	26	27	29	29	31	30

Source: Company Data, PL Research

### Exhibit 13: Service-wise revenues (%)

Service Mix (%)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	3QFY18
ADM	66	67	65	66	68	67	66	64	65
IP assets	9	8	8	7	7	7	6	7	7
Managed services	16	16	18	18	17	17	18	18	19
SI and PI	4	4	4	3	3	4	5	6	5
BPO	5	5	5	5	5	5	5	4	4

Source: Company Data, PL Research

### Exhibit 14: Headcount Metrics

Billable Personnel	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	3QFY18
Onsite	1,845	1,874	1,902	1,901	1,906	1,857	1,877	1,984	2,040	2018
Offshore	7,008	6,910	6,841	6,374	6,203	6,180	6,189	6,164	6,156	6217
<b>Total Billable</b>	<b>8,853</b>	<b>8,784</b>	<b>8,743</b>	<b>8,275</b>	<b>8,109</b>	<b>8,037</b>	<b>8,066</b>	<b>8,148</b>	<b>8,196</b>	<b>8235</b>
Sales & Marketing (Excl GIS)	144	136	127	132	141	139	133	137	135	147
Sales & Marketing (GIS)	68	63	72	72	76	82	81	85	85	85
Others	527	534	534	543	542	551	573	593	606	614
<b>Grand Total</b>	<b>9,592</b>	<b>9,517</b>	<b>9,476</b>	<b>9,022</b>	<b>8,868</b>	<b>8,809</b>	<b>8,853</b>	<b>8,963</b>	<b>9,022</b>	<b>9081</b>
<b>Net addition /(Decline)</b>	<b>364</b>	<b>(75)</b>	<b>(41)</b>	<b>(454)</b>	<b>(154)</b>	<b>(59)</b>	<b>44</b>	<b>110</b>	<b>59</b>	<b>59</b>

Source: Company Data, PL Research

**Exhibit 15: Consolidated Financials snapshot of NIIT Tech**

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Revenues (USD mn)</b>	<b>375</b>	<b>388</b>	<b>383</b>	<b>408</b>	<b>411</b>	<b>454</b>	<b>506</b>	<b>568</b>
<i>Growth (%)</i>	<i>14.6%</i>	<i>3.4%</i>	<i>-1.2%</i>	<i>6.5%</i>	<i>0.8%</i>	<i>10.4%</i>	<i>11.5%</i>	<i>12.3%</i>
Average Exchange Rate (USD vs INR)	53.93	60.12	61.97	65.77	68.19	65.75	65	65
<b>Consolidated Revenues (Rs mn)</b>	<b>20213</b>	<b>23047</b>	<b>23724</b>	<b>26824</b>	<b>28021</b>	<b>29838</b>	<b>32905</b>	<b>36941</b>
<i>Growth (%)</i>	<i>28.2%</i>	<i>14.0%</i>	<i>2.9%</i>	<i>13.1%</i>	<i>4.5%</i>	<i>6.5%</i>	<i>10.3%</i>	<i>12.3%</i>
EBIDTA (Rs mn)	3296	3513	3456	4733	4846	5001	5356	6189
EBIT (Rs mn)	2729	2894	2540	3632	3570	3697	4007	4778
PAT (Rs mn)	2134	2305	1939	2801	2502	2768	3222	3810
EBIDTA Margins	16.3%	15.2%	14.6%	17.6%	17.3%	16.8%	16.3%	16.8%
<i>EBIT Margin (%)</i>	<i>13.5%</i>	<i>12.6%</i>	<i>10.7%</i>	<i>13.5%</i>	<i>12.7%</i>	<i>12.4%</i>	<i>12.2%</i>	<i>12.9%</i>
<i>NPM (%)</i>	<i>10.6%</i>	<i>10.0%</i>	<i>8.2%</i>	<i>10.4%</i>	<i>8.9%</i>	<i>9.3%</i>	<i>9.8%</i>	<i>10.3%</i>
EPS	35.53	38.13	31.90	45.82	40.75	45.09	52.48	61.95
<i>Growth (%)</i>	<i>7.0%</i>	<i>7.3%</i>	<i>-16.3%</i>	<i>43.6%</i>	<i>-11.1%</i>	<i>10.6%</i>	<i>16.4%</i>	<i>18.1%</i>
P/E	13.1	12.2	24.8	10.1	13.2	16.2	13.9	11.8
EV/EBIDTA	7.6	7.3	7.3	5.2	5.5	7.4	6.7	5.5
<b>Consolidated Balance sheet (Rs mn)</b>								
Net cash on Balance sheet (Rs mn)	3089	2710	3198	4038	6526	7630	9105	11024
Net Cash per share	51	45	52	66	106	124	148	179
Net cash per share / Stock Price	11.0%	9.6%	11.3%	14.2%	17.3%	17.0%	20.3%	24.6%
<b>Consolidated Cash Flow (Rs mn)</b>								
Cash Flow from Operations	2352	1452	3379	3602	4723	4304	4210	4823
Capex+ Acquisitions ( Includes earnout payouts)	969	1399	1876	2959	873	2400	1800	1800
Free Cash flows	1383	53	1503	643	3850	1904	2410	3023

