

NIIT Technologies

Steady execution raises momentum for FY19

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Rating	BUY
Price	Rs1,028
Target Price	Rs1,140
Implied Upside	10.9%
Sensex	34,915
Nifty	10,618

(Prices as on May 04, 2018)

Trading data

Market Cap. (Rs bn)	61.9
Shares o/s (m)	60.2
3M Avg. Daily value (Rs m)	1909.2

Major shareholders

Promoters	30.67%
Foreign	40.72%
Domestic Inst.	15.18%
Public & Other	13.43%

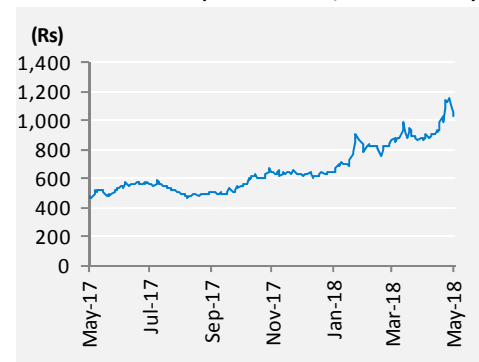
Stock Performance

(%)	1M	6M	12M
Absolute	18.5	58.2	115.0
Relative	12.8	54.6	99.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	55.6	53.5	3.9
2020	65.2	61.4	6.1

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



Source: Bloomberg

NIIT Tech's Q4FY18 results beat our estimates on Revenues, EBITDA margin and PAT. This marks the fourth consecutive quarter of steady execution which raises momentum for FY19. Revenues at USD121.4mn were up 5.4% QoQ above our estimates (PL: USD118.6mn). Constant currency growth for the quarter stood at 4.3% QoQ led by higher growth in Incessant and uptick in GIS business owing to seasonality. EBITDA margin at 18% up 90bps QoQ was above our estimate (PL: 17.5%). Adjusted EBITDA Margin (excluding Forex hedge gains) stood at 17.4% for 4QFY18 up 130bps QoQ. Strong exit EBITDA margin would also put NIIT Tech in sweet spot on the margin front for FY19. Mr Sudhir Singh (CEO of the company effective January 2018) has cited restructuring the business into a Vertical centric sales and delivery (vs Geography driven Sales earlier). Mr Sudhir also appointed new heads for the Insurance and BFS verticals and also cited improving incentive structure for Sales team to drive growth impetus. NIIT Tech also created a new service line to focus on Robotic Process Automation. Aided by strong deal momentum, NIIT Tech anticipates double digit revenue growth for FY19E in constant currency. NIIT Tech also guided for YoY EBITDA margin expansion for FY19.

NIIT Tech delivered 11.2% YoY USD revenue growth for FY18 (9.5% organic growth and rest owing to RuleTek acquisition). This marks a strong turnaround in revenue momentum in FY19 (We note that NIIT Tech' organic revenue growth was tepid over FY14-FY17). Led by strong outlook, we expect NIIT Tech USD revenue growth at 13.5/13.3% for FY19/FY20E (vs 11.5/12.3% modelled earlier). We are optimistic on the expansion in order book executable over next twelve months which stood at USD339mn up 5.9% YoY. Led by 4Q margin beat, we build EBITDA margins at 17/17% for FY19/FY20E (vs 16.3/16.8% modelled earlier). We upgrade FY19/FY20E EPS by 6/5% for FY19E/FY20E led by growth and margin upgrade. Our EPS estimates are at Rs56/65/sh for FY19E/FY20E. NIIT Tech was our preferred midcap pick and stock was up 110% over past one year. NIIT Tech trades at 15.6x FY20E EPS (Mindtree/Hexaware trading at 21/17.5x FY20E EPS respectively). NIIT Tech has a robust vertical mix (Insurance, Travel and BFS) with marquee Top 20 clients. We believe increased aggression on sales can enable robust revenue momentum. Revise TP upwards by 30% to Rs1140/sh (17.5x FY20E EPS vs 14x FY20E EPS earlier). Retain BUY.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	28,021	29,915	33,803	38,172
Growth (%)	4.5	6.8	13.0	12.9
EBITDA (Rs m)	4,846	5,013	5,755	6,489
PAT (Rs m)	2,281	2,803	3,411	4,001
EPS (Rs)	37.1	45.7	55.6	65.2
Growth (%)	(18.8)	22.9	21.7	17.3
Net DPS (Rs)	12.5	15.1	16.7	19.5

