

Stable results, one-offs make the reported numbers look weak optically, maintain Hold with a revised target price of Rs 1461

Current	Previous
CMP: Rs 1353	
Rating: Hold	Rating: Hold
Target: Rs 1461	Target: Rs 1416

(NR-Not Rated)

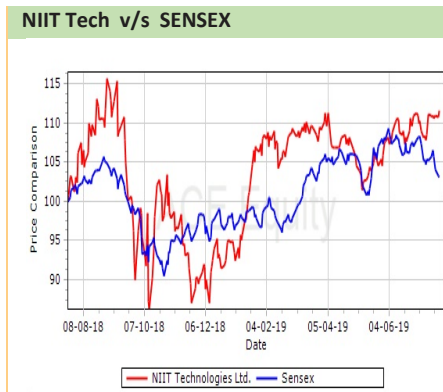
Stock Info	
INDEX	
BSE	532541
NSE	NIITTECH
Bloomberg	NITEC IN
Reuters	MINT.BO
Sector	IT - Software
Face Value (Rs)	10
Equity Capital (Rs Mn)	618
Market Cap (Rs Mn)	83,588
52w H/L (Rs)	1425 /1031
Avg Weekly Vol (BSE+NSE)	429,420

Shareholding Pattern	%
(As on June, 2019)	
Promoters	33.9
Public & Others	66.1

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
NIITTECH	3.9	6.2	20.3
SENSEX	-1.5	5.2	3.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Monami Manna

Sr. Research Analyst

Tel: +91 22 42254817

monami.manna@arihantcapital.com

NIIT Technologies came out with stable set of numbers, mostly in line with our estimates except some one-offs. Consolidated revenue for Q1FY20 came at Rs 9,627mn, broadly in line with our estimate of Rs 9,752mn, registering 16.7% YoY growth, while on QoQ basis in Constant Currency terms, revenue growth excluding GIS business was 4%. Reported EBITDA grew 5.3% YoY to Rs 1,385mn, while EBITDA margin contracted by 155bps YoY to 14.4% against 15.9% YoY due to some one-off expenses. Adjusting for one-offs margin stood at 17.1% against our estimate of 16% for the quarter. Reported PAT was flat (+2.1% YoY) at Rs 876mn, however adjusted for one-offs stood at Rs 1,006mn, mostly in line with our estimate of Rs 1,024mn. We keep our positive view intact on NIIT Technologies and maintain our Hold rating with a revised target price of Rs 1461.

Operational Highlights – Q1FY20

- Digital constituted 34% of total revenue, growing 12% QoQ and 46% YoY. N-Tech added 11 new customers in Q1FY20: 5 in US, 4 in EMEA and 2 in ROW. The company got US\$175mn new orders leading to US\$ 395mn of firm business executable over next 12 months.

Business Highlights (Vertical wise) – Q1FY20

- Travel, Transportation & Hospitality vertical was up 3.3% QoQ, contributed 28.3% in Q1FY20 against 27.1% in Q4FY19. N-Tech achieved growth in major accounts in US – and added 2 new logos.
- Insurance vertical was up 4.3% QoQ, contributed 29.1% in Q1FY20 against 27.7% in Q4FY19 with higher revenues in NITL and added 2 new accounts. Growth in insurance vertical was on account of increase in NITL revenue.
- BFS vertical was up 0.8% QoQ, contributed 16.4% in Q1FY20 against 16.2% in Q4FY19. Company witnessed higher revenues from customers in Asia Pacific and EMEA region. N-Tech added 2 new accounts.
- Other vertical was down 11% QoQ, contributed 26.6% in Q1FY20 against 29% in Q4FY19. Revenues from others segment declined due to divestment of GIS business. N-Tech added 5 new accounts in this vertical.

