

## Strong performance despite challenges...

NIIT Technologies (NIITT) reported 2.3% QoQ growth in dollar revenues mainly led by insurance vertical and Wishworks, partially offset by 4.7% QoQ decline in the travel vertical. The fresh order book remains in the range of \$180 million. The QoQ dip in the fresh order book was mainly due to the higher base in the last quarter. Digital revenues increased 8.0% QoQ & 42.1% YoY and now accounts for 38% of total revenues. The company is in the process of changing its name to Coforge Ltd.

## Large deal wins in previous quarters to drive growth in FY21E

During the quarter, the company reported robust revenues despite headwinds from the travel sector. NIITT has exposure to airlines that account for ~14% of overall revenues. This is expected to remain under pressure. However, rail and airports in the travel vertical are expected to remain stable. Further, although the company is expected to report a single digit decline in Q1FY21E revenues, we expect revenues to grow in Q2FY21E based on the large deals won in Q4FY20 and Q3FY20 (as indicated by the company). As a result, we expect FY21E revenues to register marginal growth in dollar revenues. Going forward, the company can improve its growth trajectory by winning large deals, acquiring captives, vendor consolidation and rebadging of deal wins. As a result, we expect NIITT to register double digit revenue growth in FY22E.

## Transition cost, pricing pressure to impact FY21E margins

The company expects an 80 bps decline in margins led by the impact of Q1FY21E dip in revenues, large deal transition cost and pricing pressure from clients. NIITT is also planning a name change, which could impact margins in terms of higher marketing spend. The company expects to offset some of the pressure by undertaking aggressive cost rationalisation in SG&A and freezing of salary hikes. We expect NIITT to witness a dip in FY21E and expect margins to improve from FY22E onwards.

## Valuation & Outlook

NIIT Tech has consistently reported healthy numbers on fresh order intake and won three large deals in the quarter (of which two were on the BFS side). Further, although the company's commentary on revenue and margins are encouraging, given the uncertainties in the transport vertical (airlines account for ~14% of its total revenues) we remain cautious on the stock. Hence, we maintain our **HOLD** rating on the stock with a revised target price of ₹ 1330 per share (15x P/E on FY22E EPS).



### Particulars

Particular	Amount
Market Capitalization (₹Cr on	7,883.3
Total Debt (₹Crore)	10.0
Cash & Investments (₹Cr on	1,030.4
EV (₹Crore)	6,862.9
52 week H/L	2057 / 739
Equity capital	61.2
Face value	10.0

### Key Highlights

- Dollar revenue reported healthy growth in Q4FY20. The company expects Q1FY21E to be muted given the challenges related to Covid 19
- The company expects margins to dip in FY21E led by transition cost and pricing pressure
- Maintain HOLD rating with revised target price of ₹ 1330/share

### Research Analyst

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### Key Financial Summary

Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,991	3,676	4,184	4,545	5,014	9.5%
EBITDA	501	645	720	773	895	11.5%
EBITDA Margins (%)	16.8	17.6	17.2	17.0	17.9	
Net Profit	280	398	444	446	532	9.4%
EPS (₹)	45.6	65.7	71.4	74.6	88.9	
P/E	28.5	19.5	18.2	17.5	14.7	
RoNW (%)	15.8	19.5	19.4	19.8	20.8	
RoCE (%)	19.4	25.2	24.2	24.5	25.7	

Source: Company, ICICI Direct Research, \*EPS adjusted for buyback in FY22E

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19 YoY (%)		Q3FY20 1oQ (%)		Comments
Revenue	1,109.3	1,101.6	972.2	14.1	1,073.4	3.3	US\$ revenues grew 2.3% QoQ to \$154.8 million mainly driven by insurance vertical and growth in Wishworks partially offset by decline in travel vertical
Employee expenses	728.9	722.6	629.3	15.8	706.9	3.1	
Gross Margin	380.4	378.9	342.9	10.9	366.5	3.8	
Gross margin (%)	34.3	34.4	35.3	-98 bps	34.1	15 bps	
SG&A expenses	183.3	177.4	172.2	6.4	172.5	6.3	
EBITDA	197.1	201.6	170.7	15.5	194.0	1.6	
EBITDA Margin (%)	17.8	18.3	17.6	21 bps	18.1	-31 bps	Decline in margins due to higher SG&A expenses
Depreciation & amortisation	43.3	46.3	30.3	42.9	44.9	-3.6	
EBIT	153.8	155.3	140.4	9.5	149.1	3.2	
EBIT Margin (%)	13.9	14.1	14.4	-58 bps	13.9	-3 bps	
Other income (less interest)	18.0	6.9	4.7	283.0	13.0	38.5	
PBT	159.0	162.2	145.1	9.6	162.1	-1.9	
Tax paid	34.8	36.5	29.6	17.6	33.6	3.6	
PAT	113.6	120.5	105.5	7.7	123.3	-7.9	PAT came in above our estimate mainly due to lower-than-expected operating margins and higher taxes. During the quarter, the company reported exceptional expenses of provision for airline client