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	17.3	16.8	17.0	17.0
RoE (%)	14.0	15.3	16.0	16.0
RoCE (%)	14.3	16.0	16.3	15.8
EV / sales (x)	2.1	1.9	1.6	1.3
EV / EBITDA (x)	12.2	11.3	9.4	7.9
PE (x)	27.7	22.5	18.5	15.8
P / BV (x)	3.7	3.2	2.7	2.3
Net dividend yield (%)	1.2	1.5	1.6	1.9

Source: Company Data; PL Research

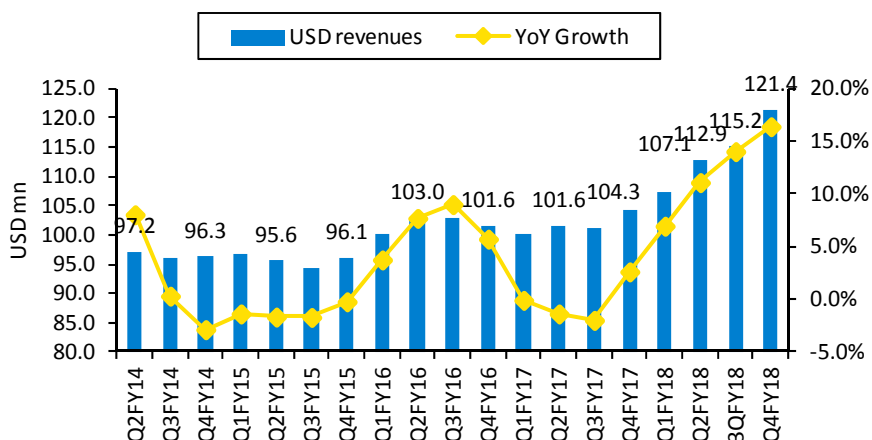
Exhibit 1: Q4FY18: Consolidated P&L

(Rs m)	Q4FY18	Q3FY18	QoQ gr.	Q4FY17	YoY gr.	PLe	Var (PL VS ACTUAL)
Revenue (USDmn)	121.4	115.2	5.4%	108.2	12.2%	118.6	2.3%
Revenue	7888	7565	4.3%	7447	5.9%	7686	2.6%
EBITDA	1418	1296	9.4%	1524	-7.0%	1345	5.4%
EBITDA Margin	18.0%	17.1%	85 bps	20.5%	-249 bps	17.5%	48 bps
Adj. PAT	861	757	13.7%	1003	-14.2%	775	11.1%
EPS (Rs)	14.0	12.3	13.6%	16.3	-14.2%	12.6	11.1%

Source: Company Data, PL Research

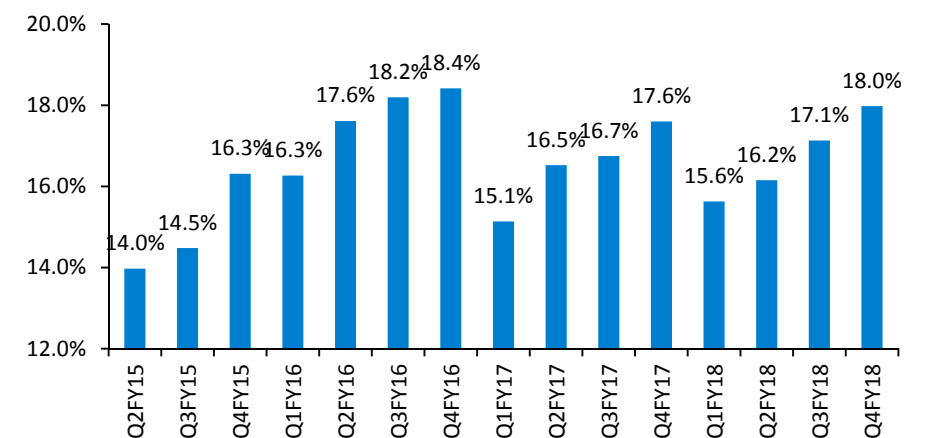
*Please note 4QFY17 one-off revenues which boosted PAT. Hence PAT show YoY decline in 4QFY18

