

July 23, 2019

Q1FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		BUY	
Target Price	1,445		1,539	
Sales (Rs. m)	41,844	47,766	41,639	48,272
% Chng.	0.5	(1.0)		
EBITDA (Rs. m)	7,398	8,598	7,350	8,689
% Chng.	0.7	(1.0)		
EPS (Rs.)	75.1	89.7	75.3	87.7
% Chng.	(0.2)	2.3		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	29,915	36,762	41,844	47,766
EBITDA (Rs. m)	5,013	6,453	7,398	8,598
Margin (%)	16.8	17.6	17.7	18.0
PAT (Rs. m)	2,803	4,144	4,644	5,545
EPS (Rs.)	45.6	67.1	75.1	89.7
Gr. (%)	11.8	47.1	12.1	19.4
DPS (Rs.)	15.0	21.5	24.8	29.6
Yield (%)	1.1	1.6	1.8	2.2
RoE (%)	16.2	21.5	21.0	22.0
RoCE (%)	21.5	26.9	26.4	27.4
EV/Sales (x)	2.5	2.0	1.7	1.5
EV/EBITDA (x)	15.1	11.6	9.8	8.1
PE (x)	29.7	20.2	18.0	15.1
P/BV (x)	4.7	4.0	3.6	3.1

Key Data

NITT.BO | NITEC IN

52-W High / Low	Rs.1,425 / Rs.1,031
Sensex / Nifty	37,983 / 11,331
Market Cap	Rs.84bn / \$ 1,214m
Shares Outstanding	62m
3M Avg. Daily Value	Rs.1215.84m

Shareholding Pattern (%)

Promoter's	33.91
Foreign	35.26
Domestic Institution	17.36
Public & Others	13.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.5	6.2	20.0
Relative	6.8	0.9	16.0

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Steady deal momentum

NIIT Tech delivered a strong revenue growth of 4% QoQ in cc terms (excl. GIS business impact) Wishworks acquisition contributed +1.2% to the revenue (15days impact). EBITDA Margin came in at 14.4% eroded by 313bps QoQ and 142bps YoY. However, Adj. EBITDA margin stood at 17.1%. We expect revenue trajectory in FY20E to be strong & expect revenues to grow by 12% in FY20E on back of strong deal pipeline. NIIT Tech order intake has improved this quarter also with two large deals & 11 new logos added, strong deal closure at USD175mn in Q1FY20. Deals are getting bigger & better every quarter. NIIT Tech has seen strong build-up in deal wins over FY19. Management also showed confidence on growth momentum across the verticals, but management gave cautious outlook on US capital markets. Strong order wins coupled with healthy order pipeline gives us confidence on visibility of revenue growth momentum in FY20E(mid-teens).

We downgrade NIIT Tech from Buy to Accumulate on account of management transition, macro uncertainty & expensive multiples limit the upside potential. We expect USD revenue CAGR of 14.1% and EPS CAGR of 17.1% over FY19-21E. Our new TP stands at Rs. 1445 valued at 16X FY21E(earlier 17X) earnings multiple & stock trades at 17.9x/ 15x FY20E/21E EPS of Rs 76/90.

- Sustained strong revenue growth momentum:** NIIT Tech reported revenue growth of 0.4% QoQ (3% QoQ excluding GIS Business) at USD138.5mn (Ple: USD139.2mn). Constant currency growth stood at 4% QoQ excluding GIS Business. EBITDA Margin came in at 14.4% eroded by 313bps QoQ and 142bps YoY. However, Adj. EBITDA margin stood at 17.1%. Headwinds from Wage Hike (-240bps), One-off impact from M&A Activity (-240bps) which costed INR235Mn, Annual Visa filing cost (-90bps) was off-set by tailwind from adoption of New accounting policy for lease accounting (+90bps). Adjusted PAT stood at Rs1006mn (Ple: 1017mn).
- Strong deal momentum:** NIIT Tech deals are getting bigger & better since last 8 quarters with two large deal wins and 11 new logos in Q1. Order book executable over next 12 months stood at \$395mn up 1.3% QoQ and 14% YoY. Fresh order signing was at \$175mn for Q1FY20 (vs \$170mn in Q4FY19). Geographical breakdown of order intake – US (100 Mn), EMEA (58 Mn), ROW (17 Mn). Strong order wins coupled with healthy order pipeline gives us confidence on visibility of revenue growth momentum in FY20E(mid-teens).
- Broad based growth across verticals:** Insurance remain strong with 4% QoQ in USD terms offset by tepid growth in BFS (up 0.4% QoQ). Top accounts declined during Q1 mainly because of softness in one client. Client is in BFSI vertical with slowness in capital market segment where IT spends has been contracted owing to financial pressure in the account. However, there has been no impact on wallet share of the client. TTH up 4.1% QoQ in USD terms. In Travel, Digital continues to remain the key growth driver. Management cited that almost all deals won are penetrated through digital and centered around enhancing customer experience.

