Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

May 6, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	**BUY**		**HOLD**	
Target Price	**1,340**		**1,029**	
Sales (Rs. m)	44,301	50,178	40,908	44,535
% Chng.	*8.3*	*12.7*		
EBITDA (Rs. m)	7,310	9,032	6,644	8,016
% Chng.	*10.0*	*12.7*		
EPS (Rs.)	75.8	95.1	69.2	85.2
% Chng.	*9.4*	*11.7*		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	36,762	41,839	44,301	50,178
EBITDA (Rs. m)	6,453	7,215	7,310	9,032
Margin (%)	*17.6*	*17.2*	*16.5*	*18.0*
PAT (Rs. m)	4,144	4,529	4,682	5,877
EPS (Rs.)	67.1	73.3	75.8	95.1
Gr. (%)	*47.1*	*9.3*	*3.4*	*25.5*
DPS (Rs.)	21.5	24.2	25.0	31.4
Yield (%)	*1.8*	*2.0*	*2.1*	*2.6*
RoE (%)	*21.5*	*20.5*	*18.8*	*21.0*
RoCE (%)	*26.9*	*24.7*	*22.0*	*25.8*
EV/Sales (x)	1.8	1.5	1.3	1.1
EV/EBITDA (x)	10.0	8.6	8.1	6.2
PE (x)	17.7	16.2	15.7	12.5
P/BV (x)	3.5	3.1	2.8	2.5

Key Data	NITT.BO | NITEC IN
52-W High / Low	Rs.2,060 / Rs.735
Sensex / Nifty	31,454 / 9,206
Market Cap	Rs.74bn/ $ 983m
Shares Outstanding	62m
3M Avg. Daily Value	Rs.1699.88m

Shareholding Pattern (%)

Promoter's	70.10
Foreign	14.49
Domestic Institution	6.80
Public & Others	8.61
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.7	(23.7)	(6.1)
Relative	0.6	(2.4)	16.3

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NIIT Technologies (NITEC IN)

Rating: BUY | CMP: Rs1,190 | TP: Rs1,340

Strongest Commentary, Attractive Valuations!

Quick Pointers:

- Strongest Commentary among the peers- management expects single digit decline in Q1, growth in Q2 & YoY growth in FY21E. Constant currency revenue growth despite COVID crisis.
- Executable order book increased by 20% YoY (10.4% QoQ) to all time high of US$468mn.
- Airlines constitute to 46% of travel vertical (13% of total revenues) will continue to remain under pressure, other verticals within Travel (Airports, Railways, Hotel & Tech) are less affected and will better from Q2 onwards.
- We upgrade NIIT Tech to Buy from HOLD on account strong commentary, better deal wins despite COVID crisis. Stock trades at attractive valuation of 12.4X earnings which is 20%/12% discount to peers MTCL/LTI.

NITEC posted strong USD revenues growth of +2.3% QoQ (+12.2% YoY) to $154.8mn higher than our estimates (Ple: USD149.1.mn, Cons: USD 150mn). EBIT margin remained flat at 14% (+13bps QoQ) (Ple: 13.5%, Cons: 13.7%). Revenue & margin performance was better than we estimated. Strongest Commentary among the peers- management expects single digit decline in Q1, growth in Q2 & YoY growth in FY21E. Constant currency revenue growth despite COVID crisis.

Executable order book increased by 20% YoY (10.4% QoQ) to all time high of US$468mn. Deals are getting bigger & better every quarter.

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Pre Corona, NIIT Tech was the fastest growing midcap IT company with superior margin performance, order book & management quality. We extrapolated impact from Airlines sector, but management mitigated the risk well. From earlier expectation of 6% revenue decline, we now expect 1% USD QoQ growth in FY21E & 10% in FY22E (earlier: 6%) which led to our EPS increase of ~10% for FY21E/22E. We upgrade NIIT Tech to Buy from HOLD on account strong commentary, better deal wins despite COVID crisis. Stock trades at attractive valuation of 12.4X earnings which is 20%/12% discount to peers MTCL/LTI. We value now NIIT Tech at 14x (earlier:12X) to arrive at a TP of Rs.1340 (earlier: Rs.1029).