- **Revenues above our estimates:** Revenues at USD121.4mn up 5.4% QoQ and above our ests (USD118.6mn). Constant currency growth at 4.3% for the quarter. Insurance vertical up 13.5% QoQ and Manufacturing vertical up 13.5% QoQ (Led by GIS) drove growth. NIIT Tech cited winning two new large deals in 4QFY18. Of this, one deal is with a net new client based in UK and this deal has a TCV of USD35mn. Management indicated that this deal involves back office Infrastructure Transformation.
- Despite 1Q being a seasonally weak quarter, NIIT Tech expects 1QFY19 revenues to better than 4QFY18 revenues in Constant currency.

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


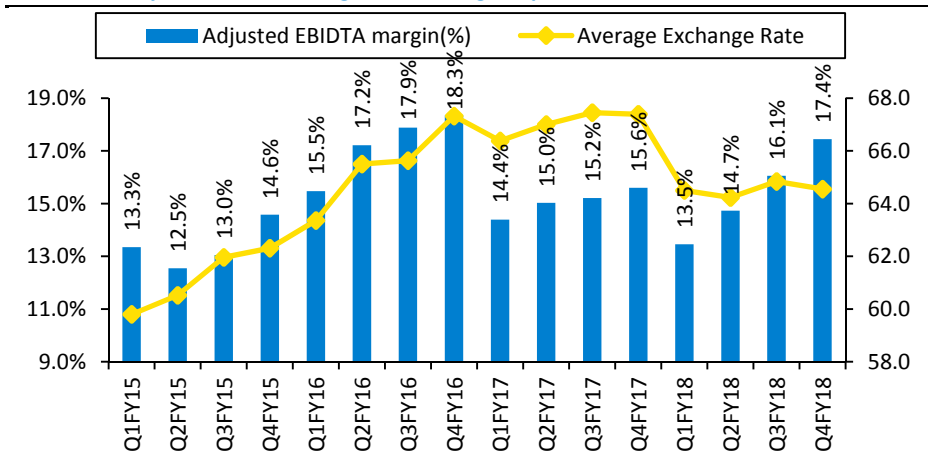
Source: Company Data, PL Research *Q4FY17 revenues is excluding settlement amount

- **Margins beat estimates:** Reported EBIDTA margin came at 18.0% up 90bps QoQ and above our ests (PLe: 17.5%). Improved revenue growth is also aiding margin trajectory.

Exhibit 3: EBITDA Margin trend


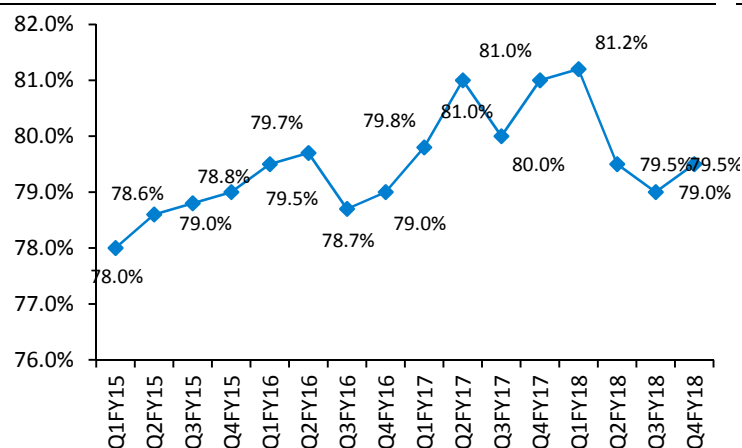
Source: Company Data, PL Research

We note that NIIT Tech reports hedge gains in revenues. Excluding the same, Adjusted EBIDTA margin came at 17.4% up 130bps QoQ. NIIT Tech has shown steady improvement in adjusted EBIDTA margin over the past three consecutive quarters. I