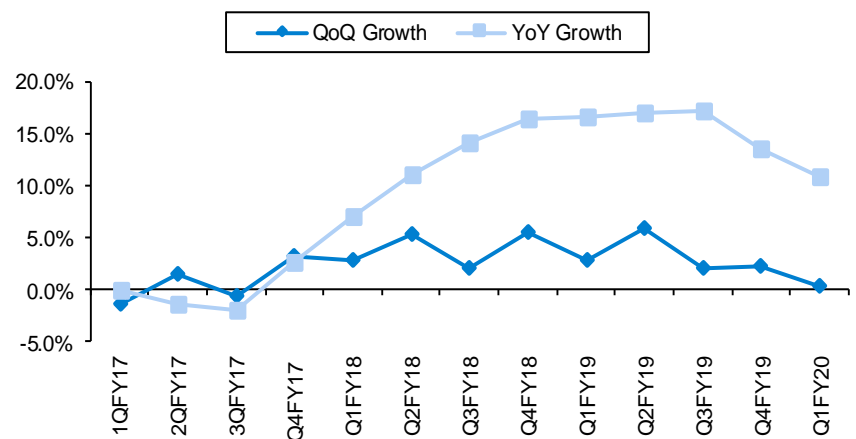
Exhibit 1: Q1FY20: Quick view on results

Rs mn	1QFY20	4QFY19	QoQ Gr.	1QFY19	YoY (Gr.)	PLe	Variance(PL VS ACTUAL)
Revenue (USDmn)	138.5	138.0	0.4%	124.9	10.9%	139.2	-0.5%
Revenue	9627	9722	-1.0%	8249	16.7%	9683	-0.6%
EBITDA	1410	1707	-17.4%	1307	7.9%	1598	-11.8%
<i>EBITDA Margin</i>	<i>14.6%</i>	<i>17.6%</i>	<i>-291 bps</i>	<i>15.8%</i>	<i>-120 bps</i>	<i>16.5%</i>	<i>-185 bps</i>
Adj. PAT	876	1056	-17.0%	858	2.1%	1017	-13.8%
EPS	14.3	17.2	-17.0%	14.0	2.1%	16.5	-13.8%

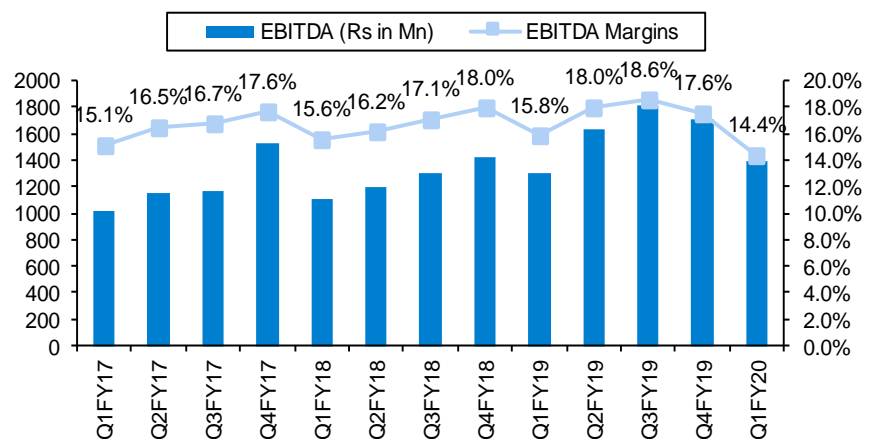
Source: Company, PL

Revenues at \$138.5mn were up 1% QoQ and below our ests (PLe: \$139.2mn). However, CC growth for the quarter stood at 4% QoQ (Excluding GIS business).

EBITDA margin eroded 313bps QoQ to 14.4%. However, Adj. EBITDA margin stood at 17.1%. Headwinds from Wage Hike (-240bps), One-off impact from M&A Activity (-240bps) which costed INR235Mn, Annual Visa filing cost (-90bps) was off-set by tailwind from adoption of New accounting policy for lease accounting (+90bps). Adjusted PAT stood at Rs1006mn (PLe: 1017mn).

