

Travel vertical challenges impact performance...

NIIT Technologies (NIITT) reported 9.4% QoQ decline in revenues mainly due to a sharp fall in travel vertical, specifically airlines that declined from 13% of revenues in Q4FY20 to 5.0% in Q1FY21. Margins fell 173 bps mainly due to ESOP cost (113 bps) and lower gross margins due to higher hardware cost & lower utilisation in travel vertical. The company has guided a 7.0% QoQ increase in revenues in Q2FY21E and 150 bps increase in margins in Q2FY21E. Further, NIITT has guided revenue growth of mid-single digit in FY21E and 17.8% EBITDA margin in FY21E before ESOP cost.

Large deal wins to drive growth in FY21E

NIITT had exposure to airlines that accounted for ~13% of overall revenues in Q4FY20, which has dropped to 5% in the current quarter. This was the primary reason for the sharp fall in revenues. However, going forward, the company believes airline revenues have bottomed out. It is expected to remain at these levels in the near term. Further, rail, logistics, hospitality and airports in the travel vertical were stable and are expected remain stable. In addition, we expect banking, insurance and healthcare verticals to register improving growth (as seen in this quarter) on the back of large deal wins. The company has won three large deals in the quarter of which one is in BFSI of US\$30 million, one in travel of US\$15 million and one vendor consolidation deal. The company has also won two large deals in Q2FY21E of which one is US\$30 million. Hence, based on ramp up of large deal wins, vendor consolidation opportunities and company's guidance of 7% QoQ growth in Q2FY21E we expect NIIT Technologies to register dollar revenue growth of 2.2% YoY in FY21E and 13.2% in FY22E.

Cost rationalisation, ramp up in revenues to boost margins

The company has seen a headcount decline in the airline vertical, the benefits of which is expected to flow in subsequent quarters. Further, improvement in license revenues from its NITL subsidiary, ramp up of large deals, higher offshoring and cost rationalisation (like lower discretionary spend and salary freeze) bode well for margins in coming quarters. Hence, we expect EBITDA margins to increase 30 bps to 17.5% in FY21E and 80 bps to 18.3% in FY22E.

Valuation & Outlook

NIIT Tech has seen ~18% increase in fresh order book (on TTM basis). This coupled with three large deals wins in the quarter & two in Q2FY21E bode well for revenue growth. Further, margins are also expected to improve in coming quarters led by cost rationalisation. Hence, we revise our EPS estimates upwards. Further, improvement in airlines (that we have not factored in our estimates) could also be a tailwind to revenues, profitability. Hence, we upgrade the stock from HOLD to **BUY** with a revised TP of ₹ 2,200.

Key Financial Summary

Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,991	3,676	4,184	4,554	5,148	10.9%
EBITDA	501	645	720	797	942	14.4%
EBITDA Margins (%)	16.8	17.6	17.2	17.5	18.3	
Net Profit	280	398	444	447	572	13.5%
EPS (₹)	45.6	65.7	71.4	75.3	94.4	
P/E	40.7	27.9	26.0	23.9	19.7	
RoNW (%)	15.8	19.5	18.5	19.4	21.2	
RoCE (%)	19.4	25.2	23.0	24.7	26.0	

Source: Company, ICICI Direct Research, *EPS adjusted for buyback in FY21E



Particulars

Particular	Amount
Market Capitalization (₹Cron)	11,032.1
Total Debt (₹Cron)	4.8
Cash & Investments (₹Cron)	917.1
EV (₹Cron)	10,119.8
52 week H/L	2057 / 739
Equity capital	62.5
Face value	10.0

Key Highlights

- Dollar revenue to improve in coming quarters based on large deal won and order book growth
- Margins to improve gradually in coming quarters
- Upgrade from HOLD to BUY rating with revised target price of ₹ 2200/share

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Exhibit 1: Variance Analysis

