

Results beat, V-shape recovery in Q2 to ensure growth outperformance

- NITEC reported revenue decline of 6.8% QoQ in CC terms (DE -8%), led by sustained traction in non-Travel verticals (up 3.2% QoQ). EBIT margins stood at 11.6% (down 240bps QoQ) well ahead of our estimate of 10.7%. PAT was down 30% QoQ at Rs799mn (DE Rs934mn) owing to provisioning of Rs180mn towards receivables.
- Added strong TCW of about US\$186mn during the quarter implying growth of about 13% on TTM basis at US\$760mn. Deal addition include 3 significant deal one each in BFSI/Travel/Airport vertical. Beyond these deals NITEC also signed two additional significant deal in July'20.
- Outlook remain confident as it expects to deliver sequential growth of 7%+ in CC terms in Q2 with 150bps gains in OPM QoQ. Sharp recovery in Q2 would help it achieve its annual outlook of mid-single digit growth for FY21 and EBIDTA margins (pre-RSU) of 17.8%.
- Better-than-expected Q1, Sustained traction in Non-Airlines customers and robust deal traction supports confident growth/margin outlook for FY21. Factoring in these we upgrade our earnings estimates by 6% for 22E and maintain our Sell rating on the stock with TP of Rs1,540 valued at 18x FY22E earnings (inline with its 3 year Median PER).

Non-Airline biz grew ~3% QoQ in CC terms; momentum to continue

NITEC witnessed ~35% decline in its TTH vertical and within that 55% decline in the Airlines clients; implying a modest decline in clients in Travel portfolio ex-Airlines. All other verticals such as BFS (grew 6.2% QoQ), Insurance (grew 1.9% QoQ) and Others (up 8.6% QoQ) are expected to do well backed by strong TCW wins and overall eleven new logos.

Profitability to improve in Q2, Guides OPM (ex RSU) at 17.8% for FY21

OPM declined sharply by 240bps (down 400bps inc provisioning charge) on weak revenues, RSU charge of Rs120mn, pricing pressure in Travel vertical and lower Licence revenues. However, it expects growth led sharp recovery in OPM by 150bps QoQ in CC terms in Q2 and remains confident of clocking 17.8% EBIDTA margins (Ex-RSU) for FY21.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	10,570	9,627	9.8	11,093	(4.7)
Total Expense	8,884	8,238	7.8	9,122	(2.6)
EBITDA	1,686	1,389	21.4	1,971	(14.5)
Depreciation	465	401	16.0	433	7.4
EBIT	1,221	988	23.6	1,538	(20.6)
Other Income	48	172	(72.1)	180	(73.3)
Interest	0	0		0	
EBT	1,089	1,217	(10.5)	1,590	(31.5)
Tax	260	318	(18.2)	348	(25.3)
RPAT	799	877	(8.9)	1,136	(29.7)
APAT	979	820	19.4	1,264	(22.5)
			(bps)		(bps)
Gross Margin (%)	31.5	33.8	(229)	34.3	(280)
EBITDA Margin (%)	16.0	14.4	152	17.8	(182)
NPM (%)	7.6	9.1	(155)	10.2	(268)
Tax Rate (%)	23.9	26.1	(225)	21.9	199
EBIT Margin (%)	11.6	10.3	129	13.9	(231)

CMP	Rs 1,767
Target / Downside	Rs 1,540 / 13%
BSE Sensex	38,469
NSE Nifty	11,301

Script Details

Equity / FV	Rs 625mn / Rs 10
Market Cap	Rs 109bn
	US\$ 1bn
52-week High/Low	Rs 2,060/Rs 735
Avg. Volume (no)	818,320
NSE Symbol	NIITTECH
Bloomberg Code	NITEC IN

Shareholding Pattern Jun'20(%)

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

Valuation (x)

	FY20A	FY21E	FY22E
P/E	24.6	26.0	21.1
EV/EBITDA	14.2	13.4	11.4
ROE (%)	19.8	16.8	18.7
RoACE (%)	18.0	14.6	16.4

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	41,839	45,896	51,269
EBITDA	7,215	7,635	8,818
PAT	4,442	4,200	5,179
EPS (Rs.)	71.9	68.0	83.8

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Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Sales	10,570	10,681	10,847	(1.0)	(2.6)	Revenue beat on strong traction across verticals Ex-Airlines .
EBIT	1,341	1,143	1,317	17.3	1.8	EBIT margin beat on better growth and stronger cost control
EBIT Margin (%)	12.7	10.7	12.1	200 bps	50 bps	
PAT	799	934	1,032	(14.5)	(22.6)	PAT below estimates due to exceptional cost of Rs180mn towards BD provisioning.

