

Results inline, Deal Wins supports confident commentary

- NITEC reported 3% QoQ CC revenue growth (our estm: 2%) largely driven by traction in Insurance (up 6% QoQ) and Others Vertical (up 11% QoQ) that covered up for decline in Travel vertical (-3.8% QoQ). OPM was in-line with our estimates at 14%. PAT stood at ₹ 1.1Bn below estm due to provisioning related exceptional loss of ₹ 128mn.
- It has added \$180mn in TCV including 3 large deals (2 in BFSI) during the quarter. Deal TCV on TTM basis is up 16% at \$749mn. The 12M executable order book stood at \$468mn up 20% YoY basis.
- NIITTech expects FY21 growth to be positive given order book position, strong execution on deal ramp-up (not impacted as transitioned to WFH mode) and robust performance on BFS and Insurance vertical. It expects decline in revenues in Q1 and growth revival starting Q2 onwards. The company has also guided sub100bps decline in OPM.
- We expect revenue/earnings CAGR of 8%/5% over FY20-22E but believes that current valuations of 15x FY22E earnings are stretched given the potential risk in Travel vertical and thus maintain our Sell rating, with a TP of ₹950 valued at 12x FY22E EPS (inline to 10yr mean).

Revenue performance inline, Deal momentum to drive sharper recovery

NITEC grew 3% QoQ on CC basis driven by deal ramp-up (won 4 large deal in Q3 and 3 deals in Q4). Travel and Transport segment de-grew 4.7% on QoQ basis due to cost control mode. NITEC expects Airlines clients (46% of Travel vertical) to remain in distress till Q3 but consolidation will drive market share gains for airlines. Commentary for BFS, Insurance and Other vertical (driven by Mulesoft, Cloud migration services) is also positive. It expects changes in Deals structures creating opportunities in terms of purchase of captive, rebadging deal and consolidation as client engage in cutting cost mode.

Operating Margin will remain under pressure

OPM stood at 14% despite COVID related transitioning cost as it has already undertaken measure for cost control such as no increment, non-personal cost cuts, \$2mn saving in marketing budget for FY21 but expects to continue skill specific lateral hires. Management expect modest OPM cut for FY21 (upto 80bps), however we expect margins to remain under pressure due to likelihood of rebadging deals and pricing discount which NITEC expects to honor.

Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	11,093	9,722	14.1	10,734	3.3
Total Expense	9,105	8,015	13.6	8,794	3.5
EBITDA	1,988	1,707	16.5	1,940	2.5
Depreciation	433	303	42.9	449	(3.6)
EBIT	1,555	1,404	10.8	1,491	4.3
Other Income	163	47	246.8	130	25.4
Interest	0	0		0	
EBT	1,590	1,395	14.0	1,621	(1.9)
Tax	348	296	17.6	336	3.6
RPAT	1,136	1,055	7.7	1,233	(7.9)
APAT	1,264	1,111	13.8	1,233	2.5
			(bps)		(bps)
Gross Margin (%)	34.3	35.3	(98)	34.1	15
EBITDA Margin (%)	17.9	17.6	36	18.1	(15)
NPM (%)	10.2	10.9	(61)	11.5	(125)
Tax Rate (%)	21.9	21.2	67	20.7	116
EBIT Margin (%)	14.0	14.4	(42)	13.9	13

CMP	₹ 1,190
Target / Downside	₹ 950 / 20%
BSE Sensex	31,495
NSE Nifty	9,206

Scrip Details

Equity / FV	₹ 625mn / ₹ 10
Market Cap	₹ 74bn
	US\$ 970mn
52-week High/Low	₹ 2,060/₹ 735
Avg. Volume (no)	593,429
NSE Symbol	NIITTECH
Bloomberg Code	NITEC IN

Shareholding Pattern Mar'20(%)

Promoters	70.1
MF/Banks/FIs	7.0
FIIIs	13.4
Public / Others	9.5

Valuation (x)

	FY20A	FY21E	FY22E
P/E	16.6	16.4	14.9
EV/EBITDA	9.3	9.0	7.9
ROE (%)	19.8	17.8	17.7
RoACE (%)	18.0	15.7	15.6

Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	41,839	44,713	49,008
EBITDA	7,215	7,402	8,238
PAT	4,442	4,478	4,929
EPS (₹)	71.9	72.5	79.8

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Exhibit 1: Quarterly performance versus estimates

(in ₹ mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Sales	11,093	11,053	11,040	0.4	0.5	Revenue grew above estimates due to deal ramp-up.
EBIT	1,555	1,542	1,531	0.8	1.6	EBIT margin in-line with expectations.
EBIT Margin (%)	14.0	14.0	13.9	10 bps	20 bps	
PAT	1,136	1,202	1,247	(5.5)	(8.9)	PAT below estimates due to exceptional tax related cost.

