

Results beat; Ramp-up in past deals win covers up for COVID impact

- NIIT reported strong results with modest decline of 4% QoQ in revenues (DE 12% decline) as company transformed its delivery to Digital mode across client's/business segment.
- EBIT margins stood at 3.2% on strict cost measures and favourable business mix (DE -10%). Strong other income at Rs335mn extended PAT (Rs294mn) beat.
- CLS business (88% of revenue) reported 2% QoQ growth in reported terms as despite the volume/demand loss due to COVID it benefited from ramp-up of its strong deal velocity of Q3/Q4. S&C segment revenues declined 35% QoQ as hiring sentiment moderates further.
- NIIT has displayed spectacular transformation by moving its delivery to Digital mode that supported revenue run rate and helped it gain OPM. Ramp-up in sales spends would boost sales while rationalization of non-core businesses would improve profitability further. Maintain Buy rating with TP of Rs 110 (implies modest 4x EV/EBIT).

New deal momentum to sustain traction; investments to go up in S&M

NIIT expects to continue its investments both towards Digital transformation as well sales team enhancement as it believes there is substantial untapped opportunity (Only 25% of F1000 companies have outsourced training and would incrementally look for specialist such as NIIT that is efficient partner). Sustained new deal momentum (added 3 new customers— 1 from Social Media and 2 in Life Sciences) and recovery of volumes in some key customers would help drive momentum hereon. In CLG it is also going after new segments as lower volume would continue for some time as customer still uncertain in their businesses.

OPM margin improved on strict cost saving measures and improved mix

Profitability improved due to strict Cost actions, favorable business mix, better Fx realizations, low travel & center-related costs. CLG segment reported best ever profitability at 17.5%. Going forward it expect to maintain OPM in narrow band given continued cost control measures and improved business volumes. Collections improved with DSO at 51 days (LQ 57 days). Net Cash positions now stands at Rs12bn or Rs85 per share.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	2,018	2,080	(3.0)	2,112	(4.5)
Total Expense	1,792	1,867	(4.0)	2,090	(14.3)
EBITDA	225	213	5.8	21	956.0
Depreciation	161	127	26.7	182	(11.4)
EBIT	64	86	(25.3)	(161)	(139.9)
Other Income	335	165	103.1	215	56.2
Interest	0	0		0	
EBT	353	13,229	(97.3)	(106)	(433.9)
Tax	58	2,252	(97.4)	(112)	(152.3)
RPAT	294	10,973	(97.3)	6	4870.6
APAT	341	(2,005)	(117.0)	166	105.9
			(bps)		(bps)
Gross Margin (%)	11.2	10.2	93	1.0	1016
EBITDA Margin (%)	11.2	10.2	93	1.0	1016
NPM (%)	14.6	527.5	(51295)	0.3	1430
Tax Rate (%)	16.6	17.0	(47)	105.6	(8905)
EBIT Margin (%)	3.2	4.1	(95)	(7.6)	1078

CMP	Rs 97
Target / Upside	Rs 110 / 14%
BSE Sensex	37,660
NSE Nifty	11,074

Scrip Details

Equity / FV	Rs 283mn / Rs 2
Market Cap	Rs 14bn
	US\$ 183mn
52-week High/Low	Rs 115/Rs 54
Avg. Volume (no)	862,567
NSE Symbol	NIITLTD
Bloomberg Code	NIIT IN

Shareholding Pattern Jun'20(%)

Promoters	31.5
MF/Banks/FIs	17.9
FIIIs	14.7
Public / Others	35.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	16.2	14.8	11.7
EV/EBITDA	14.3	11.4	7.3
ROE (%)	110.2	5.7	6.6
RoACE (%)	5.6	6.7	6.9

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	8,892	8,701	10,355
EBITDA	813	1,014	1,308
PAT	844	927	1,170
EPS (Rs.)	6.0	6.6	8.3

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Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Sales	2,018	1,906	NA	5.9	NA	Results ahead of estimates led by traction in CLG business
EBITDA	225	(29)	NA	(877.0)	NA	EBITDA beat was led by robust performance in CLG and strict cost saving measures.
EBITDA, margin %	11.2	(1.5)	NA	1,270 bps	NA	
Reported PAT	341	1	NA	30246.0	NA	Strong other income extended PAT bear
PAT	332	1	NA	26773.0	NA	

Source: Company, DART

Change in estimates

Based on its strong digital transition of the business both in CLG/S&C segments we have upgraded our growth estimates by 2%/5% respectively. Also, given its improved mix towards CLS and also towards virtual-delivery we have factored in OPM gains of EBITDA margins by 643/123bps respectively; driving up EPS estimates by steep 115%/14% respectively.