Source: Company, DART

Change in estimates

Factoring in better-than-expected results and v-shaped recovery in its performance starting Q2 we expect NITEC to deliver industry leading growth performance in FY21. Aligning our estimates with its annual outlook we have upgraded our growth estimate go FY21/22E by 6% and OPM estimate up by 20bps for FY21/22E. Thus, we expect overall Earnings upgrade of about 1%/6% for FY21/22E respectively.

Exhibit 2: Change in estimates

(Rs mn)	FY20	FY21E			FY22E		
	Actual	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	593	578	613	6.1	637	675	6.0
YoY growth (%)	12.3	(2.5)	3.4		10.1	10.0	
Revenues	41,839	43,370	45,896	5.8	48,378	51,269	6.0
YoY growth (%)	13.8	3.7	9.7		11.5	11.7	
EBIT	5,485	5,186	5,615	8.3	6,152	6,613	7.5
EBIT Margin (%)	13.1	12.0	12.2		12.7	12.9	
Net profits	4,458	4,180	4,200	0.5	4,880	5,179	6.1
EPS (Rs)	71.6	67.0	69.4	3.7	78.2	85.6	9.5

Source: Company, DART

Exhibit 3: Key assumptions in our estimates

Metrics	FY21E	FY22E
USD Revenue (Mn)	613	675
USD Revenue growth (%)	3.4	10.0
USD/INR	75.09	76.00
INR Revenue growth (%)	9.7	11.7
EBIT Margins (%)	12.2	12.9
EPS growth (%)	-3.1	23.3

Source: Company, DART

Exhibit 4: Quarterly and Full Year Performance Trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
Revenue (US\$ Mn)	138.5	148.7	151.2	154.8	142.4	2.8	(8.0)	138.5	142.4	2.8
Revenue (INR Mn)	9,627	10,385	10,734	11,093	10,570	9.8	(4.7)	9,627	10,570	9.8
Operating Exp.	8,238	8,487	8,794	9,105	8,884	7.8	(2.4)	8,238	8,884	7.8
Cost of revenues	6,374	6,796	7,069	7,288	7,240	13.6	(0.7)	6,374	7,240	13.6
as % of sales	66.2	65.4	65.9	65.7	68.5			66.2	68.5	
SG&A expenses	1,864	1,691	1,725	1,817	1,644	(11.8)	(9.5)	1,864	1,644	(11.8)
as % of sales	19.4	16.3	16.1	16.4	15.5			19.4	15.5	
EBITDA	1,389	1,898	1,940	1,988	1,686	21.4	(15.2)	1,389	1,686	21.4
Depreciation	401	447	449	433	465	16.0	7.4	401	465	16.0
EBIT	988	1,451	1,491	1,555	1,221	23.6	(21.5)	988	1,221	23.6
Other Income	172	76	130	180	48			172	48	(72.1)
PBT	1,160	1,527	1,621	1,735	1,269	9.4	(26.9)	1,160	1,269	9.4
Total Tax	318	276	336	348	260			318	260	(18.2)
Adjusted PAT	842	1,251	1,285	1,387	1,009	19.8	(27.3)	842	1,009	19.8
Reported PAT	877	1,195	1,233	1,153	799	(8.9)	(30.7)	877	799	(8.9)
Margins (%)										
EBIDTA	14.4	18.3	18.1	17.9	16.0	152	(197)	14.4	16.0	152
EBIT	10.3	14.0	13.9	14.0	11.6	129	(247)	10.3	11.6	129
EBT	12.0	14.7	15.1	15.6	12.0	(4)	(363)	12.0	12.0	(4)
PAT	9.1	11.5	11.5	10.4	7.6	(155)	(283)	8.5	9.3	74
Effective Tax rate	27.4	18.1	20.7	20.1	20.5	(693)	43	27.4	20.5	(693)

Source: DART, Company

What to expect next Quarter

We expect sharp recovery in Q2 with sequential growth of 7% QoQ in-line with its outlook backed by strong TCV wins in Q1 as well as July'20 – added 5 significant deals over Apr-July'20. Also strong growth and improved business mix would drive OPM gains of about 105bps QoQ.

