

Rev beat led by CLS; Digital drives profitability, Outlook positive

- NIIT reported strong results with 8.5% QoQ growth in INR revenue (DE 2.4%) led by stellar growth of 8.8% in CLS biz which was driven by volume ramp-up from new customers (added 6 logos TTM basis), that overcome softness in select customers that are yet to move to eLearning. SNC biz grew 6.2% QoQ.
- EBIT Mgn improved by 540bps to 9.5% (DE 5.2%) on strict cost measures and sustained Digital delivery in CLS biz (CLS OPM 20.5% although unsustainable). Loss from Schools stood at Rs 41mn (up 6.8% QoQ).
- Outlook for CLS business (88% of Rev) remains positive as it added 2 deals and expanded scope in 2 more clients. Revenue visibility declined by 1.5% QoQ to \$259mn as some clients have missed their planned run rate. Mgmt expect part of this would come up as pent-up demand as few of these customers have mandatory regulatory training norms.
- NIIT has displayed spectacular transformation by moving its delivery to Digital mode that ensured revenue stability and helped it take a structural leap on OPM. We Maintain our Buy rating with TP of Rs 170, valued at 13x FY23E.

CLS traction to continue, S&C losses to sustain

Recent client wins (7 clients added on net basis since Q1FY20) contributed to CLS biz growth (9% QoQ in CC terms) and may continue to provide traction going forward. Select customers run-rate remained soft as due to COVID, new/ special training programs are not in immediate priority for the HR teams, although it may provide pent-up demand once current situation eases also due to regulatory factors. Revenue visibility declined by 1.5% to \$259 as some clients have not reach the pace which was originally contracted in for and were marked down on order book. While NIIT highlighted uncertainty for its clients, it remains positive given huge addressable opportunity from L&D outsourcing by F1000 companies and its accelerated investments both in Geos/capabilities to drive momentum. S&C business grew by 6.2% QoQ led by 77% QoQ growth in StackRoute and TPaaS (46% of S&C Rev - traction to continue) while the rest of the business declined 21% QoQ (rationalization largely done with). NIIT has guided for continued traction in StackRoute & TPaaS as need for skilled talent Just-in-Time will remain consistent.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	2,189	2,323	(5.8)	2,018	8.5
Total Expense	1,844	2,033	(9.3)	1,774	4.0
EBITDA	344	290	18.8	244	41.1
Depreciation	136	128	6.2	161	(15.7)
EBIT	208	162	28.7	83	152.0
Other Income	183	399	(54.2)	341	(46.4)
Interest	16	54	(70.7)	24	(34.8)
EBT	379	507	(25.2)	391	(2.9)
Tax	79	(1,633)	(104.8)	58	35.6
RPAT	301	2,145	(86.0)	328	(8.4)
APAT	260	2,094	(87.6)	290	(10.4)
			(bps)		(bps)
Gross Margin (%)	15.7	12.5	325	12.1	364
EBITDA Margin (%)	15.7	12.5	325	12.1	364
NPM (%)	13.7	92.3	(7858)	16.3	(253)
Tax Rate (%)	20.9	(322.0)	34286	14.9	593
EBIT Margin (%)	9.5	7.0	255	4.1	542

CMP	Rs 140
Target / Upside	Rs 170 / 22%
NIFTY	11,642

Scrip Details

Equity / FV	Rs 283mn / Rs 2
Market Cap	Rs 20bn
	USD 266mn
52-week High/Low	Rs 148/ 54
Avg. Volume (no)	1,461,020
Bloom Code	NIIT IN

Price Performance	1M	3M	12M
Absolute (%)	5	48	45
Rel to NIFTY (%)	5	47	50

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	34.4	34.3	34.3
MF/Banks/FIs	16.4	15.9	11.8
FIIIs	17.3	19.0	22.2
Public / Others	32.0	30.8	31.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	17.9	14.5	10.8
EV/EBITDA	9.4	7.8	5.5
ROE (%)	8.1	9.3	11.7
RoACE (%)	8.3	9.4	11.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	8,728	10,240	12,009
EBITDA	1,219	1,420	1,851
PAT	1,106	1,366	1,842
EPS (Rs.)	7.8	9.6	13.0