Exhibit 2: Quarterly and YTD trend

Particulars (All fig in Rs mn except %)	FY20	FY21E			FY22E		
	Actual	Old	New	Chg (%)	Old	New	Chg (%)
Sales							
Corporate Learning group	6,913	7,238	7,598	5.0	8,175	8,664	6.0
Skills and Career group	1,979	1,281	1,103	(13.9)	1,635	1,691	3.4
Total Sales	8,892	8,519	8,701	2.1	9,810	10,355	5.6
Growth YoY %		(4.2)	(2.2)		15.2	19.0	
EBITDA							
Corporate Learning group	931	719	1,184	64.7	1,104	1,300	17.7
Skills and Career group	(36)	(273)	(170)	(37.9)	14	8	(41.8)
Total EBITDA	813	446	1,014	127.6	1,118	1,308	17.0
EBITDA margin							
Corporate Learning group	13.5	9.9	15.6	565 bps	13.5	15.0	150 bps
Skills and Career group	(1.8)	(21.3)	(15.4)	595 bps	0.8	0.5	(36 bps)
Company-wide EBITDA margins, %	9.1	5.2	11.7	643 bps	11.4	12.6	123 bps
Net Profit (core business)	13,577	426	1,022	140.1	1,025	1,190	16.1
Net Profit (including share from associate)	13,272	426	919	115.9	1,025	1,170	14.2
EPS (in Rs per share)	93.8	3.0	6.5	115.9	7.2	8.3	14.2

Source: Company, DART

Exhibit 3: Key assumptions in our estimates

Metrics (%) YoY growth	FY20	FY21E	FY22E
Sales Growth (%)			
Corporate Learning group	9.3	9.9	14.0
Skills and Career group	(18.5)	(44.3)	53.3
Total Sales	(2.3)	(2.2)	19.0
EBITDA Margins (%)			
Corporate Learning group	13.5	15.6	15.0
Skills and Career group	(1.8)	(15.4)	0.5
Total EBITDA	9.1	11.7	12.6

Source: Company, DART

Exhibit 4: Quarterly and YTD Performance

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
Revenue	2,080	2,365	2,476	2,112	2,018	(3.0)	(4.5)	2,080	2,018	(3.0)
Operating Expenditure	1,867	2,121	2,242	2,090	1,792	(4.0)	(14.3)	1,867	1,792	(4.0)
EBITDA	213	244	233	22	225	5.8	942.3	213	225	5.8
Depreciation	127	137	178	182	161	26.7	(11.4)	127	161	26.7
EBIT	86	107	55	(160)	64	(25.2)	(139.9)	86	64	(25.2)
Other Income	165	354	273	215	335	103.1	56.2	165	335	103.1
Exceptional item	12,978	0	0	(93)	(9)					
PBT	13,229	461	328	(39)	391	(97.0)	(1,101.7)	13,229	391	(97.0)
Tax (Operational)	2,252	(1,633)	48	(112)	58			2,252	58	
Adjusted PAT	10,977	2,094	281	73	332	(97.0)	358.1	10,977	332	(97.0)
(Profit)/loss from JV's/Ass/MI	(4)	(5)	(2)	0	0			(4)	0	
PAT (Continued business)	10,973	2,089	279	73	332	(97.0)	358.1	10,973	332	(97.0)
loss from discontinued business	(69)	(6)	(10.8)	(66)	(38)			(69)	(38)	
Reported PAT	10,904	2,083	268	6	294	(97.3)	4,646.1	10,904	294	(97.3)
Reported EPS	66.5	12.7	2.0	0.5	2.3	(96.5)	359.9	66.5	2.3	(96.5)
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	10.2	10.3	9.4	1.0	11.2	93	1,014	10.2	11.2	93
EBIT	4.1	4.5	2.2	(7.6)	3.2	(94)	1,077	4.1	3.2	(94)
EBT	636.0	19.5	13.3	(1.8)	19.4	(61,665)	2,121	636.0	19.4	(61,665)
PAT (Overall)	524.2	88.1	10.8	0.3	14.6	(50,965)	1,429	524.2	14.6	(50,965)
Effective Tax rate	17	(354)	15	286	15	(208)	(27,106)	17	15	(208)

