Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

NIIT Learning Systems Ltd

Decent Q3, Maintain Buy

Stock Update

Result Update

IT Consulting & Software	Sharekhan code: NIITMTS	
Reco/View: Buy ↔	CMP: **Rs. 472**	Price Target: **Rs. 550** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↑	
RQ		↔	
RV		↔	

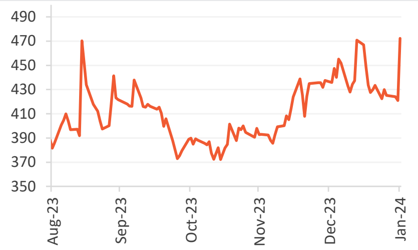
Company details

Market cap:	Rs. 6,376 cr
52-week high/low:	Rs. 514/344
NSE volume: (No of shares)	2.5 lakh
BSE code:	543952
NSE code:	NIITMTS
Free float: (No of shares)	8.81 cr

Shareholding (%)

Promoters	34.7
FII	17.8
DII	16.4
Others	31.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.9	21.1	-	-
Relative to Sensex	8.6	8.8	-	-

Sharekhan Research, Bloomberg

Summary

- NIIT learning Systems' (NLSL) reported revenue stood at Rs. 391.3 crore, up 2.5% q-o-q/up 7.7% y-o-y, nearly in line with our estimates of Rs. 390.4 crore, aided largely by Lifesciences & Healthcare and BFSI verticals.
- EBITDA margin fell 51bps q-o-q to 23% but was above our estimate of 22.4%. The company added two new MTS customers and signed four renewals along with one scope expansion in Q3FY24.
- The company expects sequential growth for FY25, with the rate of growth expected to increase over time and reach 20% growth in the midterm and long term.
- We believe NLSL is well-positioned to increase its market share in the outsourced L&D market through steadily increasing customer additions along with increased wallet share from existing customers through scope expansions. Hence, we maintain Buy on NLSL with an unchanged PT of Rs. 550. At the CMP, the stock trades at 23.7/18.9 x its FY25/26E EPS.9

NIIT Learning Systems (NLSL) reported revenue stood at Rs. 391.3 crore, up 2.5% q-o-q/up 7.7% y-o-y nearly in line with our estimate of Rs. 390.4 crore. Growth during the quarter was largely aided by Lifesciences & Healthcare and BFSI verticals. Revenue growth in constant currency was up 3%/5% on a q-o-q and y-o-y basis, respectively. EBITDA margin fell 51 bps q-o-q to 23% but was above our estimate of 22.4%. Adjusted PAT stood at Rs. 56.8 crore, up 11% q-o-q and flat y-o-y, aided by lower depreciation and lower finance costs. Life science & Healthcare, BFSI , Technology & Telecom, Energy & Commodities and Aviation & Aerospace grew 25%/15%/2%/2% and 2% q-o-q respectively while Management consulting & Professional Services and others declined 11%/7% q-o-q respectively. The company added two new MTS customers and signed four renewals along with one scope expansion in Q3FY24. Revenue visibility dropped marginally to USD348 million vs. USD350 million in Q2FY2024. Net cash stood at Rs. 559.9 crore, up 16.4% q-o-q. We believe NLSL is well-positioned to increase its market share in the outsourced L&D market through steadily increasing customer additions along with increased wallet share from existing customers through scope expansions. Hence, we maintain Buy on NLSL with an unchanged PT of Rs. 550. At the CMP, the stock trades at 23.7/18.9x its FY25/26E EPS.

Key positives

- The company added two new MTS customers and signed four renewals along with one scope expansion in Q3FY24.
- Net cash improved to Rs. 559.9 crore from Rs. 480.9 crore, up 16.4%.

Key negatives

- Headcount fell by 51 to 2417, down 2.1% q-o-q.
- Revenue visibility dropped to USD348 million vs. USD350 million in Q2FY24.

Management Commentary

- The company aims to achieve sequential growth, driven by the addition of new logos and retention of existing customers, despite consumption remaining constrained.
- The company expects current full-year growth to be 11-12% in constant currency terms.
- The company expects sequential growth for FY25, with the rate of growth expected to increase over time and reach 20% growth in the midterm and long term.
- The management has indicated a higher tax rate of ~ 28% for Q4FY24 due to expectation of certain payouts.

Revision in estimates – We have fine-tuned the estimates to factor Q3FY24 performance and revenue growth guidance for FY24.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 550: Although near-term environment remains sluggish, we believe NLSL is well-positioned to increase its market share in the outsourced L&D market through steadily increasing customer additions along with increased wallet share from existing customers through scope expansions. We expect a sales/PAT CAGR of 18.4%/20.3% over FY24-26E. Hence, we maintain Buy on NLSL with an unchanged price target (PT) of Rs. 550. At the CMP, the stock trades at 23.7/18.9 x its FY25/26E EPS.