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Exhibit 1: Quarterly performance versus estimates

(Rs mn)	Estimates			% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
Sales	2,189	2,067	NA	5.9	NA	Beat led by strong traction in CLS business led by RECO deal and volume from new clients.
EBITDA	344	274	NA	25.8	NA	
EBITDA, margin %	15.7	13.2	NA	248 bps	NA	OPM beat led by strong cost savings & operating leverage
Continued business PAT	301	235	NA	27.8	NA	
PAT	260	200	NA	30.1	NA	PAT beat extended by lower depreciation due lease rationalization in SNC biz.

Source: DART, Company

Change in Estimates

As we see strong traction in CLS to continue, we have upgraded our estimates by 4%/5% in FY21/FY22. We expect SNC Revenue to remain sub-dued as StackRoute and TPaaS growth normalizes, and have reduced our estimates by 8%/23% in FY21/FY22. We have factored in partial resumption of cost as travel normalizes, resulting in CLG margins by 77bps/ 22bps in FY21/FY22. We introduce our FY23 estimates with a revenue growth of 17% YoY and OPM gains of 140bps YoY at 15.4%.

Exhibit 2: Change in Estimates

(All fig in Rs mn except %)	FY20A		FY21E		FY22E			FY23E
	Actual	Old	New	Chg (%)	Old	New	Chg (%)	Intro
Revenue								
Corporate Learning group	6,913	7,399	7,717	4.3	8,550	9,000	5.3	10,184
Skills and Career group	1,979	1,093	1,010	(7.6)	1,625	1,240	(23.7)	1,825
Total Sales	8,892	8,492	8,728	2.8	10,175	10,240	0.6	12,009
growth YoY	(2.3)	(4.5)	(1.8)	265 bps	19.8	17.3	(249 bps)	17.3
EBITDA								
Corporate Learning group	930	1,180	1,428	21.0	1,308	1,474	12.7	1,617
Skills and Career group	(34)	(50)	(209)	322.0	107	(54)	(150.7)	234
Total EBITDA	851	1,131	1,219	7.8	1,415	1,420	0.4	1,851
EBITDA margin								
Corporate Learning group	13.5	15.9	18.5	256 bps	15.3	16.4	108 bps	15.9
Skills and Career group	(1.7)	(4.5)	(20.7)	(1,615bps)	6.6	(4.4)	(1,092 bps)	12.8
Company-wide EBITDA margin, %	9.6	13.3	14.0	66 bps	13.9	13.9	-4 bps	15.4
Profitability								
Net Profit (continued business)	13,580	1,133	1,230	8.6	1,291	1,426	10.5	1,842
Net Profit (Reported)	13,275	1,005	1,106	10.1	1,231	1,366	11.0	1,842
EPS (Rs per share)	93.8	7.1	7.8	10.0	8.7	9.6	10.9	13.0

Source: DART, Company

Exhibit 3: Key Assumptions in Our Estimates

Key Assumptions	FY20A	FY21E	FY22E	FY23E
Sales Growth (%)				
Corporate Learning group	9.3	11.6	16.6	13.2
Skills and Career group	(18.5)	(48.9)	22.7	47.2
Total Sales	(2.3)	(1.8)	17.3	17.3
EBITDA Margins (%)				
Corporate Learning group	13.5	18.5	16.4	15.9
Skills and Career group	(1.7)	(20.7)	(4.4)	12.8
Total EBITDA	9.6	14.0	13.9	15.4