Source: DART, Company

Con-call key takeaways

- **CLG business:** NIIT has witnessed volume contractions of about 25-28% on YoY basis in some of its large customer during the quarter as typically 70% of all training is Physical which could be done virtually only at best to 70-75%. In Q1, 100% of the training is happening in digital mode (No in-person training has been conducted since March) and thus the recovery of volumes will be function of a) inclination of clients towards converting the balance training into Digital medium in case restrictions continues and b) also as the economic situation improves for the customer (especially in the Aero/Energy segment). In terms of business economics, the cost of delivery in digital mode is much lower given savings on travel cost and classrooms related expense however the reset in terms of what get permanently shifted to Digital and what could be new pricing would be key thing to watch out for.
- **S&C business:** Business is undergoing complete transitioning towards digital mode (converting physical centers into Digital mode - April onwards all enrolment and delivery has been only online) and it is investing in the business to customise the processes to improve student experience and to rejig the team in new environment. The losses/cash burn in the business may come down in the medium term however in the short term it may remain but uncertain given savings of Better unit economics and lower physical related-cost getting offset by near term investments. S&C business overall should see some recovery only when the hiring sentiment improves in key sectors such as IT/Banking.
- **School business:** Reported losses of about Rs38mn for the quarter and is expected to go down as and when lockdown ends or in case it is able to find appropriate suitor for the business.
- **Client wins:** During the quarter, the new deal momentum continued as it added 3 new logos and added one scope-expansion deal (won 1 renewal as well) taking the customer count to 55 with total revenue visibility at US\$263mn (fall QoQ) despite some adjustments of volumes to existing customers. The company plans to hire more resources to tap on more potential opportunity (have seen some pick up in volumes closer to quarter close) and ensure sustained momentum.
- **Depreciation** – Depreciation charge in the quarter stood at Rs161mn down 11% QoQ, as it saved some cost due to closure of some capacities towards physical training. Investments towards IP creation/Content development will stop around end of the year (bulk of this is toward RECO deal).

Outlook: Expect to continue its investments both towards Digital transformation as well sales team enhancement as it believes there is substantial untapped opportunity (Only 25% of F1000 companies have outsourced training). Sustained new deal momentum (3 new, 1 increase scope) and recovery of volumes in some key customers would help drive momentum hereon. In CLG it is also going after new segments as lower volume would continue for some time as customer still sees uncertainty in their businesses. Also increased acceptance of digital-training in S&C segment would support the traction.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	9,103	8,892	8,701	10,355
Total Expense	8,259	8,079	7,686	9,047
COGS	8,259	8,079	7,686	9,047
Employees Cost	0	0	0	0
Other expenses	0	0	0	0
EBIDTA	844	813	1,014	1,308
Depreciation	360	598	681	694
EBIT	483	214	333	613
Interest	0	0	0	0
Other Income	(285)	1,002	923	913
Exc. / E.O. items	0	12,611	(9)	0
EBT	198	13,828	1,248	1,526
Tax	73	556	226	336
RPAT	866	12,967	919	1,170
Minority Interest	0	(305)	(103)	(20)
Profit/Loss share of associates	741	0	0	0
APAT	866	844	927	1,170

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	335	283	283	283
Minority Interest	103	27	27	27
Reserves & Surplus	7,997	14,924	16,551	18,570
Net Worth	8,331	15,207	16,834	18,853
Total Debt	1,399	541	491	391
Net Deferred Tax Liability	(763)	(1,179)	(1,179)	(1,179)
Total Capital Employed	9,071	14,596	16,173	18,092