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	4,717	4,545	-3.6	5,306	5,014	-5.5	Revise our revenue estimates downwards to factor in near term challenges
EBITDA	849	773	-9.0	982	895	-8.9	
EBITDA Margin (%)	18.0	17.0	-100 bps	18.5	17.9	-66 bps	Pricing pressure to keep margins under check
PAT	513	446	-13.0	597	532	-10.9	
EPS (₹)	83.5	74.6	-10.7	97.3	88.9	-8.7	

Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Revenue outlook** –During the quarter, the company reported robust revenues despite headwinds from the travel sector. NIITT has alluded to the fact that airlines account for ~14% of overall revenues, which is expected to remain under pressure. Further, the company expects rail and airports in the travel vertical to do well. In addition, NIITT indicated that in Q1FY21E it will face single digit decline in revenues and expects revenues to grow in Q2 based on the large deals won in Q4FY20 and Q3FY20. The company does not expect any ramp down in order wins or dampening of deals in FY21E. NIITT expects to grow organically in FY21E and expects to report higher growth than peers in FY21E. The company expects to achieve this on large deal wins. NIITT expects revenue growth opportunity in the acquisition of captives, vendor consolidation and rebadging of deal wins
- **Margin trajectory** – The company expects an 80 bps decline in margins led by impact of Q1FY21E dip in revenues, large deal transition cost and pricing pressure from clients. NIITT is also planning a name change, which could impact margins in terms of higher marketing spend. The company expects to offset some of the pressure by doing aggressive cost rationalisation in SG&A and freezing of salary hikes
- **Vertical wise commentary** – The company has won two large deals in BFS which, it expects to ramp up in Q2FY21E and had won one large deal in insurance in the previous quarter, benefit of which could be seen in Q2FY21E. NIITT has 27% exposure to the travel vertical of which 50% is in airlines that is impacted by Covid-19. The company expects remaining 50% of travel vertical to be stable, which has airports & rail transport. Others vertical, which is now ~26% of revenues, has seen traction in healthcare and Hi tech. The company expects these to be focused verticals and expects to invest in these verticals in coming quarters. NIITT has hired head sales for these two verticals to improve growth
- **Digital business** – The digital business is now contributing 38% to revenues increased 8.0% QoQ and grew 42.1% YoY in this quarter. The acquisition of Wishworks has also augmented digital revenues. NIITT has hired Arun Varadarajan. He has rich experience in digital technologies and will head the company's digital business
- **Deal wins** – The order intake has been consistently showing a healthy position. Fresh order intake was at US\$180 million. The executable order book over the next 12 months is up 20.0% YoY US\$468 million. The company added 10 new customers of which three were from the US, six from EMEA and one from APAC & India
- **Client position** – NIITT indicated that there are airline clients in top 20 bucket. However, the company does not expect an adverse impact on its top 20 clients
- **DSO days** –DSO days increased in the quarter due to Covid-19

## Key Metrics

### Exhibit 3: Geography-wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Revenue by geography (%)</b>						
America	49.0	49.0	49.0	49.0	48.0	46.0
EMEA	33.0	33.0	35.0	37.0	37.0	40.0
RoW	18.0	18.0	16.0	14.0	15.0	14.0
<b>Growth QoQ (%)</b>						
America	3.0	2.3	0.4	7.3	-0.4	-1.9
EMEA	0.0	2.3	6.5	13.5	1.7	10.6
RoW	9.1	2.3	-10.8	-6.1	9.0	-4.5

Source: Company, ICICI Direct Research

Growth in EMEA due to higher revenues in key accounts in BFS, NTL and Wishworks while the decline in Americas was due to lower revenue in travel vertical