Source: DART, Company

Exhibit 4: Quarterly and YTD Trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	YTDFY20	YTDFY 21	YoY (%)
Revenue	2,018	2,323	2,439	2,112	2,018	2,189	(5.8)	8.5	4,341	4,207	(3.1)
Operating Exp.	1,775	2,033	2,152	2,081	1,774	1,844	(9.3)	4.0	3,808	3,618	(5.0)
EBITDA	243	290	287	31	244	344	18.8	41.1	533	588	10.4
Depreciation	118	128	169	182	161	136	6.2	(15.7)	246	297	20.8
EBIT	125	162	118	(151)	83	208	28.7	152.0	287	291	1.4
Other Income	13,164	345	259	112	308	171	(50.4)	(44.5)	13,509	479	(96.5)
Exceptional item	12,912	0	0	(93)	(9)	4					
PBT	26,201	507	377	(132)	382	384	(24.3)	0.4	26,708	766	(97.1)
Tax (Operational)	3,162	(1,633)	48	(112)	58	79	(104.8)	35.6	1,529	138	(91.0)
Adjusted PAT	23,039	2,140	329	(21)	324	305	(85.8)	(6.0)	25,179	628	(97.5)
(Profit)/loss from JV's/Ass/MI	(4)	5	2	0	(4)	0			1	(4)	
Tax on associate profit	(910)	0	0	0	0	0			(910)	0	
PAT (Continued business)	23,945	2,145	331	(21)	320	305	(85.8)	(4.6)	26,090	625	(97.6)
Gain/(loss) from discontinued business	(129)	(51)	(59)	(66)	(38)	(41)	(20.4)	6.8	(180)	(79)	(56.3)
Reported PAT	23,816	2,094	272	(87)	282	264	(87.4)	(6.2)	25,910	546	(97.9)
Reported EPS	65.1	12.5	1.9	0.0	2.1	1.8	(85.3)	(10.5)	77.6	3.9	(95.0)
Margins (%)							(bps)	(bps)			(bps)
EBIDTA	12.0	12.5	11.8	1.5	12.1	15.7	325	364	12.3	14.0	171
EBIT	6.2	7.0	4.8	(7.1)	4.1	9.5	255	542	6.6	6.9	31
EBT	1,298.4	21.8	15.5	(6.3)	18.9	17.5	(430)	(141)	615.3	18.2	(59,705)
PAT (Overall)	1,180.2	90.1	11.2	(4.1)	14.0	12.1	(7,804)	(188)	596.9	13.0	(58,387)
Effective Tax rate	12.1	(322.0)	12.7	84.3	15.3	20.6	34,263	536	5.7	18.0	1,223

Source: DART, Company

What to expect Next Quarter

We expect revenues to grow by ~1.5% QoQ led by continued traction in CLS and SNC business. EBIT Profitability is likely to decline by 70bps to 8.8% as business loses the current peak positive leverage and travel normalises.

Exhibit 5: What to expect next Quarter

(Rs Mn)	Q3FY21E	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
Corporate Learning group	1,970	1,941	1,895	1.5	3.9
Skills and Career group	260	247	544	5.1	(52.2)
Schools business	0	0	37	NA	(100.0)
Sales	2,230	2,189	2,439	1.9	(8.6)
EBIT	196	208	118	(6.2)	65.7
PAT	299	300	329	(0.3)	(9.1)
EPS (Rs)	1.9	1.8	1.9	5.4	0.6
EBIT Margin (%)	8.8	9.5	4.8	(75 bps)	393 bps