- **Sustained strong revenue growth momentum:** NITEC posted strong USD revenues growth of +2.3% QoQ (+12.2% YoY) to $154.8mn higher than our estimates (Ple: USD149.1.mn, Cons: USD 150mn). EBIT margin remained flat at 14% (+13bps QoQ) (Ple: 13.5%, Cons: 13.7%). Revenue & margin performance was better than we estimated

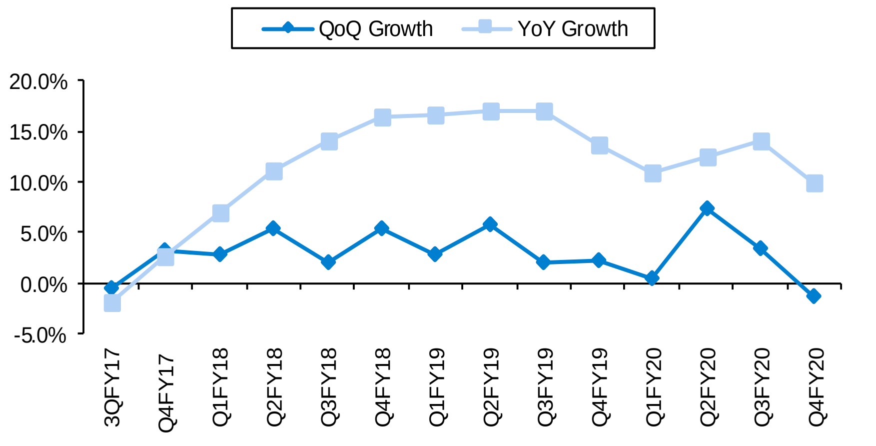
- **Strong deal momentum:** Executable order book increased by 20% YoY (10.4% QoQ) to all time high of US$468mn. Deals are getting bigger & better every quarter. The management sees no moderation in revenue growth despite tough macro as the company continues to gain wallet share against peers.

Exhibit 1: Q4FY20: Quick view on results

Rs mn	4QFY20	3QFY20	*QoQ gr.*	4QFY19	*YoY gr.*
Revenue (USDmn)	155	151	*2.3%*	132	*17.1%*
Revenue	11,093	10,734	*3.3%*	9,319	*19.0%*
EBIT	1,538	1,491	*3.2%*	1,343	*14.5%*
EBIT Margin	*13.9%*	*13.9%*		*14.4%*	
PAT	1,136	1,233	*-7.9%*	1,111	*2.3%*
EPS	18.2	20.1	*-9.6%*	18.2	*0.3%*
Executable OB (next 12M, $ m)	468	424	*10.4%*	390	*20.0%*
Fresh Order intake (US$ m)	180	218	*-17.4%*	170	*5.9%*

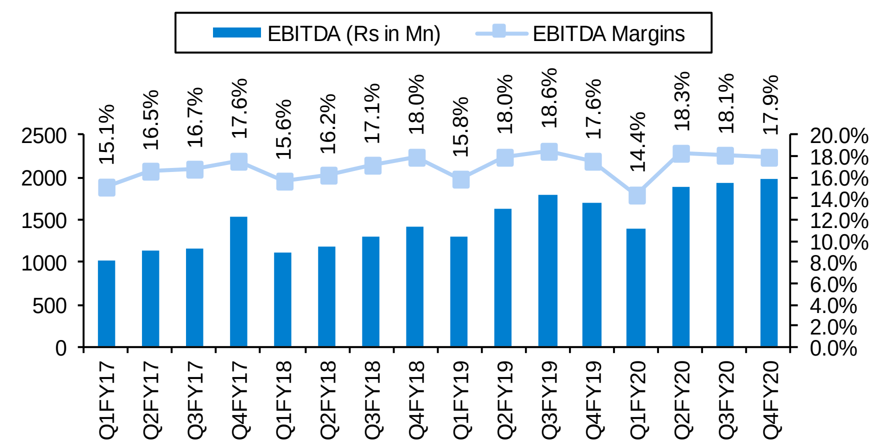
Source: Company, PL

Exhibit 2: Sustained revenue growth momentum (USD revenues)