Exhibit 2: Sustained revenue growth momentum (USD revenues)


Source: Company, PL

Exhibit 3: Weak performance of margins in this quarter


Source: Company, PL

Key takeaways from Concall:

- Management cited that Fundamentals of company are strong with steady revenue growth momentum and sustainable margins. Company continues to Plan predictable, robust and profitable growth in future.
- Growth was broad based across all verticals.
- Company cited that restructuring of leadership, Strong compensatory scheme and focused strategy for growth has been the key differentiating in string performance of the company.
- Top accounts declined during Q1 mainly because of softness in one client. Client is in BFSI vertical with slowness in capital market segment where IT spends has been contracted owing to financial pressure in the account. However, there has been no impact on wallet share of the client.
- Newly appointed board members are cooperative and fully supportive with the current strategy of the company. Management cited productive and healthy discussion with new board members.
- EMEA Region: Growth was led by Insurance & Travel vertical and half a month impact from wishworks acquisition.
- Headcount for the quarter stood at 10297 which implied net addition of 34 employees. There has been addition of 275 employees from Wishworks which was offset by 363 employees decline led by divestment of GIS Business in Q1FY20.

Margin Outlook:

- Adjusted EBITDA margin came in at 17.1% in Q1FY20. Headwinds from Wage Hike (-240bps), One-off impact from M&A Activity (-240bps) which costed INR235Mn, Annual Visa filing cost (-90bps) was off-set by tailwind from adoption of New accounting policy for lease accounting (+90bps).
- Visa cost was higher largely led by H-1 B visa cost for which cost for Full year accounted in this quarter itself instead of full year.
- Management guided that company continues to plan EBITDA margin at ~18% levels and stay aligned to it despite tailwind from change in lease accounting policy.

Vertical Outlook:

- **Core Vertical Travel:** Almost all the deals won in the vertical are penetrated through digital. Services in this vertical are centered around enhancing customer experience and improving ancillary services.
- **Insurance:** Strong growth was mainly driven by renewal of license and completion of licensing sale contract in the quarter. Also, reconstituted front-end team on back of partnership.

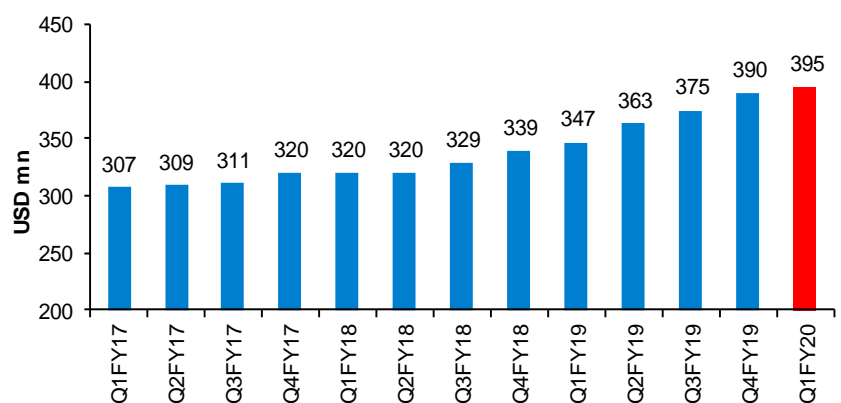
Outlook on Acquired Entities:

- Company has completed acquisition of Whishworks and divestment of GIS business.
- For Incessant acquisition, company paid INR95cr in Q1 taking total to ~INR450cr. Acquisition has been completed after 4 years of payment linked to earn outs and also stopped giving numbers separately and now will be included in overall numbers.
- Revenue from NITL stood at INR529mn with EBITDA margin of 29% and Whishworks (Half a month impact in Q1) revenues at INR108mn with EBITDA margin of 21%.
- Ruletek: Paid INR40cr for acquiring additional 12.5% stake in Q1 taking total to 80% stake. Final payment to be paid next year and the amount of liability is determinable over the performance in next 12 months.

Other key Highlights:

- DSO including unbilled revenues days stood at 83 days.
- Capex: Capex is higher because of seasonality impact from renewal of licenses and license fees and there is no change in overall strategy.
- Company has not announced dividend as Capital allocation strategy will be decided by the newly appointed board.