### Exhibit 4: Vertical wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Revenue by verticals (%)</b>						
Banking & financial services	15.0	16.0	16.0	17.0	16.0	15.0
Insurance	30.0	28.0	29.0	31.0	30.0	31.0
Transport	26.0	27.0	28.0	28.0	29.0	27.0
Others	29.0	29.0	27.0	24.0	25.0	27.0
<b>Growth QoQ (%)</b>						
Banking & financial services	-3.4	9.1	0.4	14.1	-4.3	-4.0
Insurance	6.6	-4.5	4.0	14.8	-1.6	5.8
Transport	-0.8	6.2	4.1	7.3	5.3	-4.7
Others	6.7	2.3	-6.5	-4.6	6.0	10.5

Source: Company, ICICI Direct Research

Insurance vertical grew in US and EMEA, growth in other vertical was led by Wishworks

### Exhibit 5: Service-wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Revenue by service mix (%)</b>						
SI & PI	4.0	4.0	1.0	1.0	2.0	1.0
IP Assets	6.0	5.0	6.0	5.0	6.0	8.0
Managed Services	18.0	17.0	17.0	17.0	16.0	17.0
Application Development & Managemen	68.0	70.0	72.0	74.0	73.0	72.0
BPO	4.0	4.0	4.0	3.0	3.0	3.0
<b>Growth QoQ (%)</b>						
SI & PI	3.0	2.3	-74.9	7.3	103.4	-48.8
IP Assets	3.0	-14.7	20.5	-10.5	22.1	36.5
Managed Services	3.0	-3.4	0.4	7.3	-4.3	8.7
Application Development & Managemen	3.0	5.3	3.3	10.3	0.3	0.9
BPO	3.0	2.3	0.4	-19.5	1.7	2.3

Source: Company, ICICI Direct Research

**Exhibit 6: Client & human resource matrix**

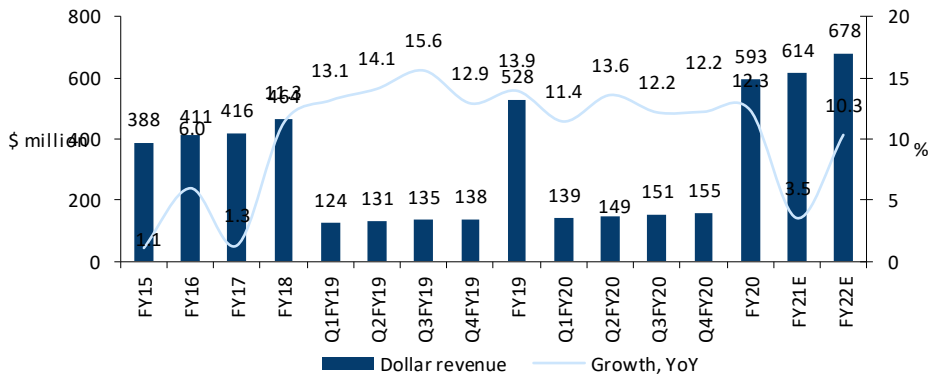
	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b><u>Client metrics</u></b>						
Between 1 to 5 million	62	66	66	70	74	80
Between 5 to 10 million	20	16	17	16	17	15
Above 10 million	8	8	8	9	9	11
<b><u>Headcount, Utilization, Attrition</u></b>						
Total Employees	10,144	10,263	10,297	10,800	10,849	11,156
Utilization	79	79.3	80.5	80.7	79.3	78.1
Attrition	11.7	12.2	12.9	12.3	11.9	11.8

Source: Company, ICICI Direct Research

*Increase of six clients in \$1-5 million category and 2 in \$10 million category*