Valuations

At CMP of Rs 1353, NIIT Technologies is trading at FY20E and FY21E, P/E of 17.6x and 14.8x respectively. After factoring in Q1FY20 results, we keep our FY20E/FY21E estimate intact and increase our target P/E multiple to 16x from 15.5x earlier and now value the stock at FY21E target P/E multiple of 16x, which yields a target price of Rs 1461 per share. **We maintain Hold.**

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	29,915	5,014	2,803	45.6	16.8	15.8	29.7
FY19	36,762	6,485	4,089	65.3	17.6	19.7	20.7
FY20E	43,645	7,551	4,756	77.0	17.3	22.5	17.6
FY21E	50,427	8,774	5,643	91.3	17.4	24.0	14.8

Source: Company, Arihant Research

Q1FY20 Financial Performance

Rs Mn (consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	9,627	9,722	8,249	-1.0%	16.7%
Employee cost	6,213	5,930	4,861	4.8%	27.8%
Other Expenses	2,029	2,077	2,073	-2.3%	-2.1%
EBITDA	1,385	1,715	1,315	-19.2%	5.3%
<i>EBITDA margin %</i>	<i>14.4%</i>	<i>17.6%</i>	<i>15.9%</i>	<i>-325bps</i>	<i>-155bps</i>
Other Income	206	73	220	182.2%	-6.4%
Depreciation	401	303	312	32.3%	28.5%
Finance costs	31	34	20	-8.8%	55.0%
PBT	1,159	1,451	1,203	-20.1%	-3.7%
Tax Expense	318	296	299	7.4%	6.4%
<i>Effective tax rate %</i>	<i>27.4%</i>	<i>20.4%</i>	<i>24.9%</i>	<i>+704bps</i>	<i>+258bps</i>
PAT	841	1,155	904	-27.2%	-7.0%
MI & Associates	-22	-44	-46		
Consolidated PAT	819	1,111	858	-26.3%	-4.5%
Exceptional item	57	-56	-		
Reported PAT	876	1,055	858	-17.0%	2.1%
<i>PAT margin %</i>	<i>8.5%</i>	<i>11.4%</i>	<i>10.4%</i>	<i>-292bps</i>	<i>-189bps</i>
EPS (Rs)	13.3	18.1	14.0	-26.3%	-4.5%

Source: Company, Arihant Research

Post Result Conference Call Highlights

- Non-recurring one-off items impacted Q1FY20 EBITDA numbers and operating margin. Reported EBITDA margin declined 325bps QoQ to 14.4% which can be attributed to annual wage hikes (-240bps), annual visa filing costs (-90bps), which were somewhat offset by positive impact of adopting IND AS-116 (+90bps) and company level operating efficiencies. In absolute terms, Rs 235mn one off impact was visible translating to -240bps impact on margin. Adjusted for one-time non-recurring costs margin stood at 17.1%.
- The company secured new orders of US\$ 175mn during the quarter, with Q1FY20 being the 9th consecutive quarter of sequential increase. The above order win in the quarter led to order book having US\$ 395 mn (+14% YoY) of firm business executable over the next 12 months.
- During the quarter, NIIT Tech added 11 new logos (5 in US and 3 each in EMEA and APAC regions). With better business mix and strong digital pipeline, NIIT Tech management expects to maintain its current growth momentum and confident of maintaining 18% EBITDA margin for FY20E, which will also get tailwind in the coming quarters, from benefits accruing from adoption of new accounting standard IND AS – 116.
- Attrition rate was mostly stable, marginal increase to 12.9% in Q1FY20 from 12.2% in Q4FY19. Despite supply side resource constraint faced by the industry, NIIT Tech was able to keep a check on attrition, which is a good sign. Utilisation increased to 80.5% in Q1FY20 from 79.3% in Q4FY19. The company added 34 new people during the quarter taking total headcount to 10,297 against 10,263 in Q4FY19.

