NIIT Technologies

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

View: Healthy revenue and margin visibility

NITEC reported muted Q4FY19 results, which were lower than our earnings estimate by 9.4%, due to a decline in the GIS business. This occurred despite Q4 being seasonally strong quarter for GIS. The company signed two large deals in the quarter and is confident of the deal momentum in the future. We believe with a healthy deal inflow and digital capabilities, NITEC will sustain revenue growth QoQ and is likely to report USD revenue growth of 14%/11% in FY20E/FY21E, respectively. Despite divestment of the GIS business, which was initiated in Q4FY19, NITEC maintained the aspirational EBITDA margin of 18% for FY20.

We revise our EPS estimates downward by 4.7%/8.4% for FY20E/FY21E, as we change our USD/INR assumption to ₹ 70 for FY20E/FY21E) (vs ₹ 74/ ₹ 76 for FY20E/FY21E earlier). The stock is trading at fair valuation of 15.7x/13.6x FY20E/FY21E, leaving limited absolute upside from the current level. Hence, we downgrade NITEC to ACCUMULATE (BUY earlier), with a revised TP of ₹ 1,400, based on 15x rolling one-year fwd. PER.

Revenue impacted by decline in GIS business

The USD revenue (excluding hedging gains) rose 1.9% QoQ, (1.3% in CC terms) to USD 138mn (DCMe: USD 139mn), due to a decline in the GIS business (13% QoQ because of the code of conduct before the General Elections, which impacted government procurement). The INR revenue was flat QoQ to ₹9.72bn (DCMe: ₹ 9.82bn), as the rupee appreciation had a negative impact.

The EBIT margin fell 90bps QoQ, to 14.4% (DCMe: 15.1%), adversely affected by the decline in GIS & NITL business and the rupee appreciation. However, PAT rose 5.3% QoQ to ₹ 1,055mn (DCMe: ₹ 1,165mn), given a lower tax rate (20%). There was an exceptional expense of ₹ 56mn, in the quarter on account of applicability of GST, fringe benefit tax, and royalty tax in an acquired entity in Australia. If we exclude these, PAT rose 10.9% QoQ to ₹ 1,111mn.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	9,722	7,888	23.3	9,717	0.1
Total Expense	8,015	6,470	23.9	7,912	1.3
EBITDA	1,707	1,418	20.4	1,805	(5.4)
Depreciation	303	305	(0.7)	314	(3.5)
EBIT	1,404	1,113	26.1	1,491	(5.8)
Other Income	47	148	(68.2)	5	840.0
Interest	0	0		0	
EBT	1,395	1,261	26.1	1,496	(6.8)
Tax	296	288	2.8	445	(33.5)
RPAT	1,055	861	22.5	1,002	5.3
APAT	1,055	861	22.5	1,002	5.3
			(bps)		(bps)
Gross Margin (%)	35.3	36.6	(134)	35.4	(10)
EBITDA Margin (%)	17.6	18.0	(42)	18.6	(102)
NPM (%)	10.9	10.9	(6)	10.3	54
Tax Rate (%)	21.2	22.8	(162)	29.7	(853)
EBIT Margin (%)	14.4	14.1	33	15.3	(90)

CMP	₹ 1,268
Target / Upside	₹ 1,400 / 10%
BSE Sensex	38,946
NSE Nifty	11,712

Scrip Details

Equity / FV	₹ 618mn / ₹ 10
Market Cap	₹ 78bn
	US$ 1bn
52-week High/Low	₹ 1,425/₹ 972
Avg. Volume (no)	5,67,704
NSE Symbol	NIITTECH
Bloomberg Code	NITEC IN

Shareholding Pattern Mar'19(%)

Promoters	30.5
MF/Banks/FIs	15.1
FIIs	40.6
Public / Others	13.8

Valuation (x)

	FY19A	FY20E	FY21E
P/E	19.2	15.7	13.6
EV/EBITDA	10.6	8.6	6.9
ROE (%)	21.3	21.8	21.0
RoACE (%)	21.9	23.0	22.0

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	36,762	42,224	46,843
EBITDA	6,453	7,782	8,856
PAT	4,089	4,975	5,761
EPS (₹)	66.2	80.5	93.2