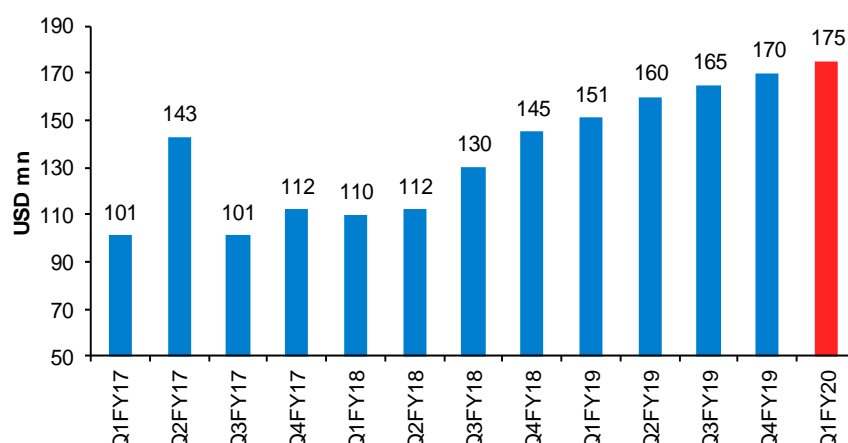
Exhibit 4: Strong order pipeline executable in one year



Source: Company, PL

Deal pipeline continue to remain strong with Order book executable over next 12 months stood at \$395mn up 1.3% QoQ and 14% YoY.

Fresh order signing was at \$175mn for Q1FY20 (vs \$170mn in Q4FY19). Geographical breakdown of order intake – US (100 Mn), EMEA (58 Mn), ROW (17 Mn).

Exhibit 5: Fresh order continues to grow


Source: Company, PL

Exhibit 6: Geography-wise revenues

Geography revenues (USD Mn)	1QFY20	4QFY19	QoQ gr.	1QFY19	YoY gr.
Americas	67.9	67.6	0.4%	62.4	9%
EMEA	48.5	45.5	6.5%	40.0	21%
RoW	22.2	24.8	-10.8%	22.5	-1%
Total	138.5	138.0	0.4%	124.9	11%
-as a % of total sales					
Americas	49%	49%	0bp	50%	-100bp
EMEA	35%	33%	200bp	32%	300bp
RoW	16%	18%	-200bp	18%	-200bp

Source: Company, PL

Exhibit 7: Vertical-wise revenues

Vertical revenues (USD mn)	1QFY20	4QFY19	QoQ gr.	1QFY19	YoY gr.
BFS	22.2	22.1	0.4%	21.2	4%
Insurance	40.2	38.6	4.0%	36.2	11%
Travel and Transport	38.8	37.2	4.1%	33.7	15%
Others	37.4	40.0	-6.5%	33.7	11%
Total	138.5	138.0	0.4%	124.9	11%
-as a % of total sales					
BFS	16%	16%	0bp	17%	-100bp
Insurance	29%	28%	100bp	29%	0bp
Travel and Transport	28%	27%	100bp	27%	100bp
Others	27%	29%	-200bp	27%	0bp

Source: Company, PL

Exhibit 8: Client Metrics

Client Concentration (%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Top 5	32	32	33	34	33	31	30	29	27	28	28	29	27
Top 10	45	46	44	46	45	43	42	40	36	40	40	41	39
Client Details													
Between 1 mn - 5mn	53	56	55	55	52	55	59	60	63	63	62	66	66
5mn-10 mn	15	10	10	10	14	13	12	13	14	18	20	16	17
>10mn	6	8	8	8	6	6	7	7	7	7	8	8	8
Total	74	74	73	73	73	74	78	80	84	88	90	90	91

Source: Company, PL

Exhibit 9: Revenue Mix

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Onsite	61%	61%	60%	59%	60%	61%	61%	61%	64%	64%	65%	66%	66%
Offshore	39%	39%	40%	41%	40%	39%	39%	39%	36%	36%	35%	34%	34%