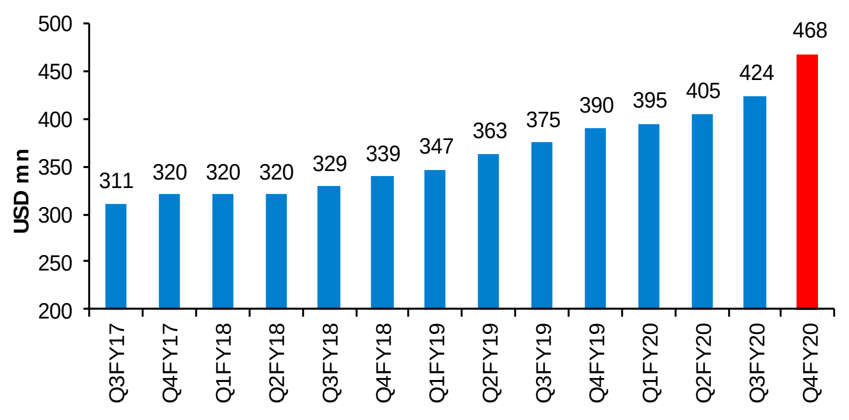
Source: Company, PL

Exhibit 3: EBITDA margins to expand ahead..



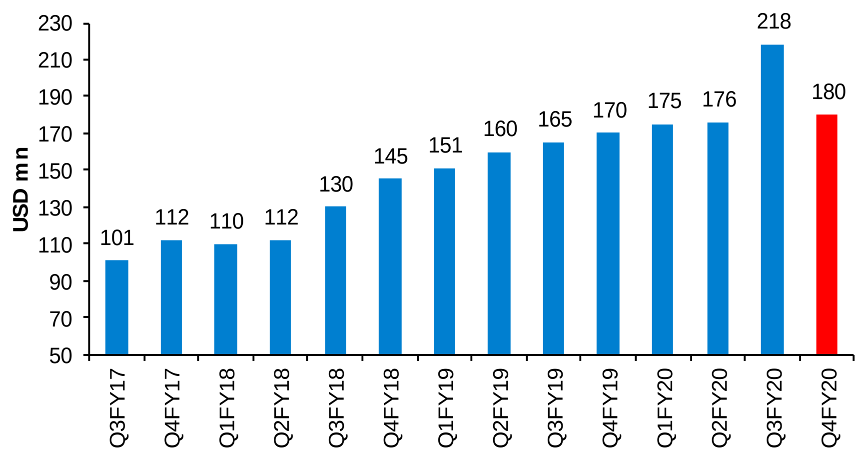
Source: Company, PL

Exhibit 4: Strong order pipeline executable in one year



Source: Company, PL

Exhibit 5: Fresh order continues to grow



Source: Company, PL

Exhibit 6: Geography-wise revenues

Geography revenues (USD Mn)	4QFY20	3QFY20	*QoQ Gr.*	4QFY19	*YoY (Gr.)*
Americas	73.8	72.9	*1.3%*	66.1	*12%*
EMEA	56.9	55.0	*3.4%*	44.5	*28%*
RoW	23.1	20.8	*10.7%*	24.3	*-5%*
Total	153.7	148.7	*3.4%*	134.8	*14%*
-as a % of total sales					
Americas	48%	49%	*-100bp*	49%	*-100bp*
EMEA	37%	37%	*0bp*	33%	*400bp*
RoW	15%	14%	*100bp*	18%	*-300bp*