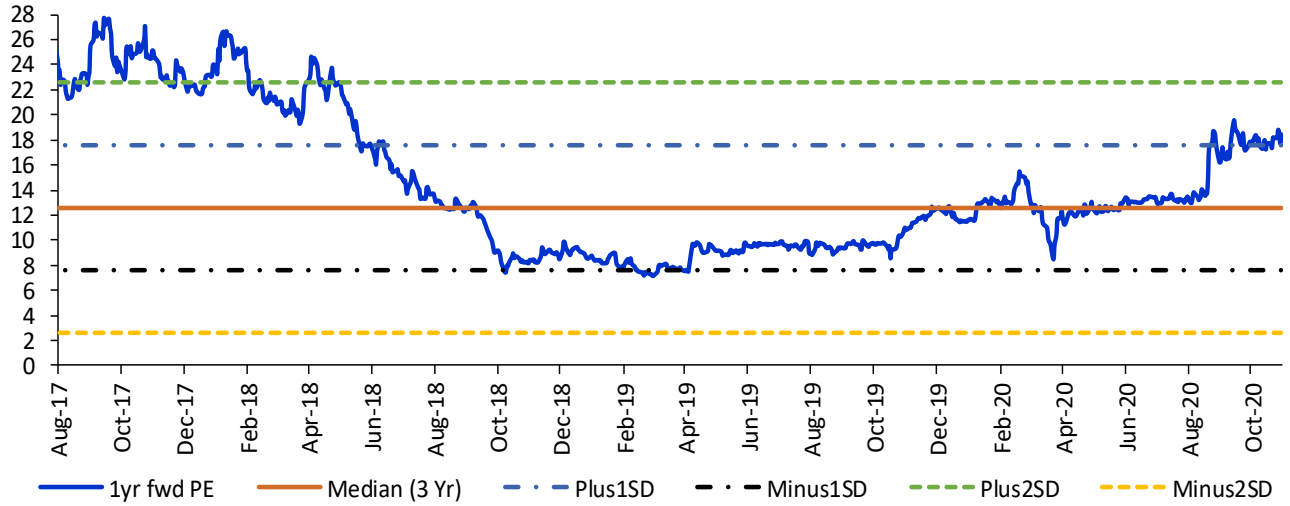
Source: DART, Company

Key Highlights from Earnings Call

- **CLS business:** CLS biz. grew 8.8% QoQ led by RECO deal rampup and volume scale up from recent client wins. During the quarter, CLS biz added 2 customers taking the MTS total customers count to 56. One of the customer was a Telecomm player which was added from Project to MTS and other client was a FCMG player. CLS biz also witnessed 2 renewals and 2 customer expansion during the quarter. The volume from top client has declined and the commentary remained soft for near-term. NIIT is witnessing more customers moving from project customers to MTS customer.
- **Outlook in CLS:** NIIT remains positive about the CLS business despite the current uncertain environment as 1) Less than 25% of F500 has outsourced L&D in a big way which represents huge opportunity for NIIT. 2) The L&D business for NIIT's major competitors (large IT System Integrators and Professional Giants) is not their core business (implying limited focus) while it remains the core biz for NIIT. It expects atleast 25% of its clients matured enough to weigh training as investments. Revenue visibility has marginally declined by 1.5% QoQ to \$259mn as it has missed run rate in few clients. Profitability in the segment has improved by ~500bps in H1FY21 YoY but is not sustainable and should gradually recede towards 15-16% (pre-COVID levels). However, this would remain function of Digital/Physical mix of the business when things normalizes.
- **SNC Business:** The growth in Stackroute and TPaaS was led by some recovery in recruitment trends during the quarter which is expected to improve further. These two sub-segment contributed 46% of the segment revenue and marked growth of 77% QoQ, while other B2C part of the business declined by 21%. Going forward as well the SNC biz as a whole will be led by Stackroute and TPaaS given strong underlying fundamentals for just-in-time hiring initiatives for skilled workforce. While the B2C business may take time to revive as its competitive landscape has changed meaningfully as its delivery has moved from physical unit to digital. The business has witnessed most of the cost rationalization as it moved to digital mode of delivery, also visible in depreciation expenses (declined by 15% QoQ to 136mn) as some of the leased assets were freed. Some minor share of delivery is still non-digital due to longer contract term and it is expected to close down and bring some more cost savings. NIIT has received positive feedback from Students and placement players for the new digital mode of delivery.
- **Profitability to taper off:** NIIT expects that current quarter has peak margins for CLS biz. Because as the travel restriction eases and some physical mode of delivery returns, part of the cost savings will be gone. While good part of the cost saving seems structural in nature. NIIT is also looking at reducing headcount to become more efficient (Headcount at 2,386, down by 147 people QoQ).
- **Schools Business:** Schools business reported a loss of Rs. 41mn. The NIIT management has not given any update on sale of the business (as they are still scouting for a strategic buyer).
- **Capital Allocation:** The net cash stood at Rs.12.1Bn post payment of dividend of Rs.2 per share (Rs.283mn) in Sept. The cash remaining from the transaction after buyback and dividend is Rs.7.5Bn (Excluding Indemnity reserve). The DSO days stood at 49 days from 51 days in Q1. The Capex for FY21 is Rs.500Mn.