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	Q1FY21	Q1FY21E	Q1FY20YoY (%)	Q4FY20	loQ (%)	Comments	
Revenue	1,057.0	1,091.3	962.7	9.8	1,109.3	-4.7	US\$ revenues declined 9.4% QoQ to \$140.2 million mainly due to challenges in travel vertical and decline in NTL revenues
Employee expenses	713.7	727.9	637.4	12.0	728.9	-2.1	
Gross Margin	343.3	363.4	325.3	5.5	380.4	-9.8	Gross margins impacted due to higher hardware cost and lower utilisation in travel vertical
Gross margin (%)	32.5	33.3	33.8	131 bps	34.3	181 bps	
SG&A expenses	173.8	191.0	186.4	-6.8	183.3	-5.2	
EBITDA	169.5	172.4	138.9	22.0	197.1	-14.0	The decline in margins were due to lower gross margins and 113 bps of ESOP expenses
EBITDA Margin (%)	16.0	15.8	14.4	161 bps	17.8	173 bps	
Depreciation & amortisation	46.5	43.2	40.1	16.0	43.3	7.4	
EBIT	123.0	129.2	98.8	24.5	153.8	-20.0	
EBIT Margin (%)	11.6	11.8	10.3	137 bps	13.9	223 bps	
Other income (less interest)	3.9	12.3	17.2	-77.3	18.0	-78.3	
PBT	108.9	141.5	116.0	-6.1	159.0	-31.5	
Tax paid	26.0	32.3	31.8	-18.2	34.8	-25.3	
PAT	79.9	106.9	87.7	-8.9	113.6	-29.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹Crore)	Old	New	% Change	Old	New	% Change	
Revenue	4,545	4,554	0.2	5,014	5,148	2.7	Revise our revenue estimates upwards mainly led by large deal wins
EBITDA	773	797	3.1	895	942	5.3	
EBITDA Margin (%)	17.0	17.5	49 bps	17.9	18.3	45 bps	Improving revenue growth to drive margins
PAT	446	462	3.7	532	572	7.5	
EPS (₹)	72.6	75.3	3.7	87.9	94.4	7.5	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Revenue outlook** – During the quarter, revenues declined mainly due to sharp fall in travel vertical specifically airlines, which declined from 13% in Q4FY20 of revenues to 5.0% in Q1FY21. However, outside the airlines the company's travel vertical was stable. Further, the company expects travel vertical to have bottomed out and expect it to remain subdued in FY21E. NIITT expects strong revenue growth in banking, insurance and healthcare vertical (as seen in this quarter) on the back of large deal wins. The company has won three large deals in the quarter of which one is in BFSI of US\$30 million, one in travel of US\$15 million and one vendor consolidation deal. The company has also won two large deals in Q2FY21E of which one is US\$30 million. This has given the company confidence of revenue growth of 7.0% QoQ in Q2FY21E and mid-single digit growth in FY21E
- **Margin trajectory** – The company expects a 150 bps increase in margins in Q2FY21E mainly led by higher utilisation, lower hardware cost, lower headcount cost, cost rationalisation and higher license revenues from NITL. Further, NIITT has also guided EBITDA margin of 17.8% (in CC terms) for FY21E excluding Esop expenses led by better revenue visibility and cost rationalisation
- **Digital business** – The digital business is now contributing 34% to revenues, down from 38% in Q4FY20. Digital revenues declined 18.9% QoQ (up 1.2% YoY). 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\$186 million, up 3.3% QoQ. The executable order book over the next 12 months is up 17.7% YoY US\$465 million. The company added 11 new customers of which five were from the US, five from EMEA and one from APAC & India
- **Client position** – NIITT indicated that there are airline clients in the top 20 bucket. This impacted the company's top five accounts, which fell 12.8% QoQ
- **DSO days** – DSO days declined by three days to 71 due to high base in the last quarter

Key Metrics

Exhibit 3: Geography-wise break-up

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<u>Revenue by geography (%)</u>						
America	49.0	49.0	49.0	48.0	46.0	47.0
EMEA	33.0	35.0	37.0	37.0	40.0	36.0
RoW	18.0	16.0	14.0	15.0	14.0	17.0
<u>Growth QoQ (%)</u>						
America	2.3	0.4	7.3	-0.4	-1.9	-7.4
EMEA	2.3	6.5	13.5	1.7	10.6	-18.5
RoW	2.3	-10.8	-6.1	9.0	-4.5	10.0