Head of Equities: Amit Khurana, CFA
Tel: +91 22 40969745
E-mail: amit@dolatcapital.com

Associate: Vinesh Vala
Tel: +91 22 40969736
E-mail: vineshv@dolatcapital.com

DOLAT CAPITAL

Insurance vertical decline due to lower product revenue from NITL

The US (contribution 49%) reported a revenue growth of 1.9% QoQ, to USD 68mn, as the travel and banking vertical performed better than the previous quarter. The EMEA (contribution 33%) grew 1.9% QoQ to USD 46mn and ROW (contribution 18%) rose 1.9% QoQ to USD 25mn. Among the verticals, BFSI was down 0.4% QoQ to USD 61mn, due to a 5% QoQ decline in the insurance vertical (on lower product revenue from NITL). Transport grew 5.8% QoQ to USD 37mn, due to a ramp up in top accounts in US & EMEA, and manufacturing rose 1.9% QoQ to USD 40mn on account of growth in digital & IMS. The ADM vertical (contribution 70%) grew 4.9% QoQ, while managed services (contribution 17%) fell 3.8% QoQ (all in USD terms). Digital services, which currently contributes 29% of the revenue, grew 1.9% QoQ in USD.

Exhibit 1: Q4FY19 performance

₹ mn	Q4FY19	DCMe	Diff. (%)	Q3FY19	QoQ (%)	Q4FY18	YoY (%)
Revenues (USD mn) (excl. hedge)	138	139	(0.5)	136	1.9	121	13.9
Revenue	9,722	9,824	(1.0)	9,717	0.1	7,888	23.3
EBIT	1,404	1,483	(5.3)	1,491	(5.8)	1,113	26.1
Net Profit	1,055	1,165	(9.4)	1,002	5.3	861	22.5
EPS (₹)	17.1	18.9	(9.4)	16.2	5.3	13.9	22.5
Margins (%)							
Operating Margin	14.4	15.1		15.3	(90)	14.1	33
Net Margin	10.9	11.9		10.3	54	10.9	(6)

Source: DART, Company

Exhibit 2: Geographic split

	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Revenue (USD mn)					
America	58	66	68	1.9	16.3
EMEA	39	45	46	1.9	17.4
ROW	24	24	25	1.9	2.5
as % of Total					
America	48.0	49.0	49.0	0 bps	100 bps
EMEA	32.0	33.0	33.0	0 bps	100 bps
ROW	20.0	18.0	18.0	0 bps	(200 bps)

Source: DART, Company

Exhibit 3: Vertical split

	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Revenue (USD mn)					
BFSI	53	61	61	(0.4)	13.9
BFS	19	20	22	8.7	13.9
Insurance	34	41	39	(4.9)	13.9
Transport & Logistics	32	35	37	5.8	18.3
Manf, Med & Others	36	39	40	1.9	10.1
as % of Total					
BFSI	44.0	45.0	44.0	(100 bps)	0 bps
BFS	16.0	15.0	16.0	100 bps	0 bps
Insurance	28.0	30.0	28.0	(200 bps)	0 bps
Transport & Logistics	26.0	26.0	27.0	100 bps	100 bps
Manf, Med & Others	30.0	29.0	29.0	0 bps	(100 bps)

Source: DART, Company

Exhibit 4: Client concentration

Client Concentration	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Revenue (USD mn)					
Top 5 Client	35	38	40	5.5	13.9
Top 10 Clients	49	54	57	4.4	16.7
Non-Top 10	73	81	82	0.2	12.0
as % of Total					
Top 5 Client	29.0	28.0	29.0	100 bps	0 bps
Top 10 Clients	40.0	40.0	41.0	100 bps	100 bps
Order book (USD mn)	339.0	375.0	390.0	4.0	15.0

Source: DART, Company

Exhibit 5: Headcount metrics

(Nos)	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
People					
Onsite	2,088	2,408	2,345	(2.6)	12.3
Offshore	6,500	6,881	7,018	2.0	8.0
Net addition	342	119	119	0.0	(65.2)
Utilisation (%)	79.5	79.0	79.3	30 bps	(20 bps)
Attrition (%)	10.5	11.7	12.2	50 bps	170 bps