Source: Company, PL

Exhibit 7: Vertical-wise revenues

Vertical revenues (USD mn)	3QFY20	2QFY20	QoQ Gr.	3QFY19	YoY (Gr.)
BFS	24.6	25.3	*-2.7%*	20.2	*22%*
Insurance	46.1	46.1	*0.0%*	40.5	*14%*
Travel and Transport	44.6	41.6	*7.1%*	35.1	*27%*
Others	38.4	35.7	*7.7%*	39.1	*-2%*
Total	**153.7**	**148.7**	***3.4%***	**134.8**	***14%***
-as a % of total sales					
BFS	17%	16%	*100bp*	16%	*100bp*
Insurance	31%	29%	*200bp*	29%	*200bp*
Travel and Transport	28%	28%	*0bp*	27%	*100bp*
Others	24%	27%	*-300bp*	28%	*-400bp*

Source: Company, PL

Exhibit 8: Service Line Revenues

Service Revenues (USD mn)	3QFY20	2QFY20	QoQ Gr.	3QFY19	YoY (Gr.)
ADM	112.2	110.0	*2.0%*	91.7	*22%*
IP assets	9.2	7.4	*24.0%*	8.1	*14%*
Managed services	24.6	25.3	*-2.7%*	24.3	*1%*
SI and PI	3.1	1.5	*106.7%*	5.4	*-43%*
BPO	4.6	4.5	*3.4%*	5.4	*-15%*
Total	**153.7**	**148.7**	***3.4%***	**134.8**	***14%***
-as a % of total sales					
ADM	73%	74%	*-100bp*	68%	*500bp*
IP assets	6%	5%	*100bp*	6%	*0bp*
Managed services	16%	17%	*-100bp*	18%	*-200bp*
SI and PI	2%	1%	*100bp*	4%	*-200bp*
BPO	3%	3%	*0bp*	4%	*-100bp*

Source: Company, PL

Exhibit 9: Client Metrics

Client Concentration (%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Top 5	34	33	31	30	29	27	28	28	29	27	29	27	27
Top 10	46	45	43	42	40	36	40	40	41	39	39	36	37
Between I mn - 5mn	55	52	55	59	60	63	63	62	66	66	70	74	80
5mn-10 mn	10	14	13	12	13	14	18	20	16	17	16	17	15
>10mn	8	6	6	7	7	7	7	8	8	8	9	9	11
Total	**73**	**73**	**74**	**78**	**80**	**84**	**88**	**90**	**90**	**91**	**95**	**100**	**100**

Source: Company, PL

Exhibit 10: Revenues from Top 5 Clients

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Top 5 Clients	35.5	35.4	35.0	34.6	35.2	33.7	37.0	37.8	40.0	37.4	43.1	41.5	41.0
QoQ Growth (%)	6.4%	-0.3%	-1.0%	-1.3%	1.9%	-4.2%	9.8%	2.0%	6.0%	-6.5%	15.3%	-3.8%	-1.3%
YoY Growth (%)	12.6%	10.3%	7.6%	3.7%	-0.7%	-4.7%	5.7%	9.3%	13.6%	10.9%	16.5%	9.9%	2.4%

Source: Company, PL

Exhibit 11: Revenues from Top 10 Clients

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Top 10 Clients	48.0	48.2	48.5	48.4	48.6	45.0	52.9	53.9	56.6	54.0	58.0	55.3	56.1
QoQ Growth (%)	8.0%	0.5%	0.7%	-0.3%	0.4%	-7.4%	17.6%	2.0%	4.9%	-4.5%	7.3%	-4.6%	-1.5%
YoY Growth (%)	9.8%	7.0%	3.9%	8.9%	1.2%	-6.8%	8.9%	11.5%	16.5%	20.2%	9.7%	2.6%	-0.7%