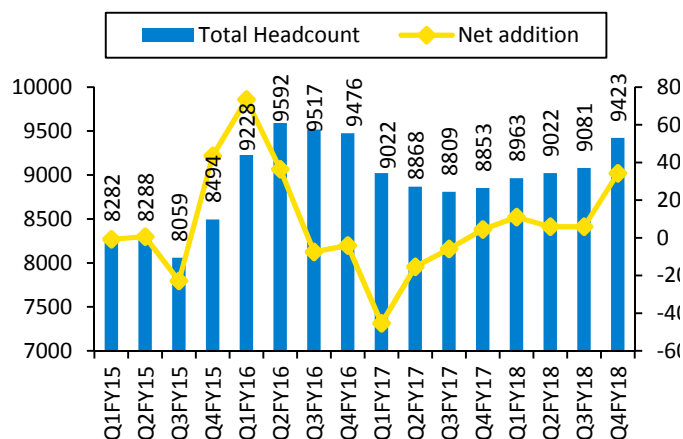
Exhibit 4: Adjusted EBITDA Margins vs. Average Rupee dollar rate


Source: Company Data, PL Research

Headcount at the end of the quarter stood at 9423 employees which represents a net addition of 342 employees. Strong hiring in 4QFY18 could also indicate improved demand outlook. NIIT Tech's utilisation rate came at 79.5% up 50bps QoQ.

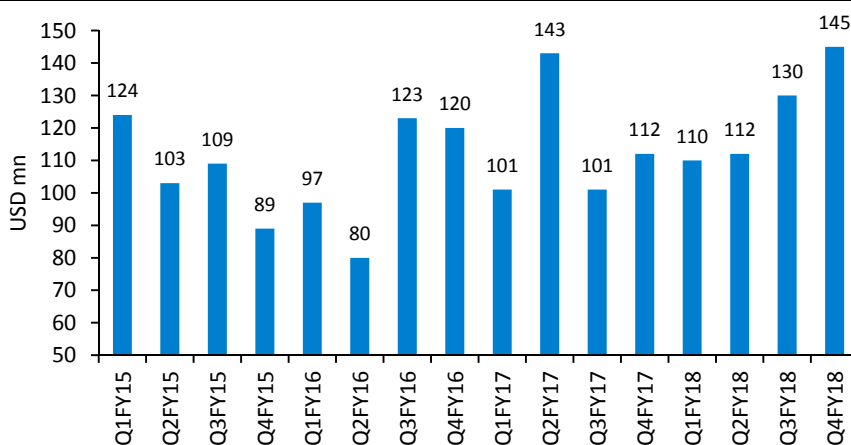
Exhibit 5: Utilization rates (%)


Source: Company Data, PL Research

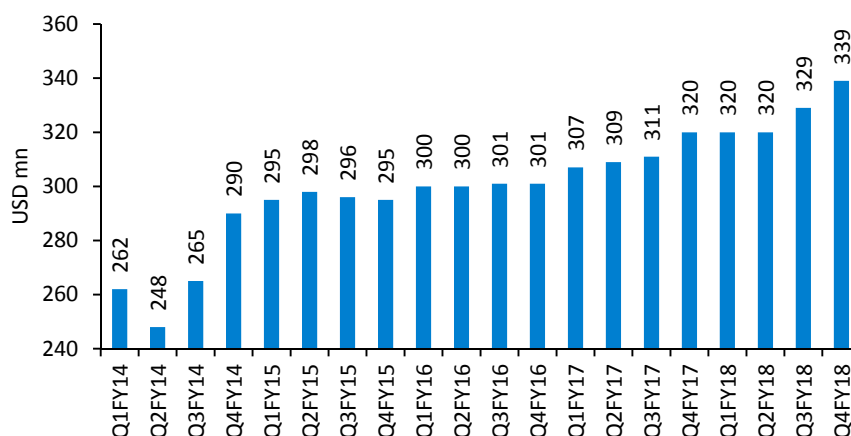
Exhibit 6: Total Headcount vs. net addition/deletion in employees


Source: Company Data, PL Research

- **Order booking:** Order book executable over next 12 months came at USD339mn up 3.0% QoQ and up 5.9% YoY. Fresh order intake for the quarter came at USD145mn (vs. USD130mn in 3QFY18).

