

Result Update

Stock Details

Market cap (Rs mn)	:	68865
52-wk Hi/Lo (Rs)	:	1192 / 463
Face Value (Rs)	:	10
3M Avg. daily volume	:	1,953,606
Shares o/s (m)	:	61

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	29,915	35,495	39,473
Growth (%)	6.8	18.7	11.2
EBITDA	5,011	6,237	6,912
EBITDA margin (%)	16.7	17.6	17.5
PAT	2,801	3,813	4,288
EPS	45.5	62.0	69.7
EPS Growth (%)	1.50	36.13	12.48
BV (Rs/share)	312	360	416
Dividend/share (Rs)	12.0	12.0	12.0
RONW (%)	15.4	18.5	18.0
ROCE (%)	20.6	24.4	23.5
P/E (x)	22.6	16.6	14.7
EV/EBITDA (x)	11.3	9.0	7.8
P/BV (x)	3.3	2.9	2.5

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	30.7	30.7	30.7
FII	40.7	39.5	28.9
DII	15.3	17.0	23.4
Others	13.2	12.8	16.9

Source: Company

Price Performance (%)

(%)	1M	3M	6M
NIIT Technologies	0.7	20.7	61.6
Nifty	1.7	4.3	1.5

Source: Bloomberg

Price chart



Source: Bloomberg

Nipun Gupta

nipun.gupta@kotak.com
+91 22 6218 6433

NIIT TECHNOLOGIES LTD

PRICE RS.1121

TARGET RS.1185

ACCUMULATE

NIIT Tech, in the past few consecutive quarters, has delivered a steady beat on revenue expectations. Company has been consistently winning large deals (> TCV USD 20mn) against Tier I vendors which is aiding the strong revenue visibility. Company intends to grow in double digit in FY19 with better profitability v/s FY18.

Key Highlights

- NIIT Tech reported revenue growth of ~2% in dollar terms, ahead of our estimates. EBITDA margins at 15.8% was in line with our estimates. Margins during the quarter were impacted by wage hikes, visa costs and seasonal decline in GIS business. PAT increased by 67.4% YoY to Rs.858mn.
- Management has guided for a strong FY19 and expects organic CC revenue growth to be in at least double digit. Also, margins are expected to expand further aided by strong deal momentum (higher digital wins) and process changes.
- NIIT Tech continues to win USD100mn + deal during the quarter with 12 month executable order rising to USD 347mn from USD 339mn in previous quarter. Fresh order intake rose by ~37% YoY to USD151mn whereas the rise in executable order was up by ~8%. The difference between order intake and executable order is largely due to higher proportion of digital wins which are of shorter cycle with higher margins. Company won three USD 10mn + deals during the quarter against the Tier I vendors.

Quarterly performance table

(Rs.mn)	4QFY18	1QFY19	% Chg	1QFY18	% Chg
Income	7888	8249	4.6	7090	16.4
Income(in USD mn)	122	124	1.7	110	13.1
Expenditure	6471	6942		5982	
Operating Profit	1418	1307	-7.8	1108	18.0
Depreciation	305	312		316	
Gross Profit	1113	995	-10.6	792	25.6
Interest	0	0		0	
Other Income	148	209		58	
PBT	1261	1204	-4.5	850	41.6
Tax	288	300		295	
PAT	973	904	-7.1	555	62.9
Minority interest & EO	112	46		42	
Adjusted PAT	861	858	-0.3	513	67.2
Extra Ordinary items	0	0		0	
Shares (mns)	61	61		61	
EPS (Rs)	14.0	13.97		8.4	
OPM (%)	18.0	15.8		15.6	
GPM (%)	14.1	12.1		11.2	
NPM (%)	12.3	11.0		7.8	

Source : Company

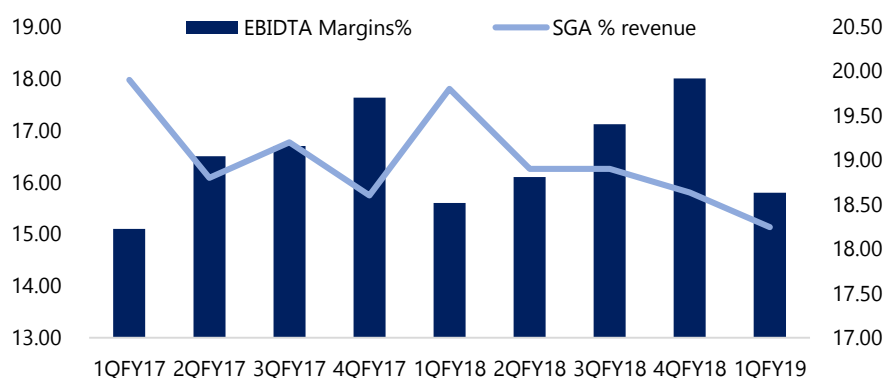
Valuation & outlook

- We have upgraded our revenue estimate for FY19/FY20E given the strong execution and healthy order intake, and believe the changes made in strengthening of its leadership and sales team would further boost the deal momentum in FY19. We expect USD revenues to grow at CAGR of 12.6% over FY18-20. We expect margins to improve further over FY19/20. With continues outperformance, optimistic outlook and companies capabilities to match well performing peers we ascribe a higher multiple of 17x v/s 16x previously. We maintain ACCUMULATE with a revised target price of Rs.1185 (Rs.1082 earlier).