Exhibit 5: What to expect next Quarter

(Rs Mn)	Q2FY21E	Q1FY20	Q2FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	152.4	142.4	148.7	7.0%	2.5%
Sales	11,429	10,570	10,385	8.1%	10.1%
EBIT	1,441	1,221	1,451	18.0%	-0.7%
PAT	1,116	799	1,195	39.6%	-6.6%
EPS (Rs)	18.4	13.2	19.3	39.6%	-4.5%
EBIT Margin (%)	12.6	11.6	14.0	105 bps	-137 bps

Source: DART, Company

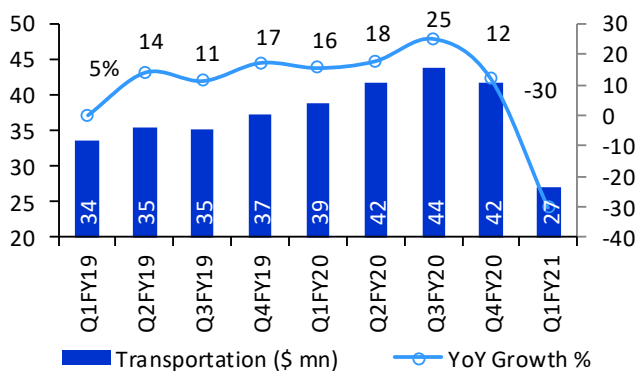
Key Financial Highlights.

- **Vertical commentary:** Airlines accounted for about 46% of 28% TTH vertical in Q4 – implying about 13% on total revenues. After sharp slide in Q1 the revenue share of Airlines have now declined to 5.5%. Heron it do not see any material deterioration but is also not expecting revenues to recover and at best may see some recovery in spends in Holiday season (Dec-Jan period).
- **Order intake:** Added \$186mn in order intake including three significant deals – 1) A 30mn\$ deal in BFS vertical, 2) A 15mn\$ deal from a Travel-Tech client with duration of 18 month and 3) A deal win with a large Airport client wherein in a vendor consolidation process it replaced all other peers. Overall it added 11 new customer logos taking 12-month executable order book at \$465mn up 18% on YoY basis. Company expect order intake run rate to go back to US\$225mn run rate as situation normalise in the Travel vertical.
- **Digital:** accounted for 34% of revenues and together with other IP revenues (NITL – Insurance and Monalisa – Revenue Accounting software) accounts for about 40% of revenues. Licence revenues from NITL business was lower on this quarter impacting the profitability, however commentary here remains strong as pipeline is healthy. NITL business reported revenues of Rs663mn for the quarter with 23.5% EBIDTA margins.
- **Whishworks** (Mulesoft specialist) subsidiary reported revenues of Rs464mn and EBIDTA margins of 25%. The segment reported soft Q1 which is usual as per seasonality; this business is expected to report strong growth on annual basis. During the quarter the company also added incremental 23.8% stake in the business for consideration of about Rs689mn taking its ownership in the business to 81.4%.
- **Buyback:** During the quarter company completed its maiden Buyback amounting Rs3.3bn and bought back about ~2mn equity shares through tender offer at Rs 1,725 per share.
- **Hedge rate:** Hedge position stood at 75.8mn\$ - towards US\$ hedge at portfolio rate of Rs75.55; GBP 22.58mn at Rs 95.42/GBP and Euro 4.97mn worth contracts at rate of Rs 84.95/Euro (AUD 4.37mn).
- **Sales team:** 14 people added in sales team in Q1 - this includes even additions in Advisory, pre-sales team, client partner for new deals. The highly motivating incentive structure for its sales team and robust addition in the sales/business leadership from Tier I companies is culminating into winning formula for the company and thus similar trends in additions would be witnessed. RSUs costs are also expected to stay at current level for rest of the year and should go down by half in next year.
- **Factor of growth:** 1) Traction continued across multiple verticals led, 2) Airline segment after contraction is just 5.5% (declined by ~55% in Q1) of revenues – so not much worry hereon; 3) new order intake of \$186mn, and \$465mn executable book on TMF basis – added 3 big deal in Q1; and signed another 2 deals in July and 4) increased traction in Newer areas such as Healthcare, Non-Indian Govt.
- **Growth Outlook:** Given sustained traction in all the business units except Airlines business (5.5% of revenues) and robust deal win momentum the company expect v-shaped recovery in Q2 with atleast 7% sequential growth in revenues in CC terms. The sharp recovery and sustained traction would help it achieve its annual outlook of mid-single-digit growth in revenues in CC terms for FY21.