Key Risks

Prolonged economic uncertainty to impact the recovery of spending and lead to cutbacks and/or deferral of expenditure for the near term. Changes in regulation rendering the training content obsolete.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	1,362	1,555	1,805	2,181
OPM (%)	21.4%	23.0%	23.5%	23.7%
Adjusted PAT	211	219	269	337
YoY growth (%)	4.3	4.1	22.8	25.1
Adjusted EPS (Rs.)	15.6	16.2	20.0	25.0
P/E (x)	30.2	29.1	23.7	18.9
P/B (x)	8.3	6.5	5.1	4.0
EV/EBITDA	21.2	16.6	13.2	10.0
ROE (%)	32.1	25.0	24.1	23.7
ROCE (%)	30.1	24.2	24.6	25.4

Source: Company; Sharekhan estimates

Key result highlights:

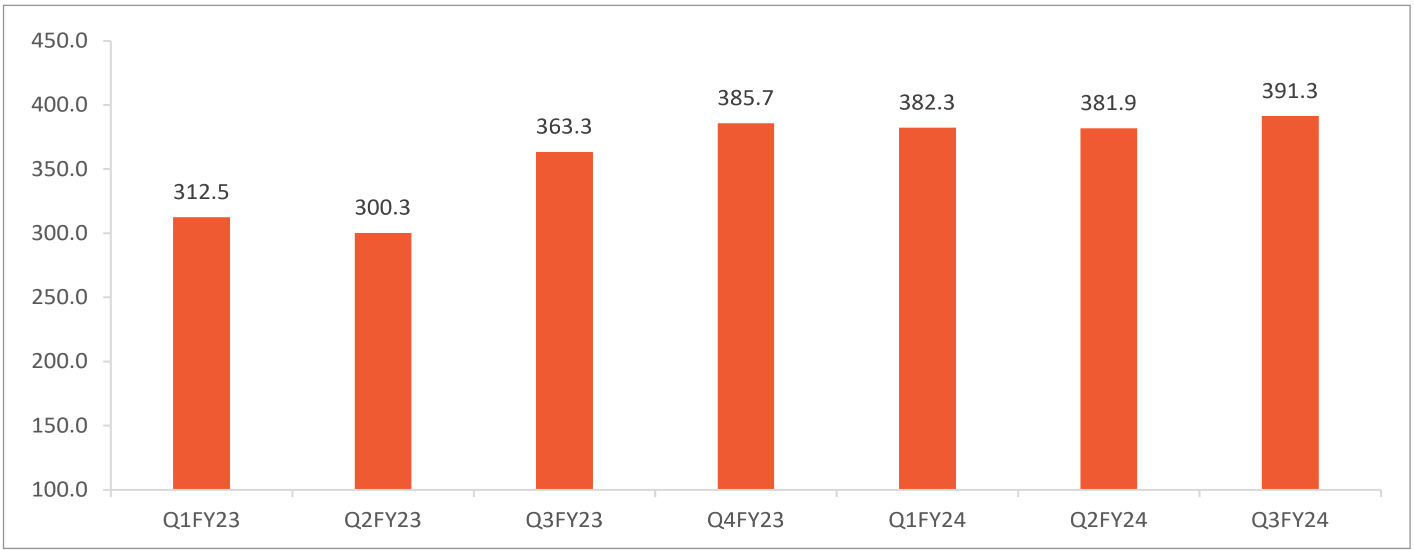
- **Revenue growth and EBIT margins:** NLSL's reported revenue stood at Rs. 391.3 crore, up 2.5% q-o-q/up 7.7% y-o-y, nearly in line with our estimate of Rs. 390.4 crore. Organic revenue growth in constant currency was up 5% q-o-q/3% y-o-y. Growth was aided largely by Lifesciences & Healthcare and BFSI verticals partially offset by weakness in Management consulting and Professional Services and Others verticals . EBITDA margin fell 51bps q-o-q to 23% but was above our estimate of 22.4%.
- **Revenue guidance:** The company expects the full year growth in constant currency terms, to be between 11% and 12%. growth rate. Margins for Q4FY24 expected to be similar to Q3FY2024. The company expects to witness sequential growth for FY25, with the growth rate expected to increase over time and reach 20% growth expectation in the mid and long term.
- **Deals:** The company added two new MTS customers during Q3FY24 and witnessed 4 four renewals and one scope expansion. Revenue visibility stood at USD348 million (vs. USD350 million in Q2FY24 and $ USD321million in Q3FY23)
- **Vertical-wise performance:** Life science & Healthcare , BFSI , Technology & Telecom, Energy & Commodities and Aviation & Aerospace grew 25%/15%/2%/2% and 2% q-o-q respectively while Management consulting & Professional Services and others declined 11%/7% q-o-q respectively.
- **Headcount:** Headcount fell by 51 to 2,417, down 2.1% q-o-q, owing to leveraging of AI resulting in improved productivity.
- **Cash flow generation:** Net cash stood at Rs. 559.9 crore, up 16.4% q-o-q. Free cash flow improved to Rs 109.9 crore due to normalisation of the working capital cycle as there was a temporary increase in the working capital cycle due to the transition of contracts from NIIT Limited to NLSL in Q2FY24. DSO was at 59 days vs. 46 days in the previous quarter.