Source: Company, ICICI Direct Research

Americas and EMEA declined while ROW improved in the quarter

Exhibit 4: Vertical wise break-up

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<u>Revenue by verticals (%)</u>						
Banking & financial services	16.0	16.0	17.0	16.0	15.0	17.0
Insurance	28.0	29.0	31.0	30.0	31.0	33.0
Transport	27.0	28.0	28.0	29.0	27.0	19.0
Others	29.0	27.0	24.0	25.0	27.0	30.0
<u>Growth QoQ (%)</u>						
Banking & financial services	9.1	0.4	14.1	-4.3	-4.0	2.7
Insurance	-4.5	4.0	14.8	-1.6	5.8	-3.6
Transport	6.2	4.1	7.3	5.3	-4.7	-36.2
Others	2.3	-6.5	-4.6	6.0	10.5	0.7

Source: Company, ICICI Direct Research

Drop in revenues was mainly led by travel vertical

Exhibit 5: Service-wise break-up

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<u>Revenue by service mix (%)</u>						
SI & PI	4.0	1.0	1.0	2.0	1.0	5.0
IP Assets	5.0	6.0	5.0	6.0	8.0	6.0
Managed Services	17.0	17.0	17.0	16.0	17.0	16.0
Application Development & Manageme	70.0	72.0	74.0	73.0	72.0	70.0
BPO	4.0	4.0	3.0	3.0	3.0	3.0
<u>Growth QoQ (%)</u>						
SI & PI	2.3	-74.9	7.3	103.4	-48.8	353.0
IP Assets	-14.7	20.5	-10.5	22.1	36.5	-32.1
Managed Services	-3.4	0.4	7.3	-4.3	8.7	-14.7
Application Development & Manageme	5.3	3.3	10.3	0.3	0.9	-11.9
BPO	2.3	0.4	-19.5	1.7	2.3	-9.4

Source: Company, ICICI Direct Research

Exhibit 6: Client & human resource matrix

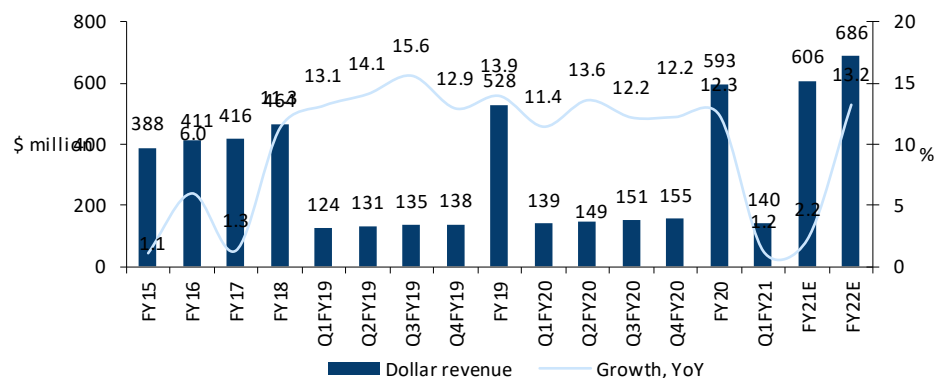
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<u>Client metrics</u>						
Between 1 to 5 million	66	66	70	74	80	81
Between 5 to 10 million	16	17	16	17	15	15
Above 10 million	8	8	9	9	11	11
<u>Headcount, Utilization, Attrition</u>						
Total Employees	10,263	10,297	10,800	10,849	11,156	10,598
Utilization	79.3	80.5	80.7	79.3	78.1	77
Attrition	12.2	12.9	12.3	11.9	11.8	11.8