Source: Company, DART

Change in estimates

Given the strong growth in the Q4 and confident outlook we have largely retained our growth estimate for FY21/22E (modest cut by ~1%). However, given the increased pricing pressure, potential delinquencies in the Airlines industry (13% of revenues) and other Travel-Hospitality clients we have curtailed our OPM estimates by 20/30bps respectively. As a result, we have trimmed our EPS estimates by 2.5% and 4.3% for FY21/22E.

Exhibit 2: Change in estimates

(₹ mn)	FY20E			FY21E			FY22E		
	Old	Actual	% change	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	592	593	0.2	621	613	(1.4)	668	662	(0.9)
YoY growth (%)	12.1	12.3		5.0	3.2		7.5	8.1	
Revenues	41,799	41,839	0.1	45,368	44,713	(1.4)	48,780	49,008	0.5
YoY growth (%)	13.7	13.8		8.5	6.9		7.5	9.6	
EBIT	5,472	5,485	0.2	5,739	5,569	(3.0)	6,321	6,217	(1.6)
EBIT Margin (%)	13.1	13.1		12.7	12.5		13.0	12.7	
Net profits	4,507	4,441	(1.5)	4,555	4,478	(1.7)	5,110	4,929	(3.5)
EPS (₹)	72.9	71.6	(1.7)	73.6	71.7	(2.5)	82.5	79.0	(4.3)

Source: Company, DART

Exhibit 3: Key assumptions in our estimates

Metrics	FY21E	FY22E
USD Revenue (Mn)	613	662
USD Revenue growth (%)	3.2	8.1
USD/INR	73.00	74.00
INR Revenue growth (%)	6.9	9.6
EBIT Margins (%)	12.5	12.7
EPS growth (%)	0.1	10.1

Source: Company, DART

Exhibit 4: Quarterly and Full Year Performance Trends

₹ mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenue (US\$ Mn)	138.0	138.5	148.7	151.2	154.8	12.2	2.3	528.0	593.3	12.3
Revenue (INR Mn)	9,722	9,627	10,385	10,734	11,093	14.1	3.3	36,762	41,839	13.8
Operating Exp.	8,015	8,238	8,487	8,794	9,105	13.6	3.5	30,309	34,624	14.2
Cost of revenues	6,293	6,374	6,796	7,069	7,289	15.8	3.1	23,907	27,528	15.1
as % of sales	64.7	66.2	65.4	65.9	65.7			65.0	65.8	
SG&A expenses	1,722	1,864	1,691	1,725	1,816	5.5	5.3	6,402	7,096	10.8
as % of sales	17.7	19.4	16.3	16.1	16.4			17.4	17.0	
EBITDA	1,707	1,389	1,898	1,940	1,988	16.5	2.5	6,453	7,215	11.8
Depreciation	303	401	447	449	433	42.9	(3.6)	1,248	1,730	38.6
EBIT	1,404	988	1,451	1,491	1,555	10.8	4.3	5,205	5,485	5.4
Other Income	47	172	76	130	163			477	541	13.4
PBT	1,451	1,160	1,527	1,621	1,718	18.4	6.0	5,682	6,026	6.1
Total Tax	296	318	276	336	348			1,404	1,278	(9.0)
Adjusted PAT	1,155	842	1,251	1,285	1,370	18.6	6.6	4,278	4,748	11.0
Reported PAT	1,055	877	1,195	1,233	1,136	7.7	(7.9)	4,034	4,441	10.1
Reported EPS	17.1	14.2	19.3	19.9	18.2	6.3	(8.6)	65.5	71.6	9.4
Margins (%)						(bps)	(bps)			
EBIDTA	17.6	14.4	18.3	18.1	17.9	36	(15)	17.6	17.2	(31)
EBIT	14.4	10.3	14.0	13.9	14.0	(42)	13	14.2	13.1	(105)
EBT	14.9	12.0	14.7	15.1	15.5	56	39	15.5	14.4	(105)
PAT	10.9	9.1	11.5	11.5	10.2	(61)	(125)	11.1	10.8	(34)
Effective Tax rate	20.4	27.4	18.1	20.7	20.3	(14)	(47)	24.7	21.2	(350)

Source: DART, Company

What to expect next Quarter

Based on its near term outlook we expect 4% sequential decline in revenues in Q1FY21E largely led by sustained pressure in the Travel vertical. We also expect OPM decline of about 190bps due to weak growth and stable cost. However, the commentary on the growth revival as has been highlighted now would be key determinant for overall financial performance for FY21.