Results Rs cr

Particulars	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Net Sales	**391.3**	**363.3**	**381.9**	**7.7**	**2.5**
Employee benefits expense	191.1	180.3	184.1	6.0	3.8
Other expenses	36.4	32.5	34.8	11.8	4.5
Professional & and technical outsourcing expenses	73.8	70.3	73.1	4.9	0.8
Total Operating Cost	301.2	283.1	292.0	6.4	3.1
EBITDA	**90.1**	**80.2**	**89.9**	**12.4**	**0.2**
Depreciation	14.3	11.8	17.0	21.1	-16.0
EBIT	75.9	68.4	72.9	10.9	4.0
Interest & Other Financial Cost	5.5	4.6	8.7		-36.3
Other Income	7.2	3.4	7.4	110.0	-2.5
Profit Before Tax	**77.6**	**56.6**	**67.4**	**37.1**	**15.1**
Tax Expense	20.8	10.5	20.5	97.7	1.6
Reported PAT	**56.8**	**46.0**	**46.9**	**23.3**	**21.1**
Adjusted PAT	**56.8**	**56.7**	**51.2**	**0.03**	**10.9**
EPS (Rs.)	**4.2**	**4.2**	**3.3**	**0.0**	**26.2**
Margin (%)					
GPM	51.2	50.4	51.8	79	-63
EBITDA	23	22	24	95	-51
NPM	14.5	15.6	13.4	-111	110
Tax rate	26.8	18.6	30.4	822	-358

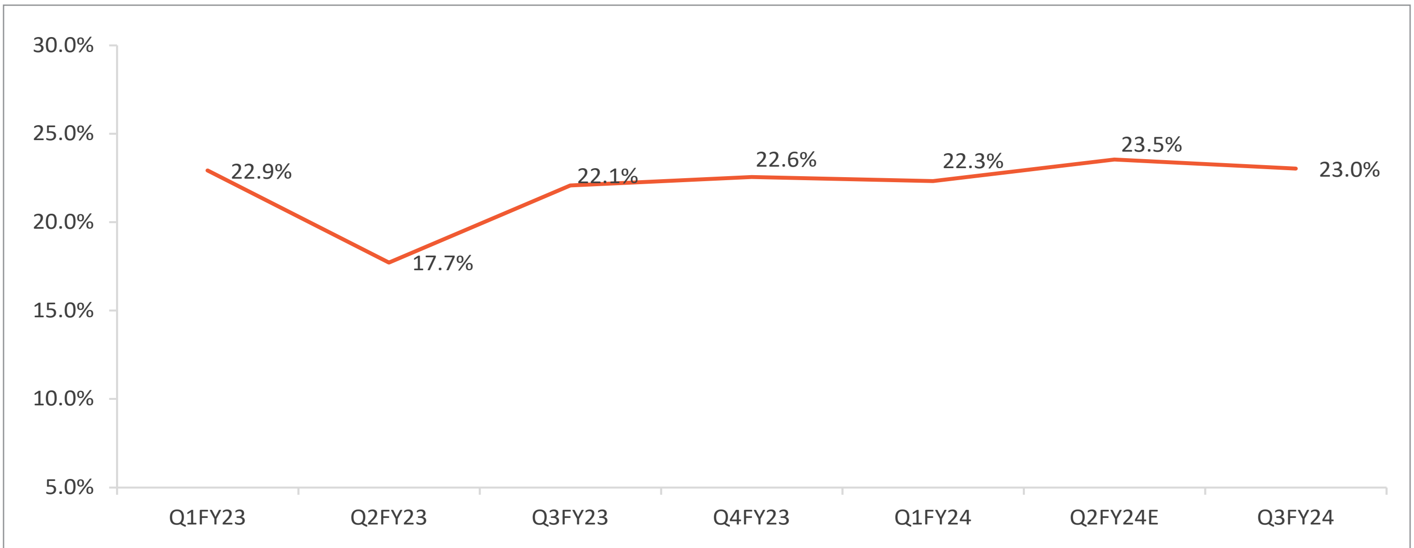
Source: Company, Sharekhan Research

NIITMTS revenue (Rs. crore)