Business Metrics of NIIT Technologies over the Quarters

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Vertical Mix									
BFS	17%	17%	17%	16%	17%	16%	15%	16%	16%
Insurance	25%	25%	26%	28%	29%	29%	30%	28%	29%
Travel and Transport	29%	27%	27%	26%	27%	27%	26%	27%	28%
Manufacturing and Media	29%	31%	27%	29%	27%	28%	29%	29%	27%
Government			3%	1%	0%				
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Service Line Mix									
ADM	66%	64%	65%	66%	68%	68%	68%	70%	72%
IP assets	6%	7%	7%	7%	7%	6%	6%	5%	6%
Managed services	18%	18%	19%	19%	19%	18%	18%	17%	17%
SI and PI	5%	6%	5%	4%	3%	4%	4%	4%	1%
BPO	5%	4%	4%	4%	3%	4%	4%	4%	4%
Total	100%	99%	100%	100%	100%	100%	100%	100%	100%
Geography Mix									
USA	49%	50%	50%	48%	50%	49%	49%	49%	49%
EMEA	32%	29%	30%	32%	32%	34%	33%	33%	35%
ROW	19%	21%	20%	20%	18%	17%	18%	18%	16%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Billable People									
Onsite	1984	2040	2018	2088	2217	2369	2408	2345	2429
Offshore	6164	6156	6217	6500	6684	6815	6881	7018	7063
Total	8148	8196	8235	8588	8901	9184	9289	9363	9492
Sales and marketing (Ex-GIS)	137	135	147	145	131	123	114	122	141
Sales and marketing (GIS)	85	85	85	85	90	94	94	89	0
Others	593	606	614	605	642	624	647	689	664
Total	8963	9022	9081	9423	9764	10025	10144	10263	10297
New Client Addition									
USA	5	2	4	2	5	5	8	6	5
EMEA	1	2	2	4	3	3	0	0	3
APAC	3	3	2	1	1	2	2	5	3
India					0	0	0	0	0
Total	9	7	8	7	9	10	10	11	11
Between 1 mn - 5 mn	52	55	59	60	63	63	62	66	66
5 mn-10 mn	14	13	12	13	14	18	20	16	17
>10 mn	6	6	7	7	7	7	8	8	8
Total	73	74	78	80	84	88	90	90	91
Repeat business	96%	91%	91%	89%	96%	89%	88%	88%	96%

Consolidated Financials

Income Statement (Rs Mn)

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenues	26,824	28,021	29,915	36,762	43,645	50,427
Change (%)	13.1%	4.5%	6.8%	22.9%	18.7%	15.5%
Operating Costs	391	140	317	291	436	504
Gross Profit	26,433	27,881	29,598	36,471	43,208	49,922
Employee Costs	15,386	16,513	17,601	21,532	25,619	29,550
Other Expenses	6,288	6,573	6,983	8,454	10,038	11,598
Total Expenses	22,065	23,226	24,901	30,277	36,094	41,652
EBITDA	4,759	4,795	5,014	6,485	7,551	8,774
Other Income	205	269	391	535	524	504
Depreciation	1,101	1,277	1,274	1,248	1,264	1,274
Interest	49	60	94	92	95	94
PBT	3,814	3,727	4,037	5,680	6,715	7,910
Extra-ordinary	13	221	0	56	0	0
PBT after ext-ord.	3,801	3,506	4,037	5,624	6,715	7,910
Tax	832	785	949	1,403	1,679	1,978
Rate (%)	21.9%	22.4%	23.5%	24.9%	25.0%	25.0%
PAT	2,970	2,721	3,088	4,221	5,036	5,933
MI & Associates	-170	-220	-285	-188	-280	-290
Consolidated PAT	2,813	2,722	2,803	4,089	4,756	5,643
Change (%)	45.0%	-3.2%	3.0%	45.9%	16.3%	18.6%

Source: Company, Arianth Research

Balance Sheet (Rs Mn)

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds						
Share Capital	612	614	615	618	618	618
Reserves & Surplus	15,296	16,251	17,125	20,105	20,521	22,893
Net Worth	15,907	16,865	17,740	20,723	21,139	23,511
Loan Funds	64	214	179	100	80	60
MI, Deferred Tax & other Liabilities	645	2,040	2,191	1,020	1,020	1,020
Capital Employed	16,616	19,119	20,110	21,843	22,239	24,591
Application of Funds						
Gross Block	12,863	10,880	12,540	12,543	12,643	12,743
Less: Depreciation	4,659	2,404	3,108	4,356	5,620	6,895
Net Block	8,205	8,476	9,432	8,187	7,023	5,848
CWIP	167	0	7	14	14	14
Other Non-current Assets	170	120	134	320	320	320
Deferred Tax Assets	259	971	1,231	1,032	1,231	1,231
Net Fixed Assets	8,801	9,567	10,804	9,553	8,588	7,413
Investments	740	3,236	3,066	3,651	3,651	3,651
Debtors	5,901	4,680	5,858	5,922	7,174	8,289
Inventories	3	3	3	0	2	3
Cash & Bank Balance	3,362	4,075	4,183	5,576	6,872	9,747
Loans & Advances & other CA	3,685	2,895	2,784	4,032	5,381	6,217
Total Current Assets	12,950	11,653	12,828	15,530	19,430	24,256
Current Liabilities	3,686	3,837	5,138	5,832	8,370	9,671
Provisions	2,189	1,500	1,450	1,059	1,059	1,059
Net Current Assets	7,076	6,316	6,240	8,639	10,001	13,527
Total Assets	16,616	19,119	20,110	21,843	22,239	24,591