Source: Company, PL

Exhibit 12: Revenue Mix

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Onsite	59%	60%	61%	61%	61%	64%	64%	65%	66%	66%	66%	64%	64%
Offshore	41%	40%	39%	39%	39%	36%	36%	35%	34%	34%	34%	36%	36%

Source: Company, PL

Exhibit 13: Employee Metrics

Billable Personnel	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Onsite	1877	1984	2040	2018	2088	2217	2369	2408	2345	2429	2468	2451	2451
Offshore	6189	6164	6156	6217	6500	6684	6815	6881	7018	7063	7453	7515	7823
Total Billable	**8066**	**8148**	**8196**	**8235**	**8588**	**8901**	**9184**	**9289**	**9363**	**9492**	**9921**	**9966**	**10274**
Sales & Marketing (Excl GIS)	133	137	135	147	145	131	123	114	122	141	185	185	170
Sales & Marketing (GIS)	81	85	85	85	85	90	94	94	89	0	0	0	0
Others	573	593	606	614	605	642	624	647	689	664	694	698	712
Grand Total	**8,853**	**8,963**	**9,022**	**9,081**	**9,423**	**9,764**	**10,025**	**10144**	**10263**	**10297**	**10800**	**10849**	**11156**
Net addition	44	110	59	59	342	341	261	119	119	34	503	49	307
Capacity Utilisation	**81.0%**	**81.2%**	**79.5%**	**79.0%**	**79.5%**	**80.1%**	**80.4%**	**79.0%**	**79.3%**	**80.5%**	**80.7%**	**79.3%**	**78.1%**
Attrition (%)	12.7	12.1	11.4	10.6	10.5	10.1	10.8	11.7	12.2	12.9	12.3	11.9	11.8

Source: Company, PL

Exhibit 14: Strong Order Book

Figures in USD Mn	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Fresh Order Intake	112	110	112	130	145	151	160	165	170	175	176	218	180
Executable Order Book over Next 12 months	320	320	320	329	339	347	363	375	390	395	405	424	468