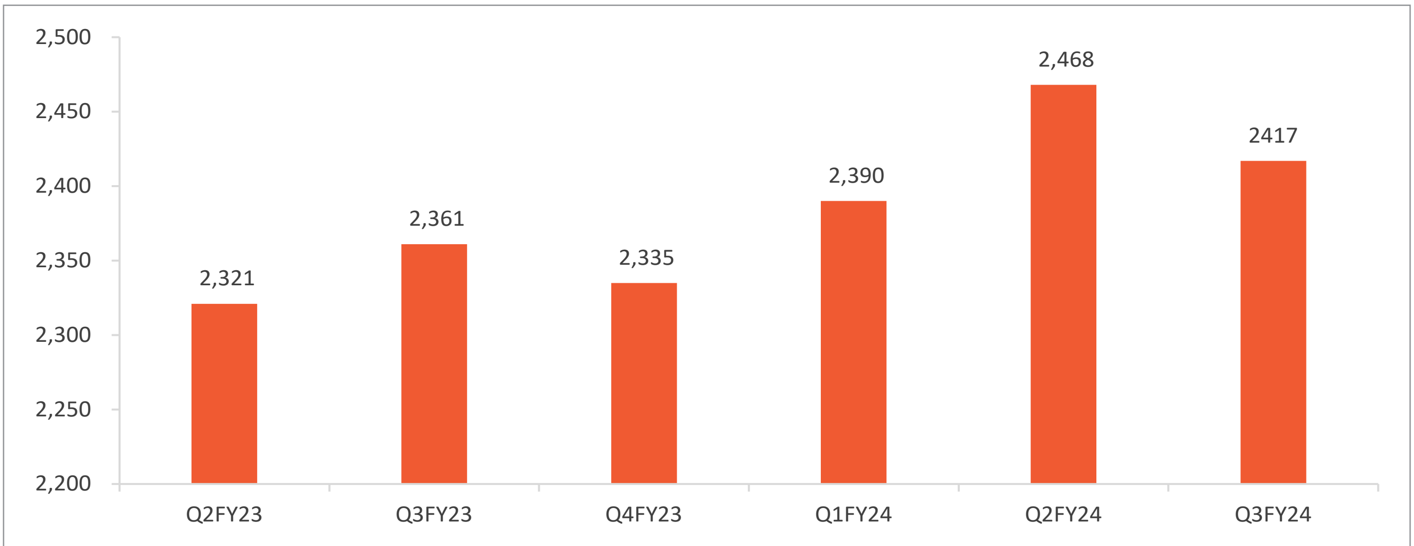
Source: Company, Sharekhan Research

NIITMTS EBITDA margin (%)