PER Band Chart

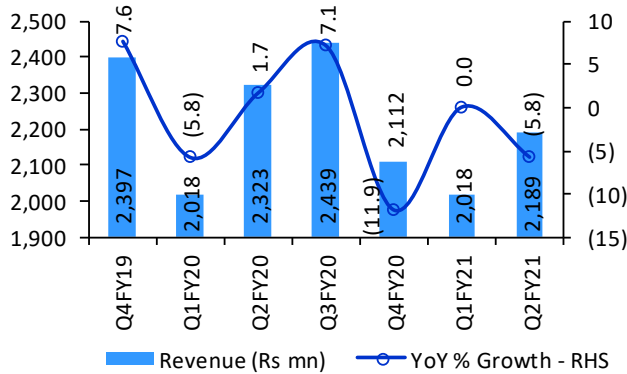
Exhibit 6: NIIT PER Chart: Stock trades at +1SD (although this do not capture cash which is 60% of mkt cap)



Source: DART, Company

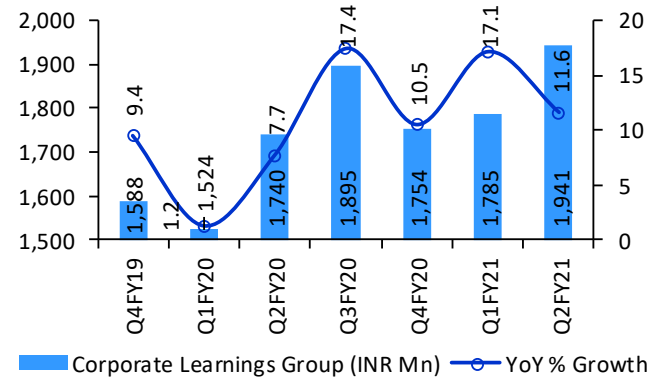
Story in charts

Exhibit 7: Revenue grew by 8.5% QoQ but remains lower on YoY basis



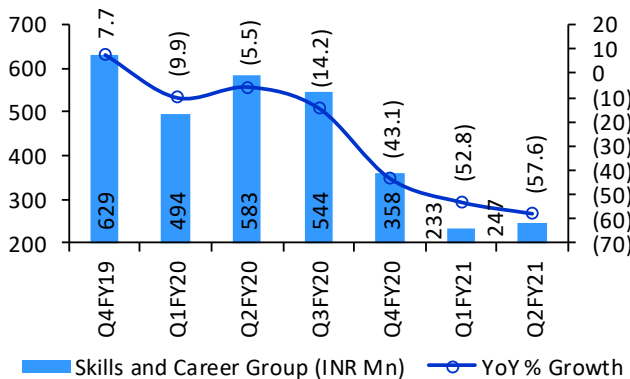
Source: DART, Company

Exhibit 8: CLG Biz. witnessed strong growth on volume ramp-up from recent client wins.