Source: Company, Arianth Research

Cash Flow Statement (Rs Mn)

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	3,814	3,727	4,037	5,680	6,715	7,910
Depreciation	1,101	1,277	1,274	1,248	1,264	1,274
Interest & others	-327	-429	-582	-631	-709	-700
Cash flow before WC changes	4,589	4,575	4,729	6,297	7,271	8,484
(Inc)/dec in working capital	-485	1,860	252	-1,066	-66	-651
Operating CF after WC changes	4,104	6,435	4,981	5,231	7,205	7,834
Less: Taxes	-832	-785	-949	-1,403	-1,679	-1,978
Operating Cash Flow	3,272	5,650	4,032	3,828	5,526	5,856
(Inc)/dec in F.A + CWIP	-1,465	-766	-1,237	1,251	-299	-100
(Pur)/sale of investment	-186	-2,496	170	-585	0	0
Cash Flow from Investing	-1,651	-3,262	-1,067	666	-299	-100
Free Cash Flow (FCF)	1,682	5,546	3,069	5,066	5,426	5,756
Loan raised/(repaid)	15	150	-35	-79	-20	-20
Equity raised	1	2	1	3	0	0
Interest & others	-356	-1,089	-2,013	-1,798	-2,484	-1,168
Dividend	-612	-738	-810	-1,227	-1,427	-1,693
Cash Flow from Financing Activities	-951	-1,674	-2,857	-3,101	-3,931	-2,881
Net inc / (dec) in cash	670	713	108	1,393	1,296	2,875
Opening balance of cash	2,692	3,362	4,075	4,183	5,576	6,872
Closing balance of cash	3,362	4,075	4,183	5,576	6,872	9,747

Source: Company, Arianth Research

Key Ratios

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)						
EPS	46.0	44.3	45.6	65.3	77.0	91.3
CEPS	64.0	65.1	66.3	85.5	97.5	112.0
BVPS	260.0	274.7	288.5	335.4	342.2	380.6
DPS	10.0	12.0	13.2	19.9	23.1	27.4
Div. Payout (%)	0.2	0.3	0.3	0.3	0.3	0.3
Valuation (x)						
P/E	29.4	30.5	29.7	20.7	17.6	14.8
P/CEPS	21.2	20.8	20.4	15.8	13.9	12.1
P/BV	5.2	4.9	4.7	4.0	4.0	3.6
EV/EBITDA	16.7	16.5	15.8	12.0	10.2	8.4
Dividend Yield (%)	0.7%	0.9%	1.0%	1.5%	1.7%	2.0%
Return ratio (%)						
EBIDTA Margin	17.7%	17.1%	16.8%	17.6%	17.3%	17.4%
PAT Margin	10.5%	9.7%	9.4%	11.1%	10.9%	11.2%
ROE	17.7%	16.1%	15.8%	19.7%	22.5%	24.0%
ROCE	22.0%	18.4%	18.6%	24.0%	28.3%	30.5%
Leverage Ratio (%)						
Total D/E	0.0	0.0	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4
Turnover Ratios						
Asset Turnover (x)	1.6	1.5	1.5	1.7	2.0	2.1
Inventory Days	2	8	3	0	2	2
Receivable Days	80	61	71	59	60	60
Payable days	80	70	80	68	70	70

Source: Company, Arianth Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research**Analyst****Registration
No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. 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. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880