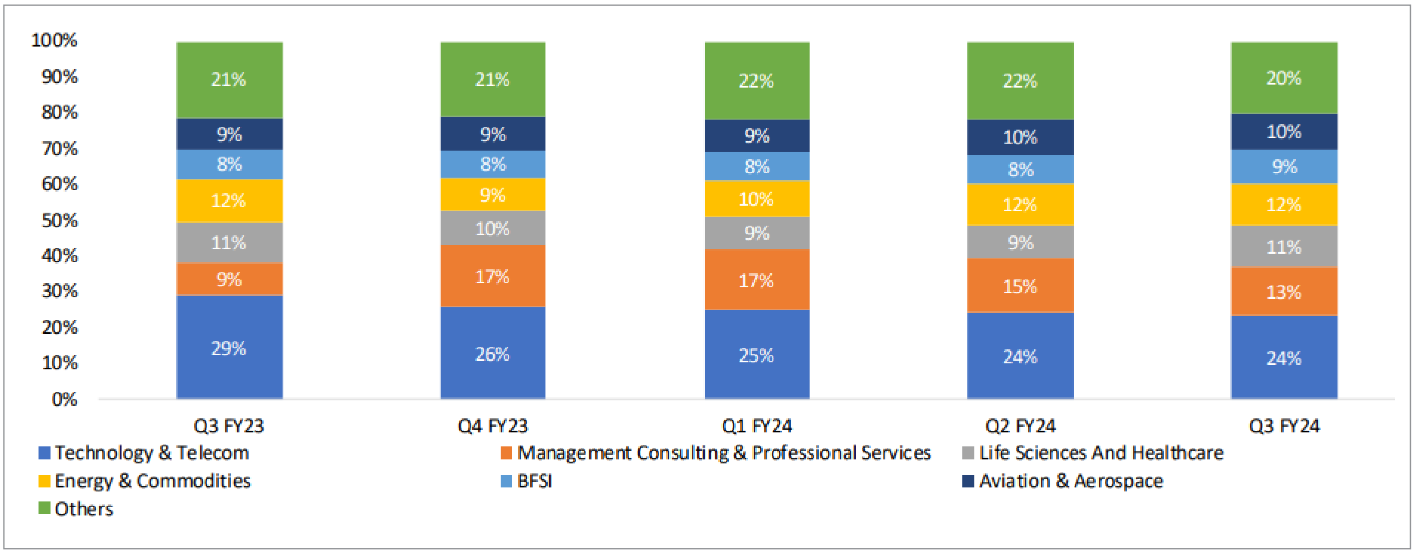
Source: Company, Sharekhan Research

NIITMTS Head Count



Source: Company, Sharekhan Research

NIITMTS Revenue Mix by Sector



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Multi-year opportunity in the corporate learning space. Headwinds bottoming out**

Corporate training can boost employee productivity, engagement, and motivation. Furthermore, effective corporate training programmes can help attract and retain talent, reduce employee turnover, and ultimately contribute to the achievement of business goals and objectives. Global companies spend over USD370 billion per year on training, with about two-thirds of the spending on proprietary training. The global corporate training market is expected to grow to USD460.04 billion in 2027. The current penetration of outsourced learning services, accounting for less than 5% of the addressable learning and development (L&D) market, signals a multiyear growth potential.

■ **Company outlook - Strong revenue growth and robust cash flow generation**

Revenue is expected to register a robust ~18.4 CAGR over FY24-FY26E, aided by StC acquisition and USD348 million order book. EBITDA margin is set to improve to ~23.7% in FY2026E from 21.4% in FY23, driven by operating leverage. Thus, we expect NLSL to report strong Sales/PAT CAGR of ~18.4%/20.3% over FY2024-FY2026E

■ **Valuation - Maintain Buy with unchanged price target of Rs 550**

Although near-term environment remains sluggish, we believe NLSL is well-positioned to increase its market share in the outsourced L&D market through steadily increasing customer additions along with increased wallet share from existing customers through scope expansions. We expect a sales/PAT CAGR of 18.4%/20.3% over FY24-26E. Hence, we maintain Buy on NLSL with an unchanged price target (PT) of Rs. 550. At the CMP, the stock trades at 23.7/18.9 x its FY25/26E EPS.

About company

NLSL is an established leader in Managed Learning Training Services and ranks among the top-5 global players in terms of revenue from training outsourcing. NIIT Learning Systems Ltd. offers managed training services to Fortune 1000 and Global 500 corporations across North America and Europe. The company has over 84 global customers, serviced in over 30 countries. NIIT Learning Systems was demerged from NIIT on May 24, 2023. Consequent to the demerger, each shareholder of NIIT has been allotted one share of NIIT Learning Systems for every NIIT share held as on the record date of June 8, 2023. As a result of the demerger, NIIT's Corporate Learning Business has been transferred to NIIT Learning Systems Limited (NLSL) from the appointed Date of April 1, 2022.

Investment theme

Global companies spend over USD370bn per year on training, with about two-thirds of the spending on proprietary training. A majority of this cost is for internal learning and development resources, which are fixed in nature and inefficient due to less-than-optimal utilization. The penetration of learning outsourcing is low, at less than 5%. This implies that a significant portion of the training costs is being borne by the companies themselves without leveraging external providers for more efficient and cost-effective training solutions. The global corporate training market is expected to grow to USD460.04bn in 2027.

Key Risks

- Prolonged economic uncertainty to impact the recovery of spending and lead to cutbacks and/or deferral of expenditure for the near term.
- Changes in regulation rendering the training content obsolete

Additional Data

Key management personnel

Sapnesh Lalla	Chief Executive Officer
Sailesh Lalla	Chief Business Officer
Sanjay Mal	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	8.45
2	MARATHON EDGE INDIA FUND I	3.05
3	AKM Systems Pvt Ltd	2.99
4	Sundaram Asset Management Co Ltd	2.16
5	Dimensional Fund Advisors LP	1.25
6	BlackRock Inc	0.91
7	ICICI Prudential Asset Management	0.84
8	Credit Suisse Group AG	0.68
9	L&T Mutual Fund Trustee Ltd/India	0.52
10	GAM Holding AG	0.25

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan
by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200 / 022-69920600