Applications of Funds

Net Block	2,811	3,408	2,827	2,483
CWIP	0	0	0	0
Investments	6,754	8,439	8,439	8,439
Current Assets, Loans & Advances	4,580	7,177	6,313	8,843
Inventories	0	0	0	0
Receivables	2,902	3,939	3,337	3,830
Cash and Bank Balances	1,208	2,601	2,618	4,588
Loans and Advances	470	636	358	426
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	5,075	4,428	1,406	1,674
Payables	4,821	4,131	1,192	1,418
Other Current Liabilities	254	297	215	255
<i>sub total</i>				
Net Current Assets	(494)	2,749	4,906	7,170
Total Assets	9,071	14,597	16,173	18,092

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	9.3	9.1	11.7	12.6
EBIDTA Margin	9.3	9.1	11.7	12.6
EBIT Margin	5.3	2.4	3.8	5.9
Tax rate	36.8	4.0	18.1	22.0
Net Profit Margin	9.5	145.8	10.6	11.3
(B) As Percentage of Net Sales (%)				
COGS	90.7	90.9	88.3	87.4
Employee	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.0	0.0	0.0
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	116	162	140	135
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	193	170	50	50
Working Capital days	(20)	113	206	253
FA T/O	3.2	2.6	3.1	4.2
(D) Measures of Investment				
AEPS (Rs)	5.3	6.0	6.6	8.3
CEPS (Rs)	7.4	10.2	11.4	13.2
DPS (Rs)	0.0	5.0	5.0	6.0
Dividend Payout (%)	0.0	83.8	76.3	72.5
BVPS (Rs)	50.5	107.5	119.0	133.2
RoANW (%)	11.1	110.2	5.7	6.6
RoACE (%)	1.4	5.6	6.7	6.9
RoAIC (%)	6.4	2.2	2.6	4.5
(E) Valuation Ratios				
CMP (Rs)	97	97	97	97
P/E	18.4	16.2	14.8	11.7
Mcap (Rs Mn)	13,692	13,692	13,692	13,692
MCap/ Sales	1.5	1.5	1.6	1.3
EV	13,883	11,631	11,564	9,494
EV/Sales	1.5	1.3	1.3	0.9
EV/EBITDA	16.5	14.3	11.4	7.3
P/BV	1.9	0.9	0.8	0.7
Dividend Yield (%)	0.0	5.2	5.2	6.2
(F) Growth Rate (%)				
Revenue	7.2	(2.3)	(2.2)	19.0
EBITDA	13.1	(3.7)	24.8	28.9
EBIT	39.9	(55.6)	55.3	84.1
PBT	12.1	6869.6	(91.0)	22.3
APAT	38.6	(2.5)	9.8	26.2
EPS	38.6	13.6	9.8	26.2

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	443	473	(1,456)	658
CFI	(502)	7,471	(100)	(350)
CFF	(73)	(8,092)	157	(36)
FCFF	(288)	(243)	(1,556)	308
Opening Cash	1,280	1,847	10,973	9,575
Closing Cash	1,847	10,973	9,575	9,847

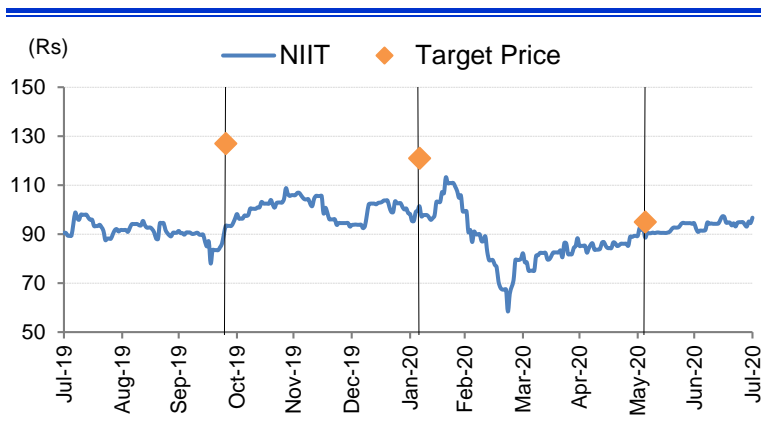
E – Estimates

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	Buy	127	93
Feb-20	Buy	121	101
Jun-20	Accumulate	95	89

*Price as on recommendation date

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