Source: Company, PL

Exhibit 10: Employee Metrics

Billable Personnel	Q1FY17	Q2FY17	Q3FY19	Q4FY19	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Onsite	1,901	1,906	1857	1877	1984	2040	2018	2088	2217	2369	2408	2345	2429
Offshore	6,374	6,203	6180	6189	6164	6156	6217	6500	6684	6815	6881	7018	7063
Total Billable	8,275	8,109	8,037	8066	8148	8196	8235	8588	8901	9184	9289	9363	9492
Sales & Marketing (Excl GIS)	132	141	139	133	137	135	147	145	131	123	114	122	141
Sales & Marketing (GIS)	72	76	82	81	85	85	85	85	90	94	94	89	0
Others	543	542	551	573	593	606	614	605	642	624	647	689	664
Grand Total	9,022	8,868	8,809	8,853	8,963	9,022	9,081	9,423	9,764	10,025	10144	10263	10297
Net addition	(454)	(154)	(59)	44	110	59	59	342	341	261	119	119	34
Capacity Utilisation	79.8%	81.0%	80.0%	81.0%	81.2%	79.5%	79.0%	79.5%	80.1%	80.4%	79.0%	79.3%	80.5%
Attrition (%)	13.4	12.9	12.6	12.7	12.1	11.4	10.6	10.5	10.1	10.8	11.7	12.2	12.9

Source: Company, PL

Exhibit 11: Strong Order Book

Figures in USD Mn	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Fresh Order Intake	101	143	101	112	110	112	130	145	151	160	165	170	175
Executable Order Book over Next 12 months	307	309	311	320	320	320	329	339	347	363	375	390	395

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	29,915	36,762	41,844	47,766
YoY gr. (%)	6.8	22.9	13.8	14.2
Employee Cost	19,179	23,907	27,105	31,048
Gross Profit	10,736	12,855	14,739	16,718
Margin (%)	35.9	35.0	35.2	35.0
SG&A Expenses	5,723	6,402	7,341	8,120
Other Expenses	-	-	-	-
EBITDA	5,013	6,453	7,398	8,598
YoY gr. (%)	3.4	28.7	14.6	16.2
Margin (%)	16.8	17.6	17.7	18.0
Depreciation and Amortization	1,273	1,248	1,529	1,672
EBIT	3,740	5,205	5,870	6,926
Margin (%)	12.5	14.2	14.0	14.5
Net Interest	-	-	-	-
Other Income	298	476	522	500
Profit Before Tax	4,038	5,681	6,392	7,426
Margin (%)	13.5	15.5	15.3	15.5
Total Tax	950	1,404	1,626	1,801
Effective tax rate (%)	23.5	24.7	25.4	24.2
Profit after tax	3,088	4,277	4,766	5,625
Minority interest	285	188	122	80
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,803	4,144	4,644	5,545
YoY gr. (%)	12.0	47.8	12.1	19.4
Margin (%)	9.4	11.3	11.1	11.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,803	4,144	4,644	5,545
YoY gr. (%)	12.0	47.8	12.1	19.4
Margin (%)	9.4	11.3	11.1	11.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,803	4,144	4,644	5,545
Equity Shares O/s (m)	62	62	62	62
EPS (Rs)	45.6	67.1	75.1	89.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	10,088	10,712	12,212	13,712
Tangibles	6,549	6,893	7,793	8,693
Intangibles	3,539	3,819	4,419	5,019
Acc: Dep / Amortization	3,725	4,973	6,502	8,173
Tangibles	2,049	2,702	3,503	4,378
Intangibles	1,676	2,271	2,999	3,795
Net fixed assets	6,363	5,739	5,710	5,539
Tangibles	4,500	4,191	4,291	4,315
Intangibles	1,863	1,548	1,420	1,223
Capital Work In Progress	7	14	14	14
Goodwill	2,430	2,448	2,448	2,448
Non-Current Investments	354	288	298	308
Net Deferred tax assets	776	637	677	717
Other Non-Current Assets	784	280	280	280
Current Assets				
Investments	3,652	3,651	3,751	3,851
Inventories	3	-	-	-
Trade receivables	5,858	5,877	7,452	8,506
Cash & Bank Balance	4,183	5,576	7,700	10,329
Other Current Assets	1,005	1,136	1,136	1,136
Total Assets	26,698	27,590	31,420	35,092
Equity				
Equity Share Capital	615	618	618	618
Other Equity	17,125	20,105	22,896	26,229
Total Network	17,740	20,723	23,514	26,847
Non-Current Liabilities				
Long Term borrowings	179	100	110	120
Provisions	-	-	-	-
Other non current liabilities	772	737	762	787
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,453	1,647	1,697	1,747
Other current liabilities	4,394	4,186	4,319	4,563
Total Equity & Liabilities	26,698	28,401	31,420	35,092