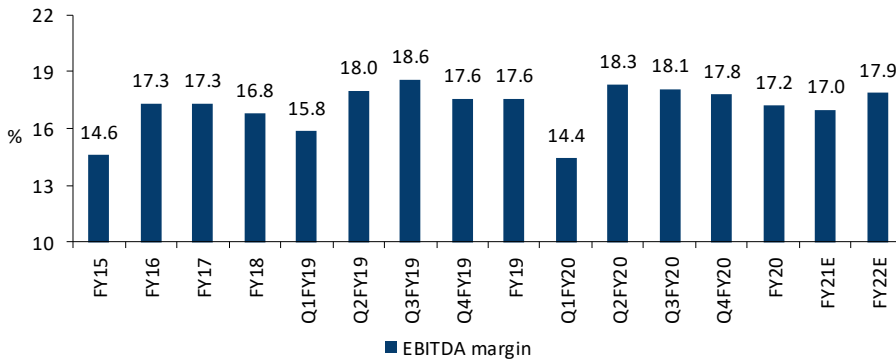
### Financial story in charts

Exhibit 7: Dollar revenues may grow at 6.8% CAGR in FY20-22E



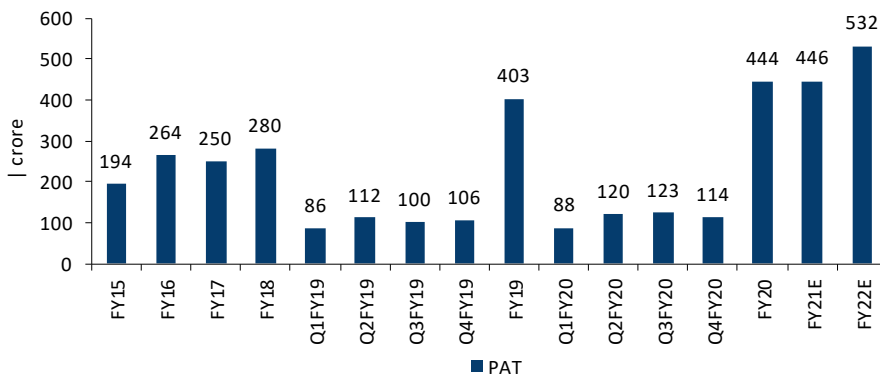
Source: Company, ICICI Direct Research

Exhibit 8: Change in margin estimates for FY21E & FY22E



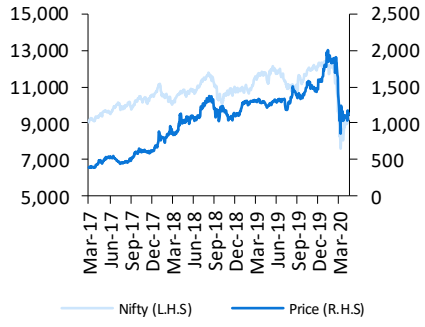
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

**Exhibit 10: Three year chart**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Total operating income</b>	<b>3,676</b>	<b>4,184</b>	<b>4,545</b>	<b>5,014</b>
Growth (%)	22.9	13.8	8.6	10.3
COGS (employee expenses)	2,391	2,753	3,000	3,279
S,G&A expenses	640	711	773	840
Total Operating Expenditure	3,031	3,464	3,773	4,119
<b>EBITDA</b>	<b>645</b>	<b>720</b>	<b>773</b>	<b>895</b>
Growth (%)	28.7	11.6	7.4	15.8
Depreciation	125	173	191	211
Other Income	48	56	28	38
PBT	568	603	610	722
Total Tax	140	128	139	164
Adjusted PAT	403	444	446	532
Growth (%)	44	10	0	19
Adjusted EPS (₹)	65.7	71.4	74.6	88.9
Exceptional loss	6	7	-	-
<b>Reported PAT</b>	<b>398</b>	<b>444</b>	<b>446</b>	<b>532</b>
Reported EPS (₹)	65.7	71.4	74.6	88.9
Growth (%)	43.9	8.7	4.4	19.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
	FY19	FY20E*	FY21E	FY22E
Profit before Tax	568	603	610	722
Add: Depreciation	125	173	191	211
(Inc)/dec in Current Assets	(24)	(181)	(256)	(78)
Inc/(dec) in CL and Provisior	-	69	59	77
Taxes paid	(118)	(128)	(139)	(164)
<b>CF from operating activiti</b>	<b>453</b>	<b>473</b>	<b>437</b>	<b>730</b>
(Inc)/dec in Investments	(584)	-	-	-
(Inc)/dec in Fixed Assets	(70)	(188)	(227)	(251)
Others	12	56	28	38
<b>CF from investing activitie</b>	<b>(230)</b>	<b>(132)</b>	<b>(199)</b>	<b>(213)</b>
Issue/(Buy back) of Equity	9	-	-	-
Inc/(dec) in loan funds	(5)	-	-	-
Dividend paid & dividend tax	(109)	(233)	(134)	(239)
<b>CF from financing activiti</b>	<b>(106)</b>	<b>(233)</b>	<b>(471)</b>	<b>(239)</b>
Net Cash flow	116	108	(233)	278
Exchange difference	(7)	-	-	-
Opening Cash	418	558	665	432
<b>Closing Cash</b>	<b>558</b>	<b>665</b>	<b>432</b>	<b>710</b>

Source: Company, ICICI Direct Research, \* to be updated post receipt of detailed financials