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	**36,762**	**41,839**	**44,301**	**50,178**
YoY gr. (%)	*22.9*	*13.8*	*5.9*	*13.3*
Employee Cost	23,907	27,528	29,460	32,616
Gross Profit	12,855	14,311	14,841	17,562
Margin (%)	*35.0*	*34.2*	*33.5*	*35.0*
SG&A Expenses	6,402	7,096	7,531	8,530
Other Expenses	-	-	-	-
EBITDA	**6,453**	**7,215**	**7,310**	**9,032**
YoY gr. (%)	*28.7*	*11.8*	*1.3*	*23.6*
Margin (%)	*17.6*	*17.2*	*16.5*	*18.0*
Depreciation and Amortization	1,248	1,730	1,828	1,756
EBIT	**5,205**	**5,485**	**5,482**	**7,276**
Margin (%)	*14.2*	*13.1*	*12.4*	*14.5*
Net Interest	-	-	-	-
Other Income	476	558	650	500
Profit Before Tax	**5,681**	**6,043**	**6,132**	**7,776**
Margin (%)	*15.5*	*14.4*	*13.8*	*15.5*
Total Tax	1,404	1,278	1,371	1,819
Effective tax rate (%)	*24.7*	*21.1*	*22.4*	*23.4*
Profit after tax	**4,277**	**4,765**	**4,762**	**5,957**
Minority interest	188	236	80	80
Share Profit from Associate	-	-	-	-
Adjusted PAT	**4,144**	**4,529**	**4,682**	**5,877**
YoY gr. (%)	*47.8*	*9.3*	*3.4*	*25.5*
Margin (%)	*11.3*	*10.8*	*10.6*	*11.7*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**4,144**	**4,529**	**4,682**	**5,877**
YoY gr. (%)	*47.8*	*9.3*	*3.4*	*25.5*
Margin (%)	*11.3*	*10.8*	*10.6*	*11.7*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,144	4,529	4,682	5,877
Equity Shares O/s (m)	**62**	**62**	**62**	**62**
EPS (Rs)	**67.1**	**73.3**	**75.8**	**95.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	**10,712**	**12,212**	**13,712**	**15,212**
Tangibles	6,893	7,793	8,693	9,593
Intangibles	3,819	4,419	5,019	5,619
Acc: Dep / Amortization	**4,973**	**6,703**	**8,531**	**10,287**
Tangibles	2,702	3,608	4,565	5,484
Intangibles	2,271	3,095	3,966	4,802
Net fixed assets	**5,739**	**5,509**	**5,181**	**4,925**
Tangibles	4,191	4,185	4,128	4,109
Intangibles	1,548	1,324	1,053	816
Capital Work In Progress	14	14	14	14
Goodwill	2,448	2,448	2,448	2,448
Non-Current Investments	288	298	308	318
Net Deferred tax assets	637	677	717	757
Other Non-Current Assets	280	280	280	280
Current Assets				
Investments	3,651	3,751	3,851	3,951
Inventories	-	-	-	-
Trade receivables	5,877	7,451	7,889	8,936
Cash & Bank Balance	5,576	7,833	10,573	13,493
Other Current Assets	1,136	1,136	1,136	1,136
Total Assets	**27,590**	**31,350**	**34,362**	**38,232**
Equity				
Equity Share Capital	618	618	618	618
Other Equity	20,105	22,827	25,641	29,173
Total Networth	**20,723**	**23,445**	**26,259**	**29,791**
Non-Current Liabilities				
Long Term borrowings	100	110	120	130
Provisions	-	-	-	-
Other non current liabilities	737	762	787	812
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,647	1,697	1,747	1,797
Other current liabilities	4,186	4,318	4,421	4,663
Total Equity & Liabilities	**28,401**	**31,350**	**34,362**	**38,231**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	5,681	6,043	6,132	7,776
Add. Depreciation	1,248	1,730	1,828	1,756
Add. Interest	-	-	-	-
Less Financial Other Income	476	558	650	500
Add. Other	-	-	-	-
Op. profit before WC changes	6,929	7,773	7,960	9,532
Net Changes-WC	(1,569)	(1,466)	(360)	(828)
Direct tax	(1,404)	(1,278)	(1,371)	(1,819)
Net cash from Op. activities	**3,956**	**5,029**	**6,229**	**6,885**
Capital expenditures	(649)	(1,500)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	1	(100)	(100)	(100)
Net Cash from Invt. activities	**(648)**	**(1,600)**	**(1,600)**	**(1,600)**
Issue of share cap. / premium	-	1	-	-
Debt changes	(3)	10	10	10
Dividend paid	(1,609)	(1,807)	(1,868)	(2,345)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	**(1,612)**	**(1,796)**	**(1,858)**	**(2,335)**
Net change in cash	**1,696**	**1,633**	**2,771**	**2,950**
Free Cash Flow	3,307	3,529	4,729	5,385