Source: Company, ICICI Direct Research

Dip in utilisation due to Covid related challenges

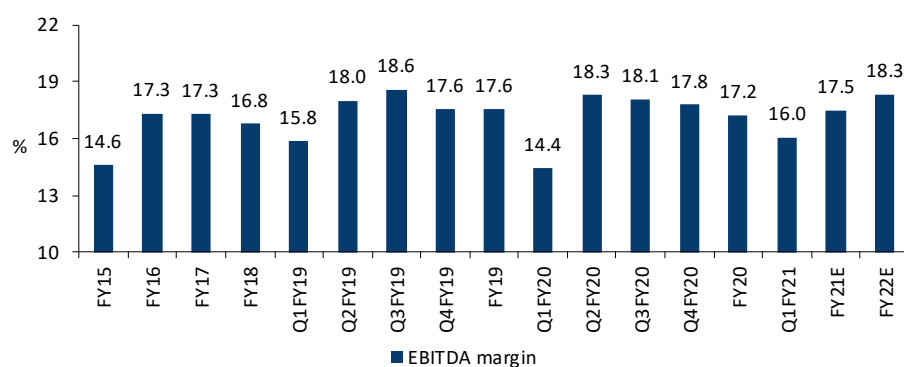
Financial story in charts

Exhibit 7: Dollar revenues may grow at 7.6% CAGR in FY20-22E



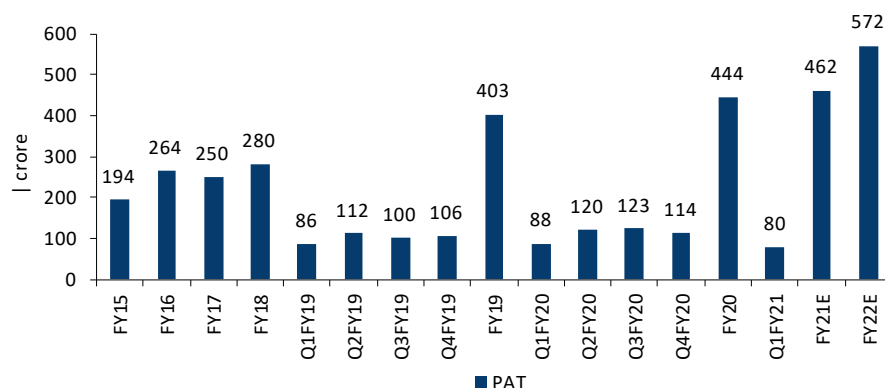
Source: Company, ICICI Direct Research

Exhibit 8: Change in margin estimates for FY21E & FY22E



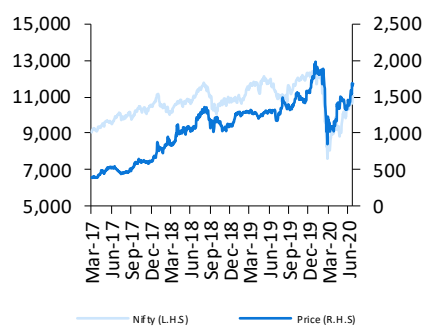
Source: Company, ICICI Direct Research

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
Total operating Income	3,676	4,184	4,554	5,148
Growth (%)	22.9	13.8	8.8	13.1
COGS (employee expenses)	2,391	2,753	2,983	3,331
S,G&A expenses	640	711	774	875
Total Operating Expenditure	3,031	3,464	3,757	4,206
EBITDA	645	720	797	942
Growth (%)	28.7	11.6	10.7	18.2
Depreciation	125	173	187	211
Other Income	48	56	40	43
PBT	568	603	650	774
Total Tax	140	128	148	176
Adjusted 'PAT	403	444	462	572
Growth (%)	44	10	4	24
Adjusted EPS (₹)	65.7	71.4	75.3	94.4
Exceptional loss	6	7	15	-
Reported PAT	398	444	447	572
Reported EPS (₹)	65.7	71.4	75.3	94.4
Growth (%)	43.9	8.7	5.5	25.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
	FY19	FY20	FY21E	FY22E
Profit before Tax	568	603	650	774
Add: Depreciation	125	173	187	211
(Inc)/dec in Current Assets	(24)	(362)	(109)	(175)
Inc/(dec) in CL and Provisior	-	-	72	116
Taxes paid	(118)	(181)	(148)	(176)
CF from operating activiti	453	297	597	706
(Inc)/dec in Investments	(584)	(679)	-	-
(Inc)/dec in Fixed Assets	(70)	(73)	(159)	(180)
Others	12	7	40	43
CF from investing activitie	(230)	112	(120)	(137)
Issue/(Buy back) of Equity	9	28	(337)	-
Inc/(dec) in loan funds	(5)	(5)	-	-
Dividend paid & dividend tax	(109)	(147)	(139)	(257)
CF from financing activiti	(106)	(133)	(476)	(257)
Net Cash flow	116	300	1	312
Exchange difference	(7)	11	-	-
Opening Cash	418	558	903	904
Closing Cash	558	903	904	1,216