- Profitability:** EBIDTA margins declined during the quarter on account of introduction of RSU charges, lower Licence revenues (NITL) and discounted pricing in travel vertical. Company also provided Rs180mn towards provisions for doubtful debt but expect this to be one-time charge despite the fact that it has already extended higher DSO to its customer in Travel vertical. Going forward, it expects 150bps QoQ gains in profitability in Q2 and expect EBIDTA margins (Ex-RSU) of 17.8% for FY21 (at Fx rate of Rs71 per US\$).

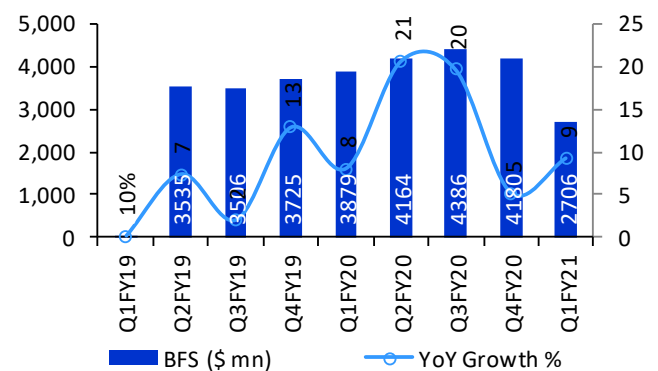
Charting the Story

Exhibit 6: Travel & Trans. Revenue declined 30% YoY



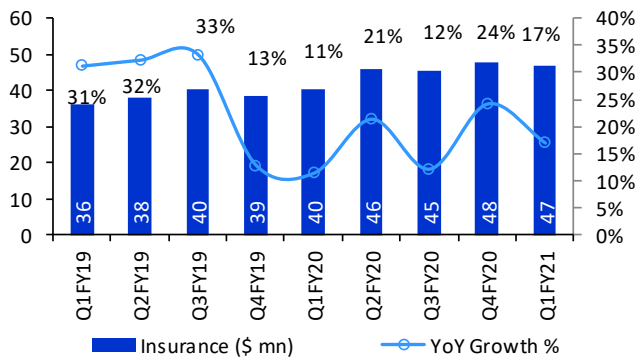
Source: Company, DART

Exhibit 7: BFS up 9.0% YoY



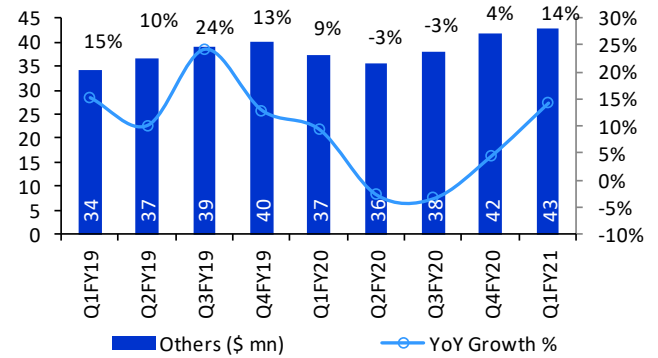
Source: Company, DART

Exhibit 8: Insurance Revenue grew 17% YoY



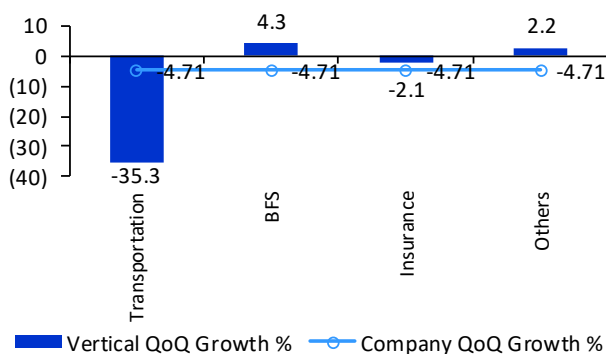
Source: Company, DART

Exhibit 9: Other Revenue grew 12.2% YoY



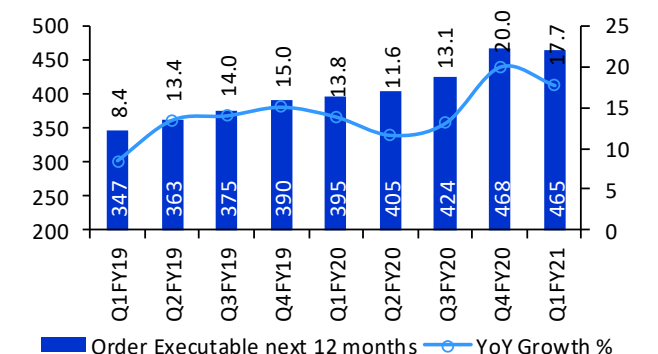
Source: Company, DART

Exhibit 10: Company and each Vertical QoQ \$ growth



Source: Company, DART

Exhibit 11: 12M Executable Order Book up 20% YoY



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	36,762	41,839	45,896	51,269
Total Expense	30,309	34,624	38,261	42,451
COGS	23,907	27,527	30,837	34,104
Employees Cost	0	0	0	0
Other expenses	6,402	7,097	7,424	8,346
EBIDTA	6,453	7,215	7,635	8,818
Depreciation	1,248	1,730	2,019	2,205
EBIT	5,205	5,485	5,615	6,613
Interest	0	0	0	0
Other Income	477	471	48	380
Exc. / E.O. items	0	0	0	0
EBT	5,682	5,956	5,663	6,993
Tax	1,404	1,278	1,358	1,715
RPAT	4,090	4,442	4,200	5,179
Minority Interest	188	236	105	100
Profit/Loss share of associates	0	0	0	0
APAT	4,090	4,442	4,200	5,179

Balance Sheet

(Rs 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	25,540	28,532
Net Worth	20,798	23,965	26,165	29,157
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	30,651	33,643

Applications of Funds

Net Block	8,187	10,793	10,974	10,619
CWIP	14	3	3	3
Investments	5,038	2,092	2,242	2,492
Current Assets, Loans & Advances	14,463	21,099	24,099	28,240