Steady quarter with broad based growth

NIIT Tech reported a ~2% sequential growth in revenue in USD Terms to USD 125mn v/s our estimate of USD 121mn. EBITDA margin at 15.8% was in line with our estimate and declined 213bps sequentially. The margin decline was due to wage revision impact, visa cost and seasonal decline in GIS business. The growth has been quiet broad based during the quarter with BFS growing 8.8%, insurance 10% and T&T 7.7% sequentially. Even client mix wise the growth was not concentrated from only Top clients during the quarter. Morris which did impact the Top 5 and Top 10 client contribution during the quarter has bottomed out and the company doesn't expect any further impact going forward. Company has increased the contribution of digital to revenues, aided by acquisitions of Incessant and RuleTek. Digital revenues for the company are growing at 30-40% CAGR and are also at higher margins, thus aiding margins as well. Digital contributes 27% of total revenue reflecting a sequential growth of 11% and YoY growth of 53%. We believe this provides enhanced revenue visibility and would result in a steady revenue growth going forward. Management has indicated that it is focusing on automation initiatives through its platform which too should aid in improving margins with rationalization of SGA expenses.

EBITDA margins; SGA %



Source: Kotak PCG Research

Recent organization changes for sustainable growth

NIIT Tech has inducted several new leaders from Tier I under the leadership of Mr. Sudhir Singh. Company has restructured to a vertical led organization from a geographical led organization. It has also restructured its rewards and incentive structure in line with the large deal wins. Company now has dedicated units for cloud, robotics process automation, and data services, besides changing the front end sales to better leverage on its deep expertise in the travel, insurance and wealth management verticals.

Deal win remains strong; large deals enhance visibility

During FY18, company increased its focus to win large deals, which has yielded positive results for the company. Company won deals worth USD151mn during the quarter. It added 9 new clients during the quarter v/s 7 new clients in the previous quarter. The client addition has been across geographies with 5 in USA, 3 in EMEA and 1 in India. Company added 3 USD 1mn + clients during the quarter. Digital wins were highest during the quarter with company signing its first ever security based offshore airline contract. According to the restructured incentive scheme a large deal win will now earn an employee bonus that is worth 4x more than that obtained earlier. Company faced slower growth after 1HY16 with slower than expected deal closures due to client specific challenges and delay in ramp ups. Executable order stands at USD 347mn at end of 1QFY19.

Fresh Order Intake (in USD Mn)

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
USA	60	64	82	43	69
EMEA	23	32	25	69	56
ROW	27	25	23	33	26
Order bkg (\$mns)	110	121	130	145	151
Executable in 12M (\$mns)	320	320	329	339	347

Source: Company

Takeway from Concall

Company made significant investment in strengthening its front end, sales and its delivery capability. It added many new leaders from Tier I organization to drive various businesses across geographies.

Geographically strong growth was reported in US despite Morris ramp down. Growth was led by TNT and Insurance vertical. EMEA too reported strong growth due to growth in NITL, IMS and digital engagement. ROW declined largely due to decline in GIS product sales.

Travel vertical is not restricted to airline for the company and includes airport, hotel and etc. So aggregate the scenario remains positive for this vertical with no material risk due to rise in crude prices.

Company Background

NIIT Technologies is a leading IT solutions organisation with customers across North America, Europe, Middle East, Asia and Australia. Company offers comprehensive end to end software solutions and services in Application Development, Managed Services, Cloud Computing, and Business Process Outsourcing. It primarily caters to companies across banking and financial, insurance, travel and transportation, manufacturing and government sector.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	28,021	29,915	35,495	39,473
% Growth	3.5	6.8	18.7	11.2
Cost of Sales	23,143	24,904	29,258	32,561
% of Net Sales	82.6	83.2	82.4	82.5
EBITDA	4,878	5,011	6,237	6,912
EBITDA Margin (%)	17.4	16.8	17.6	17.5
Depreciation	1,276	1,273	1,272	1,240
EBIT	3,602	3,738	4,965	5,672
Interest Exps.	-	-	-	-
EBT	3,602	3,738	4,965	5,672
Exceptional Items/Extra ordinary	221	-	-	-
Other Income	159	298	429	355
PBT	3,540	4,036	5,394	6,027
Tax-Total	786	950	1,306	1,446
Minority Interest	220	285	276	292
Profit after tax	2,534	2,801	3,813	4,288
PAT Margin (%)	9	9	11	11