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2017	2018E	2019E	2020E
<b>Net Revenue</b>	<b>28,021</b>	<b>29,838</b>	<b>32,905</b>	<b>36,941</b>
Employee Expenses	17,903	19,178	21,548	24,103
Gross Profit	10,118	10,660	11,357	12,838
RM Cost	—	—	—	—
Other Expenses	5,272	5,659	6,002	6,649
<b>EBITDA</b>	<b>4,846</b>	<b>5,001</b>	<b>5,356</b>	<b>6,189</b>
Depr. & Amortization	1,276	1,304	1,348	1,411
Net Interest	—	—	—	—
Other Income	(62)	235	390	393
<b>Profit before Tax</b>	<b>3,508</b>	<b>3,932</b>	<b>4,397</b>	<b>5,171</b>
Total Tax	786	951	1,055	1,241
<b>Profit after Tax</b>	<b>2,722</b>	<b>2,981</b>	<b>3,342</b>	<b>3,930</b>
Ex-Od items / Min. Int.	(1)	213	120	120
<b>Adj. PAT</b>	<b>2,281</b>	<b>2,768</b>	<b>3,222</b>	<b>3,810</b>
<b>Avg. Shares O/S (m)</b>	<b>61.4</b>	<b>61.4</b>	<b>61.4</b>	<b>61.4</b>
<b>EPS (Rs.)</b>	<b>37.1</b>	<b>45.1</b>	<b>52.5</b>	<b>62.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	5,036	4,304	4,210	4,823
C/F from Investing	(3,063)	(2,400)	(1,800)	(1,800)
C/F from Financing	(669)	(803)	(935)	(1,104)
Inc. / Dec. in Cash	1,304	1,101	1,475	1,919

**Key Financial Metrics**

Y/e March	2017	2018E	2019E	2020E
<b>Growth</b>				
Revenue (%)	4.5	6.5	10.3	12.3
EBITDA (%)	2.4	3.2	7.1	15.6
PAT (%)	(18.6)	21.4	16.4	18.2
EPS (%)	(18.8)	21.4	16.4	18.2
<b>Profitability</b>				
EBITDA Margin (%)	17.3	16.8	16.3	16.8
PAT Margin (%)	8.1	9.3	9.8	10.3
RoCE (%)	14.3	15.4	15.0	15.2
RoE (%)	14.0	15.2	15.2	15.4
<b>Balance Sheet</b>				
Net Debt : Equity	(0.2)	(0.3)	(0.4)	(0.4)
Net Wrkng Cap. (days)	43	37	37	—
<b>Valuation</b>				
PER (x)	19.6	16.1	13.9	11.7
P / B (x)	2.7	2.3	2.0	1.7
EV / EBITDA (x)	8.4	7.7	6.7	5.3
EV / Sales (x)	1.5	1.3	1.1	0.9
<b>Earnings Quality</b>				
Eff. Tax Rate	22.4	24.2	24.0	24.0
Other Inc / PBT	4.3	6.0	8.9	7.6

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	16,865	19,633	22,855	26,665
Total Debt	74	84	94	104
Other Liabilities	1,050	935	960	985
<b>Total Liabilities</b>	<b>17,989</b>	<b>20,652</b>	<b>23,909</b>	<b>27,754</b>
Net Fixed Assets	4,802	4,998	5,150	5,239
Goodwill	3,674	3,874	4,074	4,274
Investments	3,158	3,258	3,358	3,458
Net Current Assets	5,384	7,501	9,718	13,672
Cash & Equivalents	4,075	6,493	8,980	12,001
Other Current Assets	7,643	7,645	8,149	8,810
Current Liabilities	6,334	6,636	7,410	7,138
Other Assets	971	1,021	1,071	1,121
<b>Total Assets</b>	<b>17,989</b>	<b>20,652</b>	<b>23,371</b>	<b>27,764</b>

**Quarterly Financials (Rs m)**

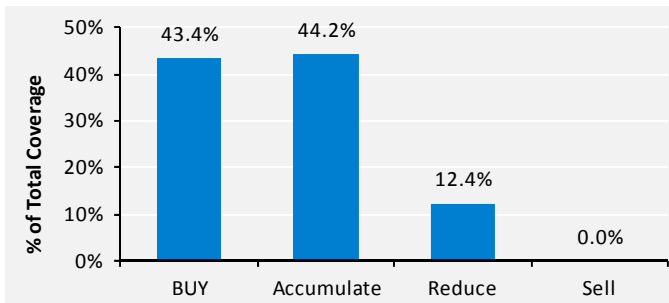
Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Net Revenue</b>	<b>7,447</b>	<b>7,089</b>	<b>7,373</b>	<b>7,565</b>
<b>EBITDA</b>	<b>1,524</b>	<b>1,108</b>	<b>1,191</b>	<b>1,296</b>
% of revenue	20.5	15.6	16.2	17.1
Depr. & Amortization	312	316	341	311
Net Interest	—	—	—	—
Other Income	(12)	58	87	5
<b>Profit before Tax</b>	<b>1,200</b>	<b>850</b>	<b>937</b>	<b>990</b>
Total Tax	265	295	204	163
<b>Profit after Tax</b>	<b>863</b>	<b>513</b>	<b>672</b>	<b>757</b>

Source: Company Data, PL Research.

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**Rating Distribution of Research Coverage****PL's Recommendation Nomenclature**

<b>BUY</b>	:	Over 15% Outperformance to Sensex over 12-months
<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
<b>Reduce</b>	:	Underperformance to Sensex over 12-months
<b>Sell</b>	:	Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	:	Over 10% absolute upside in 1-month
<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
<b>Under Review (UR)</b>	:	Rating likely to change shortly

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