

Good set of numbers, EBITDA margin continued its upward trajectory even in tough times; maintain Hold with a revised target price of Rs 1628

Current	Previous
CMP: Rs 1469	
Rating: Hold	Rating: Hold
Target: Rs 1628	Target: Rs 1461

(NR-Not Rated)

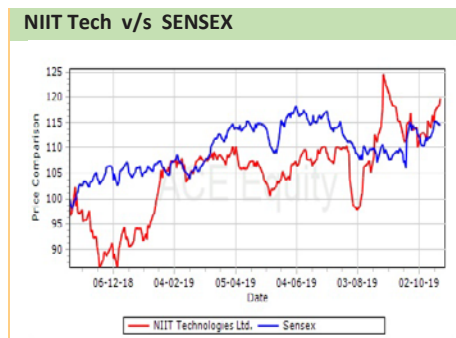
Stock Info	
INDEX	
BSE	532541
NSE	NIIITECH
Bloomberg	NITEC IN
Reuters	MINT.BO
Sector	IT - Software
Face Value (Rs)	10
Equity Capital (Rs Mn)	624
Market Cap (Rs Mn)	91,666
52w H/L (Rs)	1545 /1031
Avg Weekly Vol (BSE+NSE)	1,379,640

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	70.0
Public & Others	30.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
NIIT TECH	8.4	12.7	19.6
SENSEX	2.8	1.3	15.4

Source: ACE Equity, Arihant Research



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NIIT Technologies reported good set of numbers in Q2FY20, mostly beating our estimate except a minor miss on the revenue front. Consolidated revenue for Q2FY20 stood at Rs 10,385mn, which was slightly below our estimate of Rs 10,911mn, registering +14.4% YoY/+7.9% QoQ growth. In Constant Currency terms, revenue growth for organic business was 4.1%. Reported EBITDA grew +16.8% YoY/+38.3% QoQ to Rs 1,916mn, which was above our estimate of Rs 1,800mn. EBITDA margin expanded by +406 bps QoQ/+37 bps YoY to 18.4% beating our estimate of 16.5% YoY. PAT for the quarter stood at Rs 1,195mn beating our estimate of Rs 1,102mn, showing a growth of +6.9% YoY/+36.4% QoQ. We keep our positive view intact on NIIT Technologies and maintain our Hold rating on the stock, with a revised target price of Rs 1628.

Operational Highlights – Q2FY20

- Digital constituted 38% of total revenue, growing 18% QoQ and 56% YoY. NIIT Tech added 10 new customers in Q2FY20; 7 in US, 1 in EMEA and 2 in APAC. The company got US\$176mn new orders leading to US\$ 405mn of firm business executable over next 12 months.

Business Highlights (Vertical wise) – Q2FY20

- Travel, Transportation & Hospitality vertical was up 5.8% QoQ, contributed 27.8% in Q2FY20 against 28.3% in Q1FY20. NIIT Tech achieved growth in major accounts in US and EMEA – and added 1 new customer.
- Insurance vertical was up 15.3% QoQ, contributed 31.1% in Q2FY20 against 29.1% in Q1FY20 and added 6 new customers. Growth in insurance vertical was on account of growth in top account in US and EMEA.
- BFS vertical was up 9.4% QoQ, contributed 16.7% in Q2FY20 against 16.4% in Q1FY20. Company witnessed higher revenues from customers in Asia Pacific (APAC) and EMEA region.
- Others vertical was up 0.8% QoQ, contributed 24.4% in Q2FY20 against 26.1% in Q1FY20. NIIT Tech added 3 new accounts in this vertical.

Valuations

At CMP of Rs 1469, NIIT Technologies is trading at FY20E and FY21E, P/E of 19.3x and 16.2x respectively. After factoring in good Q2FY20 results, we keep our FY20E/FY21E estimate intact and increase our target P/E multiple to 18x from 16x earlier and now value the stock at FY21E target P/E multiple of 18x, which yields a target price of Rs 1628 per share, giving an upside potential of 10.8%. **We maintain our Hold rating on the stock.**

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	32.2
FY19	36,762	6,485	4,089	65.3	17.6	19.7	22.5
FY20E	43,645	7,551	4,756	76.2	17.3	22.5	19.3
FY21E	50,427	8,774	5,643	90.4	17.4	24.0	16.2

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Mn (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	10,385	9,627	9,074	7.9%	14.4%	20,012	17,323	15.5%
Employee cost	6,374	6,213	5,388	2.6%	18.3%	12,587	10,249	22.8%
Other Expenses	2,095	2,029	2,045	3.3%	2.4%	4,124	4,118	0.1%
EBITDA	1,916	1,385	1,641	38.3%	16.8%	3,301	2,956	11.7%
<i>EBITDA margin %</i>	<i>18.4%</i>	<i>14.4%</i>	<i>18.1%</i>	<i>+406bps</i>	<i>+37bps</i>	<i>16.5%</i>	<i>17.1%</i>	<i>-57bps</i>
Other Income	102	206	226	-50.5%	-54.9%	308	446	-30.9%
Depreciation	447	401	319	11.5%	40.1%	848	631	34.4%
Finance costs	44	31	18	41.9%	144.4%	75	38	97.4%
PBT	1,527	1,159	1,530	31.8%	-0.2%	2,686	2,733	-1.7%
Tax Expense	276	318	363	-13.2%	-24.0%	594	662	-10.3%
<i>Effective tax rate %</i>	<i>18.1%</i>	<i>27.4%</i>	<i>23.7%</i>	<i>-936bps</i>	<i>-565bps</i>	<i>22.1%</i>	<i>24.2%</i>	<i>-211bps</i>
PAT	1,251	841	1,167	48.8%	7.2%	2,092	2,071	1.0%
MI & Associates	-56	-22	-49			-78	-95	
Consolidated PAT	1,195	819	1,118	45.9%	6.9%	2,014	1,976	1.9%
Exceptional item	-	57	-			57		
Reported PAT	1,195	876	1,118	36.4%	6.9%	2,071	1,976	4.8%
<i>PAT margin %</i>	<i>11.5%</i>	<i>8.5%</i>	<i>12.3%</i>	<i>+300bps</i>	<i>-81bps</i>	<i>10.1%</i>	<i>11.4%</i>	<i>-134bps</i>
EPS (Rs)	19.2	13.3	18.1	44.5%	5.5%	32.3	32.1	0.6%