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Net profit before tax	3,761	4,036	5,394	6,027
Depreciation	1,276	1,273	1,272	1,240
Interest	0	0	0	0
Other Income	(159)	(298)	(429)	(355)
Opt Profit before WC Changes	4,878	5,011	6,237	6,912
WC Changes	1,124	(2,379)	(3,147)	(1,837)
Cash Gene from Op.	6,001	2,632	3,090	5,075
Direct Taxes Paid	(1,082)	(950)	(1,306)	(1,446)
Cash from Ope act	4,919	1,681	1,784	3,629
Purchases of F.A /CWIP	(1,359)	(1,813)	(1,093)	(800)
Investment	-	-	-	-
Others	0	0	0	0
Cash from Inv Act	(1,359)	(1,813)	(1,093)	(800)
Proc from Issue of Eq Shares	2	1	0	0
Net loans	11	111	(20)	(20)
Interest paid	-	-	-	-
Dividend paid & Others	(630)	(759)	(856)	(856)
Other Income	159	298	429	355
Cash from Fin Act	(458)	(349)	(447)	(521)
Net Increase in Cash	3,102.0	(480.5)	244.4	2,307.9
Cash at Beginning	4,217	7,319	6,839	7,083
Cash at End	7,319	6,839	7,083	9,391

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	614	615	615	615
Reserves and Surplus	16,608	18,553	21,509	24,942
Shareholders' Funds	17,222	19,168	22,124	25,557
Minority Interes	865	1,150	1,426	1,718
Total Loan Funds	113	224	204	184
Total Liabilities	18,200	20,542	23,754	27,459
Appl. Of Funds				
Gross Block	17,023	18,829	19,929	20,729
Accumulated Depn.	8,545	9,818	11,090	12,330
Net Fixed Assets	8,478	9,011	8,839	8,399
Capital WIP	-	7	-	-
Sundry Debtors	4,903	5,230	6,267	6,821
Cash and Bank Bal	7,319	6,839	7,083	9,391
Other Current Assets	4,935	6,102	6,972	9,307
Total Current Assets	17,157	18,171	20,322	25,519
Current Liabilities	7,435	6,647	5,407	6,459
Net Current Assets	9,722	11,524	14,915	19,060
Total assets	18,200	20,542	23,754	27,459

Source: Company, Kotak Securities – Private Client Research;

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Book value	280.5	311.7	359.7	415.6
Margin (%)				
EBITDA	17.4	16.8	17.6	17.5
EBIT	12.9	12.5	14.0	14.4
PAT	9.8	9.4	10.7	10.9
Balance sheet Ratios				
Receivable (days)	63.9	63.8	64.4	63.1
Inventories (days)	0.0	0.0	0.0	0.0
Payables (days)	31.9	32.3	29.3	29.6
Debt equity ratio (x)				
Return ratios (%)				
RONW	16.6	15.4	18.5	18.0
RoCE	21.3	20.6	24.4	23.5
Valuation (x)				
P/E	22.9	22.6	16.6	14.7
Price/Book value	3.7	3.3	2.9	2.5
EV/EBITDA	11.5	11.3	9.0	7.8
ev/Sales	2.0	1.9	1.6	1.4

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	– We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	– We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	– We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	– We expect the stock to deliver negative returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza Head of Research rusmik.oz@kotak.com +91 22 6218 6441	Arun Agarwal Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	Amit Agarwal Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	Nipun Gupta Information Tech, Midcap nipun.gupta@kotak.com +91 22 6218 6433	Krishna Nain Special Situations krishna.nain@kotak.com +91 22 6218 7907
Sanjeev Zarbade Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	Ruchir Khare Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	Jatin Damania Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	Cyndrella Carvalho Pharmaceuticals cyndrella.carvalho@kotak.com +91 22 6218 6426	K. Kathirvelu Production k.kathirvelu@kotak.com +91 22 6218 6427
Teena Virmani Construction, Cement, Building Mat teena.virmani@kotak.com +91 22 6218 6432	Sumit Pokharna Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	Pankaj Kumar Midcap pankajr.kumar@kotak.com +91 22 6218 6434	Jayesh Kumar Economy kumar.jayesh@kotak.com +91 22 6218 5373	

TECHNICAL RESEARCH TEAM

Shrikant Chouhan shrikant.chouhan@kotak.com +91 22 6218 5408	Amol Athawale amol.athawale@kotak.com +91 20 6620 3350
---	---

DERIVATIVES RESEARCH TEAM

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 6607 2231	Malay Gandhi malay.gandhi@kotak.com +91 22 6218 6420	Prashanth Lalu prashanth.lalu@kotak.com +91 22 6218 5497	Prasenjit Biswas, CMT, CFTe prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	--

Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on our website ie www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: NIIT Tech - Yes

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com/www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.