Exhibit 5: What to expect next Quarter

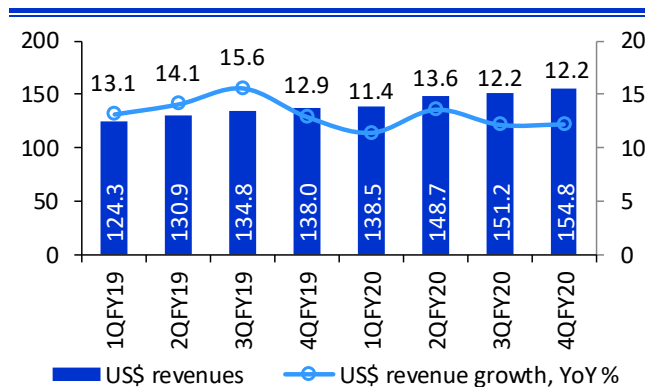
(₹ Mn)	Q1FY21E	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	149	155	139	(4.0)	7.3
Sales	10,848	11,093	9,627	(2.2)	12.7
EBIT	1,313	1,555	988	(15.6)	32.9
PAT	1,067	1,136	876	(6.1)	21.8
EPS (₹)	17.1	18.2	14.2	(6.1)	20.1
EBIT Margin (%)	12.1	14.0	10.3	(192 bps)	184 bps

Source: DART, Company

Revenue growth commendable given current environment

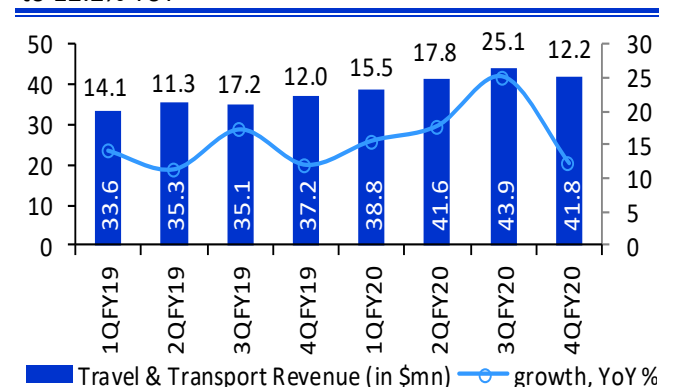
Revenue growth was 3% QoQ led by growth in Insurance (6% QoQ) and Other vertical (11% QoQ), while Travel-Transportation vertical reported decline of about -3.8% QoQ. Recent TCV wins (Q3: 4 Large Deal and Q4: 3 Large Deals) are likely to drive revenue with deal ramp-up. It has added \$180mn in TCV including 3 large deals (2 in BFSI) during the quarter. Within the Travel vertical - Airlines client accounts for 13% of Revenue and is likely to see significant headwind given distress within the industry. While other segments of T&T, Travel Tech and Rail to remain resilient and more digital transformation needs in Airports. NIIT Tech expects deal momentum to remain robust in Q1 given ongoing talks on Vendor Consolidation (won 1 deal).

