

Below estimates but Better outlook ahead

**CMP: Rs 1863**

**Rating: Accumulate**

**Target Price: Rs 2080**

**Stock Info**

BSE	532541
NSE	NIITTECH
Bloomberg	NITEC IN
Reuters	MINT.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	624
Mkt Cap (Rs mn)	112843
52w H/L (Rs)	2,060 / 735
Avg Yearly Vol (in 000')	581

**Shareholding Pattern %**

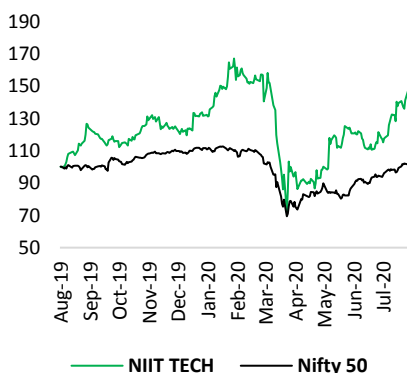
(As on June, 2020)

Promoters	70.32
FII	13.99
DII	9.58
Public & Others	6.11

**Stock Performance (%)**

	3m	6m	12m
NIIT Tech	57.6	-0.73	54.4
Nifty	20.5	-3.9	0.12

**NIIT Tech Vs Nifty**



**NIIT Technologies Q1FY21 earnings were below our estimates on all fronts as Covid-19 pandemic disrupted the business performance of the company. Consolidated revenue stood at Rs 10,570 mn, below our estimate of Rs 11,954 mn, registering -4.7% QoQ /+9.8% YoY due to a sharp decline in the Travel & Transport vertical. Excluding the Travel & Transport vertical, revenues grew 5.1% QonQ. Consolidated EBITDA stood at Rs 1,695 mn, down by 14.6% QoQ /+22.4% YoY. On the margins front, EBITDA margin contracted by 185bps QoQ to 16%. Consolidated PAT stood at Rs 799 mn, below our estimate of Rs 1370 mn, registering -29.7% QoQ/-8.8% YoY.**

**Business Highlights (Vertical wise) – Q1FY21**

- All other verticals, except Travel, delivered sequential growth in Q1FY'21. The Insurance services business grew 1.9% QoQ contributing to 33.0% of the quarter's revenue.
- The BFS business grew 6.2% sequentially and contributed to 17.2% of total revenue. Other segments collectively expanded 8.6% QoQ and they now represent 30.4% of overall revenue.
- Among geographies, Americas, EMEA and Rest of the World (including APAC) contributed 47%, 36% and 17% respectively to the revenue mix, respectively.
- Fresh business of US\$186 mn was secured by the company during the quarter, which included a large deal along with two more significant deals. A total of 11 new clients were added during the quarter. On the back of this continued deal signing momentum, the order book executable over the next twelve months increased to US\$465 mn, representing a growth of 18% YoY.

**Valuations**

At CMP of Rs 1863, NIIT Technologies currently trades at FY20 P/E of 26.2x respectively. After factoring in Q1FY21 results, we lowered our FY21-22 revenue estimates as significant exposure to travel vertical. Increase in fresh order book, this coupled with three deals in the quarter. Further, revenue and margins are also expected to improve in coming quarters.

We value NIIT Technologies at P/E of 23x to its FY22E EPS 89.7, which yields target price of Rs 2,080 per share. **We maintain our Accumulate rating on the stock.**

YE March	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
(Rs Mn)							
FY19	36,762	6,485	4,089	65.3	17.6%	19.7%	28.5
FY20	41,839	7,233	4,509	71.0	17.3%	18.8%	26.2
FY21E	46,240	8,231	4,844	77.5	17.8%	17.6%	24.0
FY22E	52,273	9,305	5,605	89.7	17.8%	17.8%	20.8

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q1 FY21 - Quarterly Performance (Consolidated)