Inventories	0	0	0	0
Receivables	5,922	8,565	10,415	11,790
Cash and Bank Balances	5,079	9,034	9,100	10,996
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
		sub total		
Net Current Assets	10,217	15,563	17,433	20,529
Total Assets	23,456	28,451	30,651	33,643

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	35.0	34.2	32.8	33.5
EBIDTA Margin	17.6	17.2	16.6	17.2
EBIT Margin	14.2	13.1	12.2	12.9
Tax rate	24.7	21.5	24.0	24.5
Net Profit Margin	11.1	10.6	9.2	10.1
(B) As Percentage of Net Sales (%)				
COGS	65.0	65.8	67.2	66.5
Employee	0.0	0.0	0.0	0.0
Other	17.4	17.0	16.2	16.3
(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	83	84
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	16	23	28	31
Working Capital days	101	136	139	146
FA T/O	4.5	3.9	4.2	4.8
(D) Measures of Investment				
AEPS (Rs)	66.2	71.9	68.0	83.8
CEPS (Rs)	86.4	99.9	100.6	119.5
DPS (Rs)	14.8	31.3	32.4	35.4
Dividend Payout (%)	22.3	43.6	47.6	42.2
BVPS (Rs)	336.5	387.8	423.4	471.8
RoANW (%)	21.1	19.8	16.8	18.7
RoACE (%)	19.1	18.0	14.6	16.4
RoAIC (%)	29.2	29.0	27.4	29.9
(E) Valuation Ratios				
CMP (Rs)	1767	1767	1767	1767
P/E	26.7	24.6	26.0	21.1
Mcap (Rs Mn)	109,225	109,225	109,225	109,225
MCap/ Sales	3.0	2.6	2.4	2.1
EV	106,249	102,682	102,616	100,721
EV/Sales	2.9	2.5	2.2	2.0
EV/EBITDA	16.5	14.2	13.4	11.4
P/BV	5.3	4.6	4.2	3.7
Dividend Yield (%)	0.8	1.8	1.8	2.0
(F) Growth Rate (%)				
Revenue	22.9	13.8	9.7	11.7
EBITDA	28.8	11.8	5.8	15.5
EBIT	39.2	5.4	2.4	17.8
PBT	40.6	4.8	(4.9)	23.5
APAT	45.8	8.6	(5.4)	23.3
EPS	45.1	8.6	(5.4)	23.3
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,527	2,969	4,416	6,183
CFI	(2,300)	1,123	(2,350)	(2,100)
CFF	(1,250)	(976)	(2,000)	(2,188)
FCFF	2,260	307	2,216	4,333
Opening Cash	4,102	5,079	9,034	9,100
Closing Cash	5,079	8,195	9,100	10,996

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 (Rs.)	Price (Rs.)
Oct-19	Reduce	1,370	1,492
Jan-20	Reduce	1,600	1,941
May-20	SELL	950	1,190
Jun-20	SELL	1,260	1,444

*Price as on recommendation date

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