Source: DART, Company

Exhibit 6: Delivery split

Delivery split	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Revenue (USD mn)					
Onsite	74	88	91	3.5	23.2
Offshore	47	47	47	(1.0)	(0.7)
% of total					
Onsite	61	65	66	100 bps	500 bps
Offshore	39	35	34	(100 bps)	(500 bps)

Source: DART, Company

Exhibit 7: Service split

	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Revenue (USD mn)					
ADM	80	92	97	4.9	20.8
IP	8	8	7	(15.1)	(18.7)
Managed services	23	24	24	(3.8)	1.9
SI & PI	5	5	6	1.9	13.9
BPO	5	5	6	1.9	13.9
as % of Total					
ADM	66.0	68.0	70.0	200 bps	400 bps
IP	7.0	6.0	5.0	(100 bps)	(200 bps)
Managed services	19.0	18.0	17.0	(100 bps)	(200 bps)
SI & PI	4.0	4.0	4.0	0 bps	0 bps
BPO	4.0	4.0	4.0	0 bps	0 bps

Source: DART, Company

Exhibit 8: Contract split

Contract split	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Revenue (USD mn)					
FPP	56	64	65	1.9	16.4
T&M	66	72	73	1.9	11.8
% of total					
FPP	46	47	47	0 bps	100 bps
T&M	54	53	53	0 bps	(100 bps)

Source: DART, Company

Exhibit 9: Client addition

	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
USA	2	8	6	(25.0)	200.0
Europe	4	0	0	NA	NA
ROW	1	2	5	150.0	400.0
Total	**7**	**10**	**11**	**10.0**	**57.1**

Source: DART, Company

Exhibit 10: Fresh order intake

(USD mn)	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
USA	43	96	94	(2.1)	118.6
Europe	69	42	45	7.1	(34.8)
ROW	33	27	31	14.8	(6.1)
New order intake	145	165	170	3.0	17.2

Source: DART, Company

Exhibit 11: Estimate Revision

₹ in millions	New		Old		Change (%)	
Year end March	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**FY20E**	**FY21E**
Revenue	42,224	46,843	44,694	50,788	(5.5)	(7.8)
EBIT	6,481	7,393	6,818	8,065	(5.0)	(8.3)
Pre Tax Profit	7,060	8,108	7,388	8,812	(4.4)	(8.0)
Net Profit	4,975	5,761	5,221	6,289	(4.7)	(8.4)
EPS (₹)	80.5	93.2	84.5	101.8	(4.7)	(8.4)
Margins (%)						
EBIT Margin	15.3	15.8	15.3	15.9		
Net margin	11.8	12.3	11.7	12.4		

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	**29,914**	**36,762**	**42,224**	**46,843**
Total Expense	**24,902**	**30,309**	**34,442**	**37,987**
COGS	19,179	23,907	27,475	30,258
Employees Cost	0	0	0	0
Other expenses	5,723	6,402	6,967	7,729
EBIDTA	**5,012**	**6,453**	**7,782**	**8,856**
Depreciation	1,273	1,248	1,301	1,463
EBIT	**3,739**	**5,205**	**6,481**	**7,393**
Interest	0	0	0	0
Other Income	298	476	579	715
Exc. / E.O. items	0	0	0	0
EBT	**4,037**	**5,681**	**7,060**	**8,108**
Tax	950	1,404	1,765	2,027
RPAT	2,802	4,089	4,975	5,761
Minority Interest	285	188	320	320
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**2,802**	**4,089**	**4,975**	**5,761**

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	615	618	618	618
Minority Interest	222	75	75	75
Reserves & Surplus	17,126	20,105	24,339	29,358
Net Worth	**17,741**	**20,723**	**24,957**	**29,976**
Total Debt	224	134	134	134
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	**18,187**	**20,932**	**25,166**	**30,185**
Applications of Funds				
Net Block	**8,793**	**8,219**	**9,551**	**9,180**
CWIP	7	14	14	14
Investments	0	0	0	0
Current Assets, Loans & Advances	**17,445**	**20,106**	**24,182**	**30,033**
Inventories	0	0	0	0
Receivables	5,911	6,189	7,653	8,064
Cash and Bank Balances	8,057	9,758	11,827	17,053
Loans and Advances	0	0	0	0
Other Current Assets	3,477	4,159	4,702	4,916
Less: Current Liabilities & Provisions	**8,058**	**7,407**	**8,581**	**9,043**
Payables	0	0	0	0
Other Current Liabilities	8,058	7,407	8,581	9,043
Net Current Assets	9,387	12,699	15,601	20,991
Total Assets	**18,187**	**20,932**	**25,166**	**30,185**