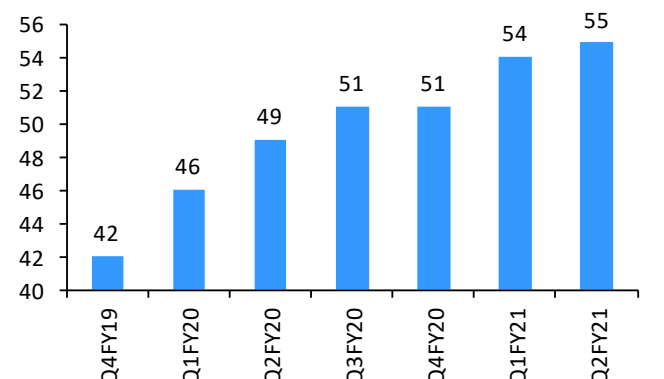
Source: DART, Company

Exhibit 9: SNC biz grew 6.2% QoQ but has faced loss of biz. (on YoY basis) in COVID situation



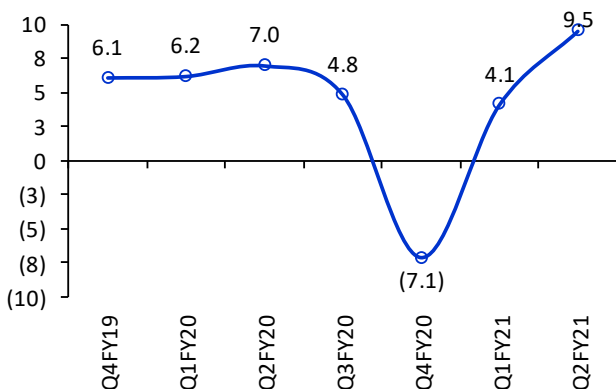
Source: DART, Company

Exhibit 10: NIIT continues on strong client addition traction in CLS Biz.



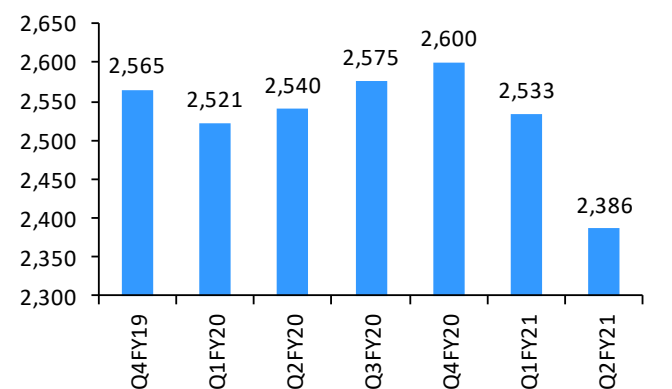
Source: DART, Company

Exhibit 11: EBIT Margins improved by 540bps QoQ due to cost savings across businesses.



Source: DART, Company

Exhibit 12: Cost Saving efforts visible in headcount reduction (down by 147 people QoQ)