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	**9,627**	**10,385**	**10,734**	**11,093**
YoY gr. (%)	*16.7*	*14.4*	*10.5*	*14.1*
Raw Material Expenses	6,374	6,796	7,069	7,289
Gross Profit	3,253	3,589	3,665	3,804
Margin (%)	*33.8*	*34.6*	*34.1*	*34.3*
EBITDA	**1,389**	**1,898**	**1,940**	**1,988**
YoY gr. (%)	*6.3*	*16.2*	*7.5*	*16.5*
Margin (%)	*14.4*	*18.3*	*18.1*	*17.9*
Depreciation / Depletion	401	447	449	433
EBIT	**988**	**1,451**	**1,491**	**1,555**
Margin (%)	*10.3*	*14.0*	*13.9*	*14.0*
Net Interest	-	-	-	-
Other Income	172	76	130	180
Profit before Tax	**1,160**	**1,527**	**1,621**	**1,735**
Margin (%)	*12.0*	*14.7*	*15.1*	*15.6*
Total Tax	318	276	336	348
Effective tax rate (%)	*27.4*	*18.1*	*20.7*	*20.1*
Profit after Tax	**842**	**1,251**	**1,285**	**1,387**
Minority interest	22	56	52	106
Share Profit from Associates	-	-	-	-
Adjusted PAT	**877**	**1,195**	**1,233**	**1,281**
YoY gr. (%)	*2.2*	*6.9*	*23.1*	*21.3*
Margin (%)	*9.1*	*11.5*	*11.5*	*11.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**877**	**1,195**	**1,233**	**1,281**
YoY gr. (%)	*2.2*	*6.9*	*23.1*	*21.3*
Margin (%)	*9.1*	*11.5*	*11.5*	*11.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**877**	**1,195**	**1,233**	**1,281**
Avg. Shares O/s (m)	62	62	63	63
EPS (Rs)	**14.2**	**19.2**	**19.7**	**20.5**

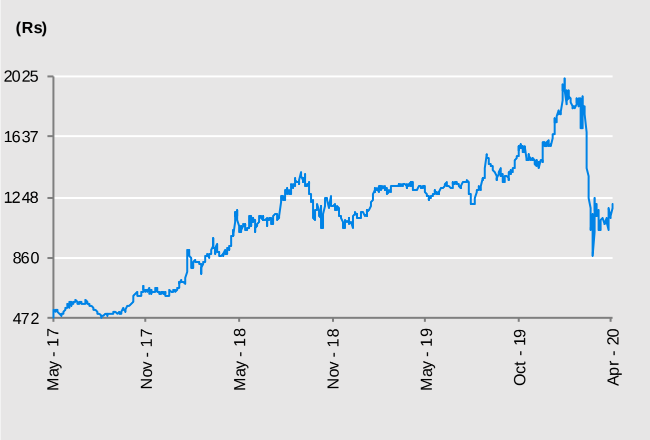
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	67.1	73.3	75.8	95.1
CEPS	87.2	101.3	105.3	123.5
BVPS	335.3	379.4	424.9	482.1
FCF	53.5	57.1	76.5	87.1
DPS	21.5	24.2	25.0	31.4
Return Ratio(%)				
RoCE	26.9	24.7	22.0	25.8
ROIC	33.8	36.1	35.6	44.7
RoE	21.5	20.5	18.8	21.0
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.6)
Debtor (Days)	58	65	65	65
Valuation(x)				
PER	17.7	16.2	15.7	12.5
P/B	3.5	3.1	2.8	2.5
P/CEPS	87.2	101.3	105.3	123.5
EV/EBITDA	10.0	8.6	8.1	6.2
EV/Sales	1.8	1.5	1.3	1.1
Dividend Yield (%)	1.8	2.0	2.1	2.6

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-20	Hold	1,029	1,111
2	29-Jan-20	Accumulate	1,881	1,941
3	03-Jan-20	Accumulate	1,551	1,631
4	24-Oct-19	Accumulate	1,551	1,469
5	03-Oct-19	Accumulate	1,445	1,368
6	23-Jul-19	Accumulate	1,445	1,354
7	04-Jul-19	BUY	1,539	1,338
8	10-Jun-19	BUY	1,539	1,322

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	Hold	501	469
3	Hexaware Technologies	Reduce	219	296
4	Infosys	Hold	668	651
5	L&T Technology Services	Hold	1,061	1,174
6	Larsen & Toubro Infotech	Hold	1,403	1,399
7	Mindtree	Reduce	680	780
8	Mphasis	Accumulate	839	676
9	NIIT Technologies	Hold	1,029	1,111
10	Persistent Systems	Reduce	447	514
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	1,584	1,716
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Reduce	478	546
16	Wipro	Sell	169	187
17	Zensar Technologies	Accumulate	246	191

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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