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	4,038	5,681	6,392	7,426
Add. Depreciation	1,273	1,248	1,529	1,672
Add. Interest	-	-	-	-
Less Financial Other Income	298	476	522	500
Add. Other	-	-	-	-
Op. profit before WC changes	5,311	6,929	7,920	9,098
Net Changes-WC	453	(1,569)	(1,467)	(834)
Direct tax	(950)	(1,404)	(1,626)	(1,801)
Net cash from Op. activities	4,814	3,956	4,827	6,463
Capital expenditures	(1,597)	(649)	(1,500)	(1,500)
Interest / Dividend Income	(940)	-	-	-
Others	(494)	1	(100)	(100)
Net Cash from Inv. activities	(3,031)	(648)	(1,600)	(1,600)
Issue of share cap. / premium	-	-	1	-
Debt changes	220	(3)	10	10
Dividend paid	(1,118)	(1,609)	(1,853)	(2,212)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(898)	(1,612)	(1,842)	(2,202)
Net change in cash	885	1,696	1,386	2,661
Free Cash Flow	3,217	3,307	3,327	4,963

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	9,074	9,717	9,722	9,627
YoY gr. (%)	23.1	28.4	23.3	16.7
Raw Material Expenses	5,897	6,280	6,293	6,374
Gross Profit	3,177	3,437	3,429	3,253
Margin (%)	35.0	35.4	35.3	33.8
EBITDA	1,634	1,805	1,707	1,389
YoY gr. (%)	37.2	39.3	20.4	6.3
Margin (%)	18.0	18.6	17.6	14.4
Depreciation / Depletion	319	314	303	401
EBIT	1,315	1,491	1,404	988
Margin (%)	14.5	15.3	14.4	10.3
Net Interest	-	-	-	-
Other Income	215	5	47	172
Profit before Tax	1,530	1,496	1,451	1,160
Margin (%)	16.9	15.4	14.9	12.0
Total Tax	363	445	296	318
Effective tax rate (%)	23.7	29.7	20.4	27.4
Profit after Tax	1,167	1,051	1,155	842
Minority interest	49	49	44	22
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,118	1,002	1,056	877
YoY gr. (%)	66.4	32.4	22.6	2.2
Margin (%)	12.3	10.3	10.9	9.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,118	1,002	1,056	877
YoY gr. (%)	66.4	32.4	22.6	2.2
Margin (%)	12.3	10.3	10.9	9.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,118	1,002	1,056	877
Avg. Shares O/s (m)	61	61	61	61
EPS (Rs)	18.2	16.3	17.2	14.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	45.6	67.1	75.1	89.7
CEPS	66.3	87.2	99.9	116.8
BVPS	288.5	335.3	380.5	434.4
FCF	52.3	53.5	53.8	80.3
DPS	15.0	21.5	24.8	29.6
Return Ratio(%)				
RoCE	21.5	26.9	26.4	27.4
ROIC	28.4	33.8	36.0	41.0
RoE	16.2	21.5	21.0	22.0
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Debtor (Days)	71	58	65	65
Valuation(x)				
PER	29.7	20.2	18.0	15.1
P/B	4.7	4.0	3.6	3.1
P/CEPS	67.3	88.6	101.5	118.7
EV/EBITDA	15.1	11.6	9.8	8.1
EV/Sales	2.5	2.0	1.7	1.5
Dividend Yield (%)	1.1	1.6	1.8	2.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	1,539	1,338
2	10-Jun-19	BUY	1,539	1,322
3	5-May-19	BUY	1,539	1,268
4	8-Apr-19	BUY	1,539	1,348
5	5-Apr-19	BUY	1,539	1,348
6	7-Jan-19	BUY	1,460	1,141
7	17-Oct-18	BUY	1,460	1,192
8	5-Oct-18	BUY	1,300	1,198

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	500	544
2	HCL Technologies	BUY	1,186	1,041
3	Hexaware Technologies	Hold	339	373
4	Infosys	Accumulate	782	727
5	L&T Technology Services	Accumulate	1,693	1,599
6	Larsen & Toubro Infotech	Accumulate	1,701	1,576
7	Mindtree	Reduce	755	750
8	Mphasis	Accumulate	1,111	994
9	NIIT Technologies	BUY	1,539	1,338
10	Persistent Systems	Hold	621	621
11	Redington (India)	BUY	114	107
12	Sonata Software	Accumulate	400	352
13	Tata Consultancy Services	BUY	2,291	2,133
14	TeamLease Services	Hold	3,203	3,079
15	Tech Mahindra	Hold	690	701
16	Wipro	Reduce	238	260
17	Zensar Technologies	Accumulate	260	257

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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