Source: DART, Company

Exhibit 13: Operating Metrics

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net sales	2,143	2,285	2,278	2,397	2,018	2,323	2,439	2,112	2,018	2,189
YoY Growth %	2.1	9.6	8.8	7.6	(5.8)	1.7	7.1	(11.9)	0.0	(5.8)
Geography Amount (Rs mn)										
India	471	480	478	503	424	488	366	275	121	175
USA/Europe	1,500	1,645	1,640	1,726	1,453	1,719	1,878	1,753	1,776	1,948
Rest of World	171	160	159	168	121	116	195	84	121	66
Geography Growth (YoY)										
India	(22.1)	1.8	(0.3)	5.2	(15.8)	15.1	(25.0)	(25.0)	(55.9)	44.6
USA/Europe	4.0	9.7	(0.3)	5.2	(15.8)	18.3	9.3	(6.7)	1.3	9.7
Rest of World	(4.5)	(6.7)	(0.3)	5.2	(27.8)	(4.1)	68.0	(56.7)	43.3	(45.8)
Vertical Amount (INR mn)										
Corporate Learnings Group	1,506	1,616	1,614	1,588	1,524	1,740	1,895	1,754	1,785	1,941
Skills and Career Group	548	617	634	629	494	583	544	358	233	247
Careers, IT	356	401	380	390	346	396	392	261	196	200
Beyond - IT	192	216	254	239	148	187	152	97	37	47
School Learning Group	88	51	30	180	349	62	42	37	0	0
Vertical Growth (YoY)										
Corporate Learnings Group	28.2	27.9	24.7	9.4	1.2	7.7	17.4	10.5	17.1	11.6
Skills and Career Group	(20.8)	(15.1)	(10.5)	7.7	(9.9)	(5.5)	(14.2)	(43.1)	(52.8)	(57.6)
Careers, IT	(18.3)	(15.1)	(17.3)	2.7	(2.9)	(1.1)	3.0	(33.0)	(43.4)	(49.5)
Beyond - IT	(25.1)	(15.1)	2.3	16.9	(22.7)	(13.6)	(39.9)	(59.6)	(74.8)	(74.8)
School Learning Group	(62.1)	(45.2)	(67.4)	2.3	(29.5)	(17.6)	23.3	NA	NA	NA
Revenues from Channel Partners										
Enrollments achieved	33,081	33,966	29,277	25,218	23,207	26,021	14,483	9,485	2,317	10,597
YoY % Growth	(17.9)	(21.2)	(11.3)	(32.8)	(29.8)	(23.4)	(50.5)	(62.4)	(90.0)	(59.3)
Corporate Learning Solutions										
Number of MTS clients	39	39	40	42	46	49	51	51	54	55
Revenue Visibility (US\$ mn)	218	224	226	255	245	264	250	265	263	263
YoY (%)	(12.4)	17.3	15.9	28.1	12.4	17.9	10.6	3.9	7.3	(0.4)
People Resource										
Net Addition	2,489	2,611	2,579	2,565	2,521	2,540	2,575	2,600	2,533	2,386
	14	122	(32)	(14)	(44)	19	35	25	(67)	(147)

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	8,892	8,728	10,240	12,009
Total Expense	8,041	7,509	8,820	10,158
COGS	8,041	7,509	8,820	10,158
Employees Cost	0	0	0	0
Other expenses	0	0	0	0
EBIDTA	851	1,219	1,420	1,851
Depreciation	598	544	536	556
EBIT	253	675	885	1,295
Interest	166	72	69	77
Other Income	1,129	932	1,013	1,173
Exc. / E.O. items	12,917	(4)	0	0
EBT	14,133	1,530	1,829	2,392
Tax	1,466	297	402	550
RPAT	13,580	1,230	1,426	1,842
Minority Interest	0	0	0	0
Profit/Loss share of associates	913	(4)	0	0
APAT	13,275	1,106	1,366	1,842

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	283	283	283	283
Minority Interest	27	37	37	37
Reserves & Surplus	14,925	14,962	15,192	15,838
Net Worth	15,208	15,245	15,475	16,121
Total Debt	541	476	436	406
Net Deferred Tax Liability	3	3	3	3
Total Capital Employed	15,778	15,760	15,951	16,567

Applications of Funds

Net Block	2,607	2,613	2,577	2,526
CWIP	365	365	365	365
Investments	1	1	1	1
Current Assets, Loans & Advances	17,230	17,058	17,704	18,814
Inventories	5	5	5	5
Receivables	1,378	1,315	1,543	1,810
Cash and Bank Balances	861	371	709	1,497
Loans and Advances	0	0	0	0
Other Current Assets	6,547	6,927	7,007	7,063
Less: Current Liabilities & Provisions	4,425	4,276	4,697	5,139
Payables	981	926	1,087	1,252
Other Current Liabilities	3,445	3,350	3,609	3,887
	<i>sub total</i>			
Net Current Assets	12,805	12,782	13,008	13,675
Total Assets	15,778	15,760	15,951	16,567