Source: Company, Arihant Research

Post Result Conference Call Highlights

- The company has secured US\$ 176 mn of fresh orders during the quarter, with US\$ 405 mn of firm business order book, which is executable over the next 12 months.
- During the quarter, attrition rate reduced to 12.3% from 12.9% sequentially, as per management this is best in class for similar sized companies.
- Utilisation rate increased to 80.7% from 80.5% on QoQ basis.
- 18% EBITDA margin will be maintained going forward.
- The company declared Interim dividend of Rs 10 for this quarter. No decision has been made on yearly dividend as of now. (pertinent to note that the company did not declare any annual dividend last year).
- Onsite revenue will continue to be in the range of 66% of total revenue.
- During the quarter hiring has been strong, total people hired was 503.
- Company expects Q3FY20 to be a little moderate due to furlows and other issues.

Business Metrics of NIIT Technologies over the Quarters

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Vertical Mix										
BFS	17%	17%	17%	16%	17%	16%	15%	16%	16%	17%
Insurance	25%	25%	26%	28%	29%	29%	30%	28%	29%	31%
Travel and Transport	29%	27%	27%	26%	27%	27%	26%	27%	28%	28%
Others	29%	31%	27%	30%	27%	28%	29%	29%	27%	24%
Total	100%	100%	97%	100%	100%	100%	100%	100%	100%	100%

Service Line Mix										
ADM	66%	64%	65%	66%	68%	68%	68%	70%	72%	74%
IP assets	6%	7%	7%	7%	7%	6%	6%	5%	6%	5%
Managed services	18%	18%	19%	19%	19%	18%	18%	17%	17%	17%
SI and PI	5%	6%	5%	4%	3%	4%	4%	4%	1%	1%
BPO	5%	4%	4%	4%	3%	4%	4%	4%	4%	3%
Total	100%	99%	100%	100%	100%	100%	100%	100%	100%	100%

Geography Mix										
USA	49%	50%	50%	48%	50%	49%	49%	49%	49%	49%
EMEA	32%	29%	30%	32%	32%	34%	33%	33%	35%	37%
ROW	19%	21%	20%	20%	18%	17%	18%	18%	16%	14%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Billable People										
Onsite	1984	2040	2018	2088	2217	2369	2408	2345	2429	2468
Offshore	6164	6156	6217	6500	6684	6815	6881	7018	7063	7453
Total	8148	8196	8235	8588	8901	9184	9289	9363	9492	9921
Sales and marketing (Ex-GIS)	137	135	147	145	131	123	114	122	141	185
Sales and marketing (GIS)	85	85	85	85	90	94	94	89	0	0
Others	593	606	614	605	642	624	647	689	664	694
Total	8963	9022	9081	9423	9764	10025	10144	10263	10297	10800

New Client Addition										
USA	5	2	4	2	5	5	8	6	5	7
EMEA	1	2	2	4	3	3	0	0	3	1
APAC	3	3	2	1	1	2	2	5	3	2
India					0	0	0	0	0	0
Total	9	7	8	7	9	10	10	11	11	10

Between 1 mn - 5 mn	52	55	59	60	63	63	62	66	66	70
5 mn-10 mn	14	13	12	13	14	18	20	16	17	16
>10 mn	6	6	7	7	7	7	8	8	8	9
Total	73	74	78	80	84	88	90	90	91	95

Repeat business	96%	91%	91%	89%	96%	89%	88%	88%	96%	90%
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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	624	624
Reserves & Surplus	15,296	16,251	17,125	20,105	20,515	22,887
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	6	0
Interest & others	-356	-1,089	-2,013	-1,798	-2,490	-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	76.2	90.4
CEPS	64.0	65.1	66.3	85.5	96.5	110.8
BVPS	260.0	274.7	288.5	335.4	338.8	376.8
DPS	10.0	12.0	13.2	19.9	22.9	27.1
Div. Payout (%)	0.2	0.3	0.3	0.3	0.3	0.3
Valuation (x)						
P/E	32.0	33.1	32.2	22.5	19.3	16.2
P/CEPS	23.0	22.6	22.2	17.2	15.2	13.3
P/BV	5.7	5.3	5.1	4.4	4.3	3.9
EV/EBITDA	18.2	18.0	17.2	13.2	11.2	9.3
Dividend Yield (%)	0.7%	0.8%	0.9%	1.4%	1.6%	1.8%
Return ratio (%)						
EBITDA 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

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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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