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	62	63	61	61
Reserve and Surplus	2,011	2,334	2,322	2,637
Total Shareholders funds	2,072	2,397	2,383	2,697
Total Debt	10	5	5	5
Provisions	73	59	59	59
Minority Interest / O ther non	102	164	189	215
Total Liabilities	2,257	2,625	2,636	2,976
Assets				
Net Block	574	670	643	612
Capital WIP	1	0	0	0
Total Fixed Assets	575	671	643	612
Goodwill	245	409	409	409
Deferred tax assets	103	130	130	130
Debtors	592	857	934	1,055
Other Current Assets	403	377	410	463
Cash	558	903	904	1,216
Current Investments	365	14	14	14
Total Current Assets	1,918	2,151	2,261	2,748
Trade payables	165	284	309	349
Other current liabilities	419	498	542	613
Short term provisions	33	33	36	40
Total Current Liabilities	617	815	887	1,003
Net Current Assets	1,302	1,336	1,375	1,746
Application of Funds	2,257	2,625	2,636	2,976

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS (Diluted)	65.7	71.4	75.3	94.4
DPS	-	31	23	42
Cash per Share	92.1	145.2	152.2	200.8
BV per share (Diluted)	342.3	385.3	401.1	445.5
Operating Ratios (%)				
EBITDA Margin	17.6	17.2	17.5	18.3
PBT Margin	15.5	14.4	14.3	15.0
PAT Margin	11.0	10.6	10.2	11.1
Debtor days	59	75	75	75
Creditor days	16	25	25	25
Return Ratios (%)				
RoE	19.5	18.5	19.4	21.2
RoCE	25.2	23.0	24.7	26.0
RoIC	39.0	32.0	35.5	41.9
Valuation Ratios (x)				
P/E (Adjusted)	27.9	26.0	23.9	19.7
EV / EBITDA	15.7	14.1	12.7	10.4
EV / Net Sales	2.8	2.4	2.2	1.9
Market Cap / Sales	3.0	2.6	2.4	2.1
Price to Book Value	5.4	4.8	4.6	4.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.5	1.5	1.5
Quick Ratio	1.6	1.5	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HCL Tech (HCLTECH)	713	680	Hold	1,93,457	40.8	44.0	48.5	17	16	15	23.0	22.1	21.5	21.6	19.6	18.6
Infosys (INFTECH)	962	1,000	Buy	4,10,063	38.9	43.1	49.9	25	22	19	30.8	31.5	33.2	25.2	25.6	26.9
TCS (TCS)	2,309	2,400	Hold	8,66,500	86.2	83.6	94.4	27	28	24	43.5	42.4	49.1	37.5	36.7	42.8
Tech M (TECMAH)	684	765	Buy	66,045	45.9	43.6	51.0	15	16	13	19.1	16.3	17.4	18.5	15.9	16.7
Wipro (WIPRO)	275	300	Buy	1,57,040	16.6	16.9	18.9	17	16	15	19.3	17.7	18.4	17.4	15.8	16.4
Mindtree (MINCON)	1,052	1,160	Buy	17,314	38.3	50.5	59.7	27	21	18	20.0	22.5	23.1	23.0	26.1	27.2
LTi (LTINF)	2,416	2,320	Hold	42,113	86.6	97.1	113.6	28	25	21	30.7	29.2	29.2	28.1	26.4	26.2
NIIT Tech (NIITECH)	1,857	2,200	Buy	11,032	71.4	75.3	94.4	26	24	20	23.0	24.7	26.0	18.5	19.4	21.2
Infoedge (INFEDG)	3,131	3,290	Hold	38,369	26.8	21.6	33.8	117	145	93	18.0	13.6	19.1	13.5	10.1	14.3
Teamlease (TEAMLEASE)	1,849	2,000	Buy	3,161	20.5	38.9	61.5	90	47	30	15.0	11.3	14.6	6.8	10.4	14.2

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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