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E*	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	62	62	60	60
Reserve and Surplus	2,011	2,222	2,199	2,491
Total Shareholders funds	2,072	2,284	2,259	2,551
Total Debt	10	10	10	10
Provisions	73	73	73	73
Minority Interest / Other non	102	126	150	176
<b>Total Liabilities</b>	<b>2,257</b>	<b>2,492</b>	<b>2,491</b>	<b>2,810</b>
<b>Assets</b>				
Net Block	574	589	626	666
Capital WIP	1	1	1	1
Total Fixed Assets	575	591	627	667
Goodwill	245	245	245	245
Deferred tax assets	103	103	103	103
Debtors	592	674	795	807
Other Current Assets	403	502	636	702
Cash	558	665	432	710
Current Investments	365	365	365	365
Total Current Assets	1,918	2,206	2,229	2,584
Trade payables	165	187	204	225
Other current liabilities	419	460	500	552
Short term provisions	33	38	41	45
Total Current Liabilities	617	685	745	821
Net Current Assets	1,302	1,521	1,484	1,763
<b>Application of Funds</b>	<b>2,257</b>	<b>2,492</b>	<b>2,491</b>	<b>2,810</b>

Source: Company, ICICI Direct Research, \* to be updated post receipt of detailed financials

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E*	FY21E	FY22E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	65.7	71.4	74.6	88.9
DPS	-	32	22	38
Cash per Share	92.1	108.7	72.2	118.6
BV per share (Diluted)	342.3	373.1	377.4	426.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	17.6	17.2	17.0	17.9
PBT Margin	15.5	14.4	13.4	14.4
PAT Margin	11.0	10.6	9.8	10.6
Debtor days	59	59	64	59
Creditor days	16	16	16	16
<b>Return Ratios (%)</b>				
RoE	19.5	19.4	19.8	20.8
RoCE	25.2	24.2	24.5	25.7
RoIC	39.0	37.5	34.4	39.5
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	19.5	17.9	17.5	14.7
EV / EBITDA	10.8	9.5	9.2	7.6
EV / Net Sales	1.9	1.6	1.6	1.4
Market Cap / Sales	2.1	1.9	1.7	1.6
Price to Book Value	3.8	3.5	3.4	3.1
<b>Solvency Ratios</b>				
Debt/E BITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.7	1.9	1.8
Quick Ratio	1.6	1.7	1.9	1.8

Source: Company, ICICI Direct Research, \* to be updated post receipt of detailed financials



Exhibit 15: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹Cr)	EPS (₹)				P/E (x)				RoCE (%)			RoE (%)				
					FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	
HCL Tech (HCLTECH)	521	525	Hold	1,22,564	37.3	40.0	41.8	46.8	12	11	11	10	26.9	25.7	23.6	23.6	24.5	22.1	20.1	19.9
Infosys (INFTEC)	677	750	Buy	2,79,323	35.4	38.9	38.7	44.4	18	16	17	14	32.9	30.8	28.4	29.8	23.7	25.2	23.1	24.1
TCS (TCS)	1,937	2,055	Hold	6,80,250	83.8	86.2	82.8	93.5	22	21	22	19	43.8	43.5	41.5	42.7	34.4	37.5	35.9	36.6
Tech M (TECMAH)	502	630	Buy	45,839	47.7	44.8	38.8	47.8	11	11	13	11	23.6	19.1	14.7	16.7	21.2	18.5	14.6	16.2
Wipro (WIPRO)	185	225	Buy	1,10,208	14.9	16.6	15.8	17.6	12	11	12	10	17.8	19.3	16.4	16.4	15.8	17.4	14.8	14.6
Mindtree (MINCON)	908	945	Hold	12,577	45.9	37.9	45.6	55.6	17	19	16	13	29.8	23.1	23.8	25.8	22.8	16.4	17.3	18.9
LTI (LTINFNC)	1,542	1,795	Buy	23,749	87.3	85.5	107.0	123.8	16	16	13	11	40.4	32.6	33.7	32.7	31.0	25.0	25.8	25.0
NIIT Tech (NIITEC)	1,302	1,330	Hold	7,883	65.7	71.4	74.6	88.9	20	18	17	15	25.2	24.2	24.5	25.7	19.5	19.4	19.8	20.8
Infoedge (INFEDG)	2,647	2,450	Hold	28,481	23.1	20.2	32.0	39.5	101	116	73	59	18.6	18.3	19.2	21.0	12.1	9.9	14.0	15.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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