Exhibit 7: Fresh Order Intake (USD mn)


Source: Company Data, PL Research

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


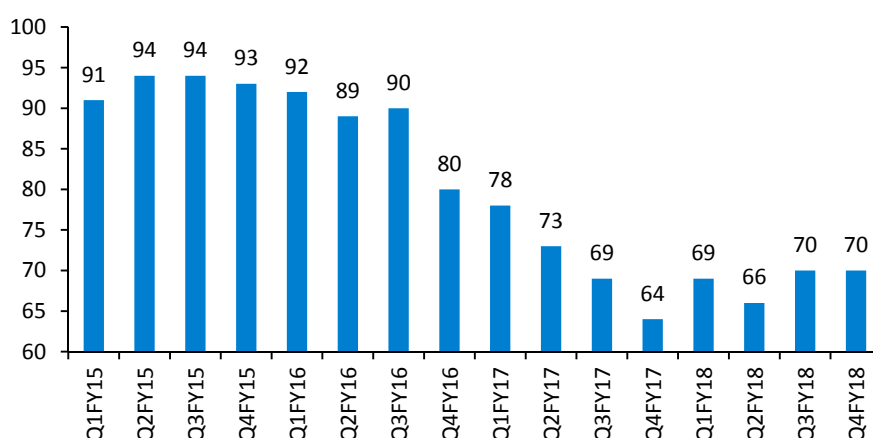
Source: Company Data, PL Research

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	4QFY18
USA	43	29	50	30	42	85	38	40	60	64	82	43
Europe	31	34	55	61	30	45	51	47	23	32	25	69
ROW	23	17	18	28	29	13	12	25	27	26	23	33
Fresh Order Intake	97	80	123	120	101	143	101	112	110	112	130	145

Source: Company Data, PL Research

■ **DSO's remains stable:** DSO remain unchanged at 70days for 4QFY18.

Exhibit 10: DSO days


Source: Company Data, PL Research

Concall Takes :

- Management cited that the growth in the quarter and improved order intake is aided by three elements: Structural Change in organisation (Vertical centric organization), Leadership Augmentation and Change in Sales Incentive Structure.
- NIIT Tech has made structural changes in the organisation into a vertical driven organisation from Geographic driven organisation earlier. Under new classification, organisation is split into three focused verticals- Travel, Insurance and BFS. NIIT Tech cited that Sales, Pre Sales and Delivery will be aligned to verticals from hereon.
- Management also cited that it has made leadership augmentation in top management level to drive growth. Insurance vertical will be headed by Mr Anurag Chauhan who was joined from Accenture. BFS vertical will now be headed by Mr Gautam Samanta who was earlier with Capgemini and Infosys. NIIT Tech also appointed a CTO to focus on new technology initiatives like BlockChain, IoT and Cognitive computing etc.
- NIIT Tech expects positive demand across its three focused verticals (Insurance, BFS and Travel) in FY19. NIIT Tech also cited that budget outlook for FY19 is positive across its Top 20 accounts and is better than last year.
- NIIT Tech won two large deals in the quarter. The first deal is with a new client based in UK. The deal has a TCV of USD35Mn and is a Managed Service Contract to drive back office Infrastructure transformation. The second deal is from an existing client based in USA client. The deal involves Robotic process management. Management cited that both these deals have a component of Digital.
- 7 new logos been added in 4QFY18- 3 in BFSI, 1 in Travel segment and 3 in Manufacturing/Media & others.
- Net cash on balance sheet stands at Rs 7.8bn as on 4QFY18. However, NIIT Tech expects Rs2.9bn for earnout based payments for Incessant and RuleTek acquisitions over FY19 and FY20. NIIT Tech declared final dividend of Rs15 per share for FY18.

Operating Metrics

Exhibit 11: Geography-wise revenues (%)

Geography Mix (%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	3QFY18	4QFY18
Americas	46	46	45	48	49	48	48	49	50	50	48
EMEA	35	34	33	32	34	34	33	32	29	30	32
RoW	19	20	22	20	18	18	19	19	21	20	20

Source: Company Data, PL Research

Exhibit 12: Vertical-wise revenues (%)

Vertical Mix (%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	3QFY18	4QFY18
BFS	16	17	19	19	19	18	18	17	17	17	17	16
Insurance	21	21	21	22	23	24	24	25	25	25	26	28
Transport	37	36	32	32	33	32	31	29	29	27	27	26
Manu, Media, Others	26	26	28	26	25	26	27	29	29	31	30	30