Exhibit 6: Revenue grew 12.2% YoY



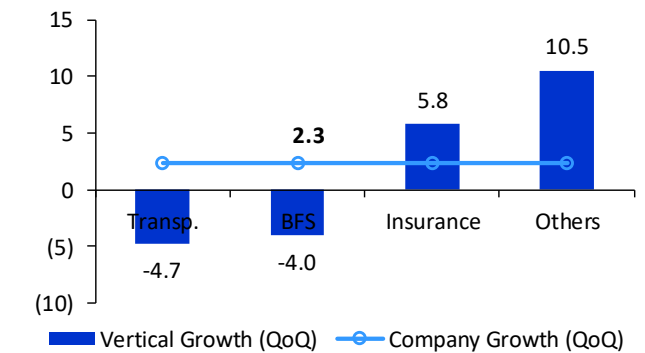
Source: Company, DART

Exhibit 7: Travel and Transport Revenue growth down to 12.2% YoY



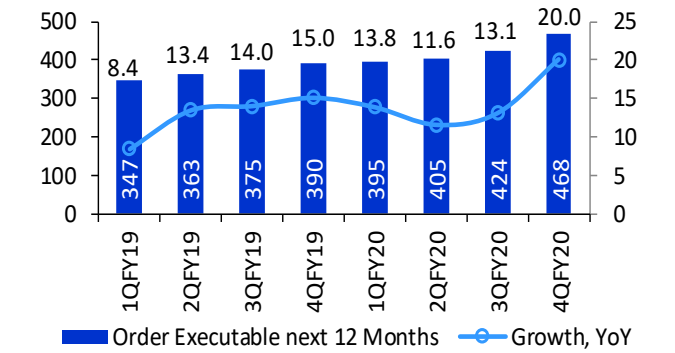
Source: Company, DART

Exhibit 8: Company and each Vertical QoQ CC growth



Source: Company, DART

Exhibit 9: 12M Executable Order Book up 20% YoY

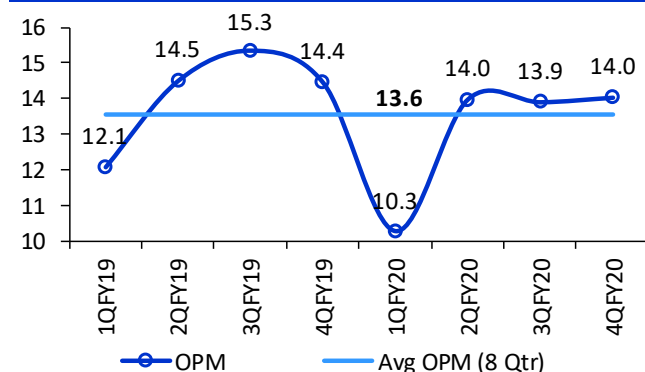


Source: Company, DART

Margin improvement led by Sub-Contracting and standard optimizations

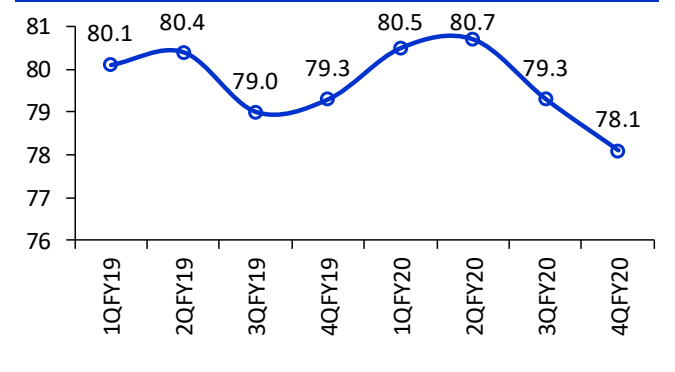
OPM stood at 14% despite COVID related cost as deal ramped up as expected. NITEC has already undertaken measure for cost controls such as no increments, non-personal cost cuts, \$2mn saving in marketing budget for FY21 but expects to continue skill specific lateral hires. Top 20 customers contain few airline customers but NITEC expects no significant bad debts in Airline Vertical.

Exhibit 10: Operating Margin improved 10bps QoQ



Source: Company, DART

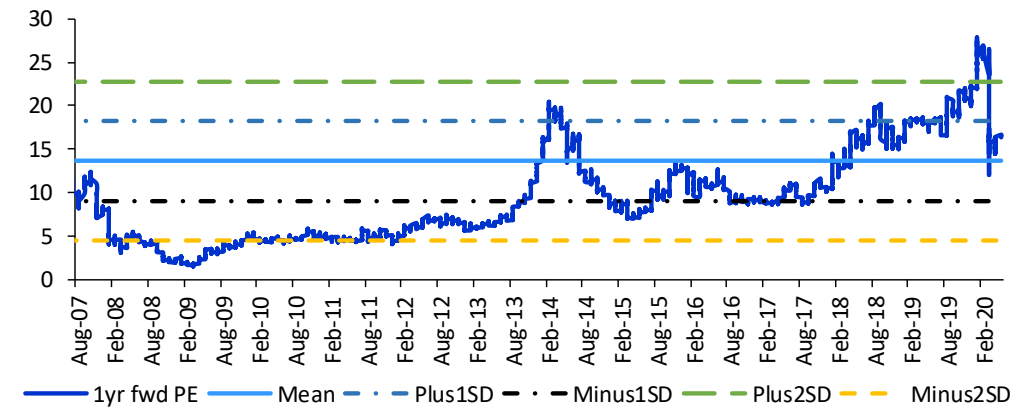
Exhibit 11: Utilization declined by 120bps QoQ