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	35.9	35.0	34.9	35.4
EBIDTA Margin	16.8	17.6	18.4	18.9
EBIT Margin	12.5	14.2	15.3	15.8
Tax rate	23.5	24.7	25.0	25.0
Net Profit Margin	9.4	11.1	11.8	12.3
(B) As Percentage of Net Sales (%)				
COGS	64.1	65.0	65.1	64.6
Employee	0.0	0.0	0.0	0.0
Other	19.1	17.4	16.5	16.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	72	61	66	63
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	0	0	0	0
Working Capital days	115	126	135	164
FA T/O	3.4	4.5	4.4	5.1
(D) Measures of Investment				
AEPS (₹)	45.3	66.2	80.5	93.2
CEPS (₹)	65.9	86.4	101.6	116.9
DPS (₹)	14.9	0.0	12.0	12.0
Dividend Payout (%)	32.9	0.0	14.9	12.9
BVPS (₹)	287.1	335.3	403.8	485.0
RoANW (%)	16.2	21.3	21.8	21.0
RoACE (%)	17.4	21.9	23.0	22.0
RoAIC (%)	37.3	48.9	52.9	55.9
(E) Valuation Ratios				
CMP (₹)	1268	1268	1268	1268
P/E	28.0	19.2	15.7	13.6
Mcap (₹ Mn)	78,335	78,335	78,335	78,335
MCap/ Sales	2.6	2.1	1.9	1.7
EV	70,502	68,711	66,642	61,416
EV/Sales	2.4	1.9	1.6	1.3
EV/EBITDA	14.1	10.6	8.6	6.9
P/BV	4.4	3.8	3.1	2.6
Dividend Yield (%)	1.2	0.0	0.9	0.9
(F) Growth Rate (%)				
Revenue	6.8	22.9	14.9	10.9
EBITDA	3.4	28.8	20.6	13.8
EBIT	4.7	39.2	24.5	14.1
PBT	8.3	40.7	24.3	14.8
APAT	18.6	45.9	21.7	15.8
EPS	18.6	45.9	21.7	15.8

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	4,354	3,681	5,443	7,060
CFI	(1,788)	(636)	(2,633)	(1,092)
CFF	(1,830)	(1,344)	(742)	(742)
FCFF	2,757	3,000	2,810	5,968
Opening Cash	7,321	8,057	9,758	11,827
Closing Cash	8,057	9,758	11,827	17,053

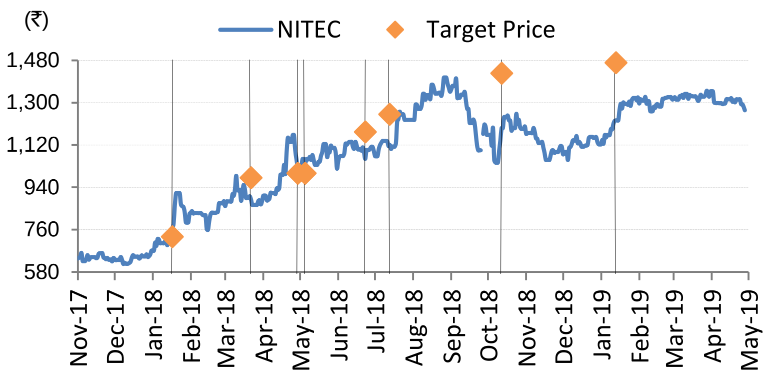
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jan-18	Reduce	730	766
Mar-18	Accumulate	980	888
May-18	Reduce	1,000	1,028
May-18	Reduce	1,000	1,037
Jun-18	Reduce	1,175	1,061
Jul-18	Accumulate	1,250	1,120
Oct-18	Buy	1,425	1,192
Jan-19	Buy	1,470	1,225

**Price as on recommendation date*

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Ashwani Kandoi	AVP – Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager – Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

Dolat **Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797
Member: BSE Limited and National Stock Exchange of India Limited.
SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685
Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com