Source: Company Data, PL Research

Exhibit 13: Service-wise revenues (%)

Service Mix (%)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	4QFY18
ADM	66	67	65	66	68	67	66	64	65	66
IP assets	9	8	8	7	7	7	6	7	7	7
Managed services	16	16	18	18	17	17	18	18	19	19
SI and PI	4	4	4	3	3	4	5	6	5	4
BPO	5	5	5	5	5	5	5	4	4	4

Source: Company Data, PL Research

Exhibit 14: Headcount Metrics

Billable Personnel	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	4QFY18
Onsite	1,845	1,874	1,902	1,901	1,906	1,857	1,877	1,984	2,040	2018	2088
Offshore	7,008	6,910	6,841	6,374	6,203	6,180	6,189	6,164	6,156	6217	6500
Total Billable	8,853	8,784	8,743	8,275	8,109	8,037	8,066	8,148	8,196	8235	8588
Sales & Marketing (Excl GIS)	144	136	127	132	141	139	133	137	135	147	145
Sales & Marketing (GIS)	68	63	72	72	76	82	81	85	85	85	85
Others	527	534	534	543	542	551	573	593	606	614	605
Grand Total	9,592	9,517	9,476	9,022	8,868	8,809	8,853	8,963	9,022	9081	9423
Net addition /(Decline)	364	(75)	(41)	(454)	(154)	(59)	44	110	59	59	342

Source: Company Data, PL Research

Exhibit 15: Consolidated Financials snapshot of NIIT Tech

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenues (USD mn)	375	388	383	408	411	457	518	587
<i>Growth (%)</i>	<i>14.6%</i>	<i>3.4%</i>	<i>-1.2%</i>	<i>6.5%*</i>	<i>0.8%</i>	<i>11.1%</i>	<i>13.5%</i>	<i>13.3%</i>
Average Exchange Rate (USD vs INR)	53.93	60.12	61.97	65.77	68.19	65.52	65.25	65
Consolidated Revenues (Rs mn)	20213	23047	23724	26824	28021	29915	33803	38172
<i>Growth (%)</i>	<i>28.2%</i>	<i>14.0%</i>	<i>2.9%</i>	<i>13.1%</i>	<i>4.5%</i>	<i>6.8%</i>	<i>13.0%</i>	<i>12.9%</i>
EBIDTA (Rs mn)	3296	3513	3456	4733	4846	5013	5755	6489
EBIT (Rs mn)	2729	2894	2540	3632	3570	3740	4472	5088
PAT (Rs mn)	2134	2305	1939	2801	2502	2803	3411	4001
EBIDTA Margins	16.3%	15.2%	14.6%	17.6%	17.3%	16.8%	17.0%	17.0%
<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>12.5%</i>	<i>13.2%</i>	<i>13.3%</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>9.4%</i>	<i>10.1%</i>	<i>10.5%</i>
EPS	35.53	38.13	31.90	45.82	40.75	45.65	55.55	65.05
<i>Growth (%)</i>	<i>7.0%</i>	<i>7.3%</i>	<i>-16.3%</i>	<i>43.6%</i>	<i>-11.1%</i>	<i>12.0%</i>	<i>21.7%</i>	<i>17.1%</i>
P/E	13.1	12.2	24.8	10.1	13.2	22.6	18.5	15.8
EV/EBIDTA	7.6	7.3	7.3	5.2	5.5	11.2	9.6	8.3
Consolidated Balance sheet (Rs mn)								
Net cash on Balance sheet (Rs mn)	3089	2710	3198	4038	6526	7028	7723	9284
Net Cash per share	51	45	52	66	106	114	126	151
Net cash per share / Stock Price	11.0%	9.6%	11.3%	14.2%	17.3%	11.1%	12.2%	14.7%
Consolidated Cash Flow (Rs mn)								
Cash Flow from Operations	2352	1452	3379	3602	4723	4377	4432	5011
Capex+ Acquisitions (Includes earnout payouts)	969	1399	1876	2959	873	1500	2500	2000
Free Cash flows	1383	53	1503	643	3850	2877	1932	3011

Source: Company Data, PL Research * Organic growth in FY16 is 1.7% YoY.