Source: Company, DART

PE Performance

Exhibit 12: NITEC valuations to contract with growth towards long term mean (12x)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	36,762	41,839	44,713	49,008
Total Expense	30,309	34,624	37,311	40,770
COGS	23,907	27,528	29,765	32,488
Employees Cost	0	0	0	0
Other expenses	6,402	7,096	7,546	8,282
EBIDTA	6,453	7,215	7,402	8,238
Depreciation	1,248	1,730	1,833	2,022
EBIT	5,205	5,485	5,569	6,217
Interest	0	0	0	0
Other Income	477	471	429	420
Exc. / E.O. items	0	0	0	0
EBT	5,682	5,956	5,998	6,637
Tax	1,404	1,278	1,350	1,593
RPAT	4,090	4,442	4,478	4,929
Minority Interest	188	236	170	115
Profit/Loss share of associates	0	0	0	0
APAT	4,090	4,442	4,478	4,929

Balance Sheet

(₹ Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	618	625	625	625
Minority Interest	0	0	0	0
Reserves & Surplus	20,180	23,340	25,818	28,559
Net Worth	20,798	23,965	26,443	29,184
Total Debt	2,103	2,491	2,491	2,491
Net Deferred Tax Liability	555	1,995	1,995	1,995
Total Capital Employed	23,456	28,451	30,929	33,670

Applications of Funds

Net Block	8,187	10,793	11,160	10,988
CWIP	14	3	3	3
Investments	5,038	2,092	2,242	2,492
Current Assets, Loans & Advances	14,463	21,099	24,190	27,898
Inventories	0	0	0	0
Receivables	5,922	8,565	10,415	11,790
Cash and Bank Balances	5,079	9,034	9,191	10,654
Loans and Advances	1,549	137	896	1,466
Other Current Assets	1,913	3,363	3,688	3,988
Less: Current Liabilities & Provisions	4,246	5,536	6,666	7,711
Payables	1,647	2,634	3,534	4,334
Other Current Liabilities	2,599	2,902	3,132	3,377
Net Current Assets	10,217	15,563	17,524	20,187
Total Assets	23,456	28,451	30,929	33,670

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	35.0	34.2	33.4	33.7
EBIDTA Margin	17.6	17.2	16.6	16.8
EBIT Margin	14.2	13.1	12.5	12.7
Tax rate	24.7	21.5	22.5	24.0
Net Profit Margin	11.1	10.6	10.0	10.1
(B) As Percentage of Net Sales (%)				
COGS	65.0	65.8	66.6	66.3
Employee	0.0	0.0	0.0	0.0
Other	17.4	17.0	16.9	16.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	59	75	85	88
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	16	23	29	32
Working Capital days	101	136	143	150
FA T/O	4.5	3.9	4.0	4.5
(D) Measures of Investment				
AEPS (₹)	66.2	71.9	72.5	79.8
CEPS (₹)	86.4	99.9	102.1	112.5
DPS (₹)	15.0	31.4	32.4	35.4
Dividend Payout (%)	22.7	43.6	44.7	44.4
BVPS (₹)	336.5	387.8	427.9	472.2
RoANW (%)	21.1	19.8	17.8	17.7
RoACE (%)	19.1	18.0	15.7	15.6
RoAIC (%)	29.2	29.0	27.1	27.8
(E) Valuation Ratios				
CMP (₹)	1190	1190	1190	1190
P/E	18.0	16.6	16.4	14.9
Mcap (₹ Mn)	73,527	73,527	73,527	73,527
MCap/ Sales	2.0	1.8	1.6	1.5
EV	70,551	66,984	66,827	65,364
EV/Sales	1.9	1.6	1.5	1.3
EV/EBITDA	10.9	9.3	9.0	7.9
P/BV	3.5	3.1	2.8	2.5
Dividend Yield (%)	1.3	2.6	2.7	3.0
(F) Growth Rate (%)				
Revenue	22.9	13.8	6.9	9.6
EBITDA	28.8	11.8	2.6	11.3
EBIT	39.2	5.4	1.5	11.6
PBT	40.6	4.8	0.7	10.6
APAT	45.8	8.6	0.8	10.1
EPS	45.1	8.6	0.8	10.1

Cash Flow

(₹ Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,527	2,969	4,507	5,750
CFI	(2,300)	1,123	(2,350)	(2,100)
CFF	(1,250)	(976)	(2,000)	(2,188)
FCFF	2,260	307	2,307	3,900
Opening Cash	4,102	5,079	9,034	9,191
Closing Cash	5,079	8,195	9,191	10,654

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-19	Buy	1,470	1,225
May-19	Accumulate	1,400	1,260
Jul-19	Reduce	1,320	1,353
Oct-19	Reduce	1,370	1,492
Jan-20	Reduce	1,600	1,941

*Price as on recommendation date

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