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	9.6	14.0	13.9	15.4
EBIDTA Margin	9.6	14.0	13.9	15.4
EBIT Margin	2.8	7.7	8.6	10.8
Tax rate	10.4	19.4	22.0	23.0
Net Profit Margin	152.7	14.1	13.9	15.3
(B) As Percentage of Net Sales (%)				
COGS	90.4	86.0	86.1	84.6
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	0.0	0.0	0.0	0.0
Interest Coverage	1.5	9.4	12.8	16.9
Inventory days	0	0	0	0
Debtors days	57	55	55	55
Average Cost of Debt	16.3	14.2	15.1	18.3
Payable days	40	39	39	38
Working Capital days	526	535	464	416
FA T/O	3.4	3.3	4.0	4.8
(D) Measures of Investment				
AEPS (Rs)	93.8	7.8	9.6	13.0
CEPS (Rs)	98.0	11.6	13.4	16.9
DPS (Rs)	10.0	7.0	7.0	7.0
Dividend Payout (%)	10.7	89.7	72.6	53.9
BVPS (Rs)	107.5	107.5	109.2	113.7
RoANW (%)	115.4	8.1	9.3	11.7
RoACE (%)	(0.6)	8.3	9.4	11.8
RoAIC (%)	2.0	4.5	5.8	8.5
(E) Valuation Ratios				
CMP (Rs)	140	140	140	140
P/E	1.5	17.9	14.5	10.8
Mcap (Rs Mn)	19,798	19,798	19,798	19,798
MCap/ Sales	2.2	2.3	1.9	1.6
EV	11,038	11,463	11,085	10,268
EV/Sales	1.2	1.3	1.1	0.9
EV/EBITDA	13.0	9.4	7.8	5.5
P/BV	1.3	1.3	1.3	1.2
Dividend Yield (%)	7.1	5.0	5.0	5.0
(F) Growth Rate (%)				
Revenue	(2.3)	(1.8)	17.3	17.3
EBITDA	0.8	43.3	16.5	30.3
EBIT	(47.7)	166.9	31.0	46.4
PBT	7005.6	(89.2)	19.5	30.8
APAT	1677.6	(91.7)	23.5	34.8
EPS	1997.4	(91.7)	23.5	34.8
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	473	400	1,085	1,376
CFI	7,471	305	444	592
CFF	(8,092)	(1,196)	(1,191)	(1,181)
FCFF	(244)	(150)	585	871
Opening Cash	1,012	888	398	736
Closing Cash	888	398	736	1,523

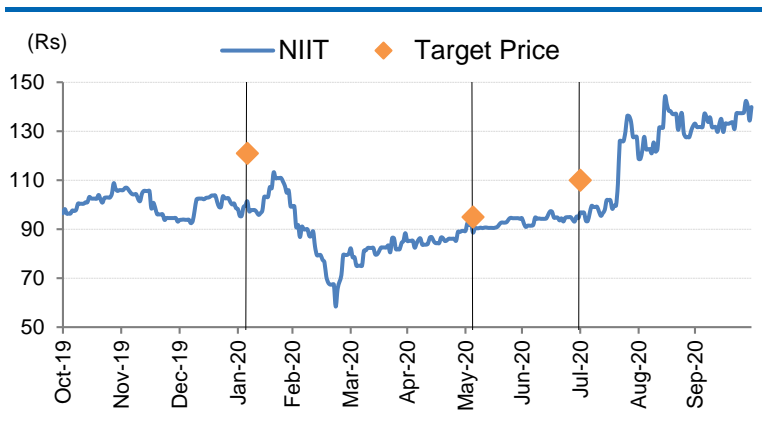
E – Estimates

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.)
Feb-20	Buy	121	101
Jun-20	Accumulate	95	89
Jul-20	Buy	110	97

*Price as on recommendation date

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