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	28,021	29,915	33,803	38,172
Employee Expenses	17,903	19,179	21,883	24,812
Gross Profit	10,118	10,736	11,920	13,360
Employee Cost	—	—	—	—
Other Expenses	5,272	5,723	6,165	6,871
EBITDA	4,846	5,013	5,755	6,489
Depr. & Amortization	1,276	1,273	1,283	1,401
Net Interest	—	—	—	—
Other Income	(62)	298	360	360
Profit before Tax	3,508	4,038	4,832	5,448
Total Tax	786	950	1,171	1,308
Profit after Tax	2,722	3,088	3,661	4,141
Ex-Od items / Min. Int.	(1)	285	250	140
Adj. PAT	2,281	2,803	3,411	4,001
Avg. Shares O/S (m)	61.4	61.4	61.4	61.4
EPS (Rs.)	37.1	45.7	55.6	65.2

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	5,036	4,377	4,432	5,011
C/F from Investing	(3,063)	(1,500)	(2,500)	(2,000)
C/F from Financing	(669)	(1,118)	(1,237)	(1,450)
Inc. / Dec. in Cash	1,304	1,759	695	1,561

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	4.5	6.8	13.0	12.9
EBITDA (%)	2.4	3.4	14.8	12.8
PAT (%)	(18.6)	22.9	21.7	17.3
EPS (%)	(18.8)	22.9	21.7	17.3
Profitability				
EBITDA Margin (%)	17.3	16.8	17.0	17.0
PAT Margin (%)	8.1	9.4	10.1	10.5
RoCE (%)	14.3	16.0	16.3	15.8
RoE (%)	14.0	15.3	16.0	16.0
Balance Sheet				
Net Debt : Equity	(0.2)	(0.3)	(0.4)	(0.4)
Valuation				
PER (x)	27.7	22.5	18.5	15.8
P / B (x)	3.7	3.2	2.7	2.3
EV / EBITDA (x)	12.2	11.3	9.4	7.9
EV / Sales (x)	2.1	1.9	1.6	1.3
Earnings Quality				
Eff. Tax Rate	22.4	23.5	24.2	24.0
Other Inc / PBT	4.3	7.4	7.5	6.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	16,865	19,668	23,079	27,079
Total Debt	74	84	94	104
Other Liabilities	1,050	935	960	985
Total Liabilities	17,989	20,687	24,133	28,168
Net Fixed Assets	4,802	5,029	5,246	5,345
Goodwill	3,674	3,874	4,074	4,274
Investments	3,158	3,258	3,358	3,458
Net Current Assets	5,384	7,505	9,846	13,981
Cash & Equivalents	4,075	6,487	8,997	12,155
Other Current Assets	7,643	7,658	8,297	9,015
Current Liabilities	6,334	6,639	7,447	7,189
Other Assets	971	1,021	1,071	1,121
Total Assets	17,989	20,687	24,133	28,178

Quarterly Financials (Rs m)

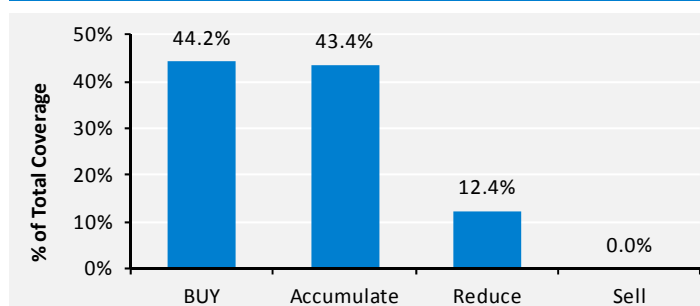
Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	7,089	7,373	7,565	7,888
EBITDA	1,108	1,191	1,296	1,418
% of revenue	15.6	16.2	17.1	18.0
Depr. & Amortization	316	341	311	305
Net Interest	—	—	—	—
Other Income	58	87	5	148
Profit before Tax	850	937	990	1,261
Total Tax	295	204	163	288
Profit after Tax	513	672	757	861
Adj. PAT	513	672	757	861

Source: Company Data, PL Research.

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

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