Particulars (in Rs million)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>10,570</b>	<b>11,093</b>	<b>9,627</b>	<b>-4.7%</b>	<b>9.8%</b>
Employee cost	7,137	6,697	6,213	6.6%	14.9%
Other Expenses	1,738	2,412	2,029	-27.9%	-14.3%
<b>EBITDA</b>	<b>1,695</b>	<b>1,984</b>	<b>1,385</b>	<b>-14.6%</b>	<b>22.4%</b>
<i>EBITDA margin %</i>	<i>16.0%</i>	<i>17.9%</i>	<i>14.4%</i>	<i>-185bps</i>	<i>165bps</i>
Other Income	76	221	206	-65.6%	-63.1%
Depreciation	465	433	401	7.4%	16.0%
Finance costs	37	54	31	-31.5%	19.4%
<b>PBT</b>	<b>1,269</b>	<b>1,718</b>	<b>1,159</b>	<b>-26.1%</b>	<b>9.5%</b>
Tax Expense	260	348	318	-25.3%	-18.2%
Effective tax rate %	20.5%	20.3%	27.4%	23bps	-695bps
<b>PAT</b>	<b>1,009</b>	<b>1,370</b>	<b>841</b>	<b>-26.4%</b>	<b>20.0%</b>
MI & Associates	-30	-106	-22		
<b>Consolidated PAT</b>	<b>979</b>	<b>1,264</b>	<b>819</b>	<b>-22.5%</b>	<b>19.5%</b>
Exceptional item	-180	-128	57		
<b>Reported PAT</b>	<b>799</b>	<b>1,136</b>	<b>876</b>	<b>-29.7%</b>	<b>-8.8%</b>
<i>PAT margin %</i>	<i>9.3%</i>	<i>11.4%</i>	<i>8.5%</i>	<i>-213bps</i>	<i>75bps</i>
<b>EPS (Rs)</b>	<b>12.8</b>	<b>18.2</b>	<b>13.3</b>	<b>-29.5%</b>	<b>-3.9%</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Key Concall Highlights

#### Outlook:

- Expect sequential growth of 7% in CC in Q2FY21 and EBITDA margins to expand by 150 bps QoQ.
- Margin expansion to be led by headcount reduction and operational efficiencies.
- EBITDA margins to be at 17.8% in FY21 on CC basis and revenue growth in mid single digits in CC terms.
- Not baked in recovery in Travel and Transportation while giving revenue guidance for FY21.

#### Deals:

- USD186mn new deals signed during the quarter.
- Deals won from US – USD85mn, India - USD 75mn.
- Healthcare momentum outside India continues.

#### Client position:

- NIIT Tech indicated that there are airline clients in the top 20 bucket. This impacted the company's top five accounts, which fell 12.8% QoQ.

## Key Financials

### Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	36,762	41,839	46,240	52,273
<i>Change (%)</i>	22.9%	13.8%	10.5%	13.0%
Operating Costs	291	844	462	523
<b>Gross Profit</b>	<b>36,471</b>	<b>40,995</b>	<b>45,777</b>	<b>51,750</b>
Employee Costs	21,532	25,298	27,096	30,632
Other Expenses	8,454	8,464	10,450	11,814
<b>Total Expenses</b>	<b>30,277</b>	<b>34,606</b>	<b>38,009</b>	<b>42,968</b>
<b>EBITDA</b>	<b>6,485</b>	<b>7,233</b>	<b>8,231</b>	<b>9,305</b>
Other Income	535	677	462	523
Depreciation	1,248	1,730	1,834	1,955
Interest	92	155	14	14
<b>PBT</b>	<b>5,680</b>	<b>6,025</b>	<b>6,845</b>	<b>7,858</b>
Extra-ordinary	56	71	0	0
<b>PBT after ext-ord.</b>	<b>5,624</b>	<b>5,954</b>	<b>6,845</b>	<b>7,858</b>
Tax	1,403	1,278	1,711	1,965
<i>Rate (%)</i>	24.9%	25.0%	25.0%	25.0%
<b>PAT</b>	<b>4,221</b>	<b>4,676</b>	<b>5,134</b>	<b>5,894</b>
<b>MI &amp; Associates</b>	<b>-188</b>	<b>-238</b>	<b>-290</b>	<b>-289</b>
<b>Consolidated PAT</b>	<b>4,089</b>	<b>4,509</b>	<b>4,844</b>	<b>5,605</b>
<i>Change (%)</i>	45.9%	10.3%	7.4%	15.7%

### Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>5,680</b>	<b>6,025</b>	<b>6,845</b>	<b>7,858</b>
Depreciation	1,248	1,730	1,834	1,955
Interest & others	-631	-760	-738	-797
Cash flow before WC changes	6,297	6,995	7,941	9,016
<b>(Inc)/dec in working capital</b>	<b>-1,066</b>	<b>-533</b>	<b>-550</b>	<b>-520</b>
Operating CF after WC changes	5,231	6,462	7,391	8,496
Less: Taxes	-1,403	-1,814	-1,711	-1,965
<b>Operating Cash Flow</b>	<b>3,828</b>	<b>4,648</b>	<b>5,680</b>	<b>6,531</b>
(Inc)/dec in F.A + CWIP	2,499	-2,061	-529	-701
(Pur)/sale of investment	-585	3,514	0	0
<b>Cash Flow from Investing</b>	<b>1,914</b>	<b>1,453</b>	<b>-529</b>	<b>-701</b>
<b>Free Cash Flow (FCF)</b>	<b>6,314</b>	<b>3,327</b>	<b>5,080</b>	<b>5,831</b>
Loan raised/(repaid)	-79	-52	0	0
Equity raised	3	7	0	0
Interest & others	-3,046	-1,246	-61	752
Dividend	-1,227	-1,353	-1,613	-1,933
<b>Cash Flow from Financing Activities</b>	<b>-4,349</b>	<b>-2,644</b>	<b>-1,674</b>	<b>-1,181</b>
<b>Net inc/(dec) in cash</b>	<b>1,393</b>	<b>3,457</b>	<b>3,476</b>	<b>4,649</b>
Opening balance of cash	4,183	5,576	9,034	12,510
Closing balance of cash	5,576	9,034	12,510	17,159

### Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>				
Share Capital	618	625	625	625
Reserves & Surplus	20,105	23,340	26,860	30,821
<b>Net Worth</b>	<b>20,723</b>	<b>23,965</b>	<b>27,485</b>	<b>31,446</b>
<b>Loan Funds</b>	<b>100</b>	<b>48</b>	<b>48</b>	<b>48</b>
MI, Deferred Tax & other Liabilities	1,020	1,644	1,644	1,644
<b>Capital Employed</b>	<b>21,843</b>	<b>25,657</b>	<b>29,177</b>	<b>33,138</b>
<b>Application of Funds</b>				
Gross Block	8,187	10,001	10,601	11,301
Less: Depreciation	1,248	1,730	1,834	1,955
Net Block	6,939	8,271	8,767	9,346
CWIP	14	3	3	3
Other Non-current Assets	320	790	790	790
Deferred Tax Assets	1,032	1,302	1,231	1,232
<b>Net Fixed Assets</b>	<b>8,305</b>	<b>10,366</b>	<b>10,791</b>	<b>11,371</b>
<b>Investments</b>	<b>3,651</b>	<b>137</b>	<b>137</b>	<b>137</b>
Debtors	5,922	8,565	8,868	10,025
Inventories	0	0	3	4
Cash & Bank Balance	5,576	9,034	12,510	17,159
Loans & Advances & other CA	4,032	3,774	5,067	5,729
<b>Total Current Assets</b>	<b>15,530</b>	<b>21,373</b>	<b>26,448</b>	<b>32,917</b>
Current Liabilities	5,832	7,819	8,868	10,168
Provisions	1,059	922	922	922
<b>Net Current Assets</b>	<b>8,639</b>	<b>12,632</b>	<b>16,658</b>	<b>21,827</b>
<b>Total Assets</b>	<b>21,843</b>	<b>25,657</b>	<b>29,177</b>	<b>33,138</b>

### Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>				
EPS	65.3	71.0	77.5	89.7
CEPS	85.5	98.7	106.8	121.0
BVPS	335.4	383.4	439.8	503.1
DPS	19.9	21.6	25.8	30.9
Div. Payout (%)	0.3	0.3	0.3	0.3
<b>Valuation (x)</b>				
P/E	28.5	26.2	24.0	20.8
P/CEPS	21.8	18.9	17.4	15.4
P/BV	5.6	4.9	4.2	3.7
EV/EBITDA	10.5	9.0	7.5	6.2
Dividend Yield (%)	1.1%	1.2%	1.4%	1.7%
<b>Return ratio (%)</b>				
EBITDA Margin	17.6%	17.3%	17.8%	17.8%
PAT Margin	11.1%	10.8%	10.5%	10.7%
ROE	19.7%	18.8%	17.6%	17.8%
ROCE	24.0%	21.4%	21.9%	22.2%
<b>Leverage Ratio (%)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.4	-0.5	-0.5
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.7	1.6	1.6	1.6
Inventory Days	0	2	2	3
Receivable Days	59	75	70	70
Payable days	68	76	70	71

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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