

Current	Previous
CMP: Rs 1268	
Rating: Hold	Rating: Buy
Target: Rs 1416	Target: Rs 1570

(NR-Not Rated)

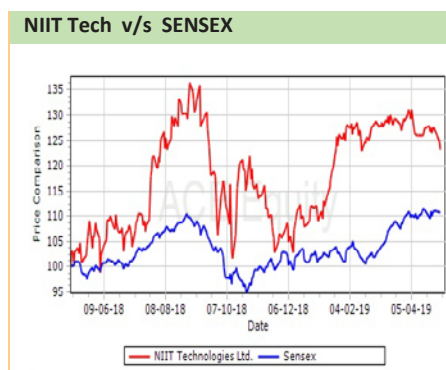
Stock Info	
INDEX	
BSE	532541
NSE	NIITTECH
Bloomberg	NITEC IN
Reuters	MINT.BO
Sector	IT - Software
Face Value (Rs)	10
Equity Capital (Rs Mn)	618
Market Cap (Rs Mn)	81,488
52w H/L (Rs)	1425 /972
Avg Weekly Vol (BSE+NSE)	1,394,820

Shareholding Pattern	%
(As on March, 2019)	
Promoters	30.5
Public & Others	69.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
NIITTECH	-3.7	6.8	19.8
SENSEX	6.8	11.3	11.0

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

NIIT Technologies came out with good set of numbers, ahead of our estimates. PAT for the quarter grew 22.5% YoY to Rs 1055 mn against our estimate of Rs 960 mn, revenue stood at Rs 9722 mn (+23.3% YoY) slightly below our estimate of Rs 1025 mn, while EBITDA came at Rs 1715 mn (+18.3% YoY) ahead of our estimate of Rs 1620 mn. We are positive on the stock from longer term perspective, and recommend Hold with a revised target price of Rs 1416.

Operational Highlights – Q4FY19

- Sequential QoQ revenue growth in constant currency stood at 1.3% and excluding GIS, 2.1%. NITL signed a definitive agreement for the sale of entire 88.99% stake in Esri India Technologies Ltd (GIS business) on 6th April, 2019 and hence from FY20, the business will be monitored excluding GIS. In reported terms, revenues remained flat on QoQ basis due to adverse impact of currency.
- EBITDA came at Rs 1715 mn; up 18.3% YoY, down 5.5% QoQ. EBITDA margins stood at 17.6%, down 74 bps YoY and 103 bps QoQ. Margins in constant currency terms stood at 18.3%.

Business Highlights (Vertical wise) – Q4FY19

- Travel, Transportation & Hospitality vertical was up 2.5% QoQ, contributed 27.1% in Q4 against 26.5% in Q3. N-Tech achieved growth in major accounts in US – signed one large deal and added 4 new logos.
- Insurance vertical was down 6.5% QoQ, contributed 27.7% in Q4 against 29.6% in Q3 with lower revenues in NITL. Company added 1 new logo.
- BFS vertical was up 5.3% QoQ, contributed 16.2% in Q4 against 15.4% in Q3. Company witnessed higher revenues from customers in US and EMEA region. The company added 3 new logos and signed 1 large deal.

Valuations

At CMP of Rs 1268, N-Tech is trading at FY19E, FY20E and FY21E, P/E multiples of 18.7x, 15.1x and 12.9x respectively. After factoring in Q4FY19 results, we have revised our estimates for FY20E/FY21E slightly downwards as FY19 was an exceptional good year hence going forward this momentum would be a little difficult to maintain. Based on this rationale we have cut our target P/E multiple to 15.5x from 16.5x earlier and now value the stock at FY21E target P/E multiple of 15.5x, which yields a target price of Rs 1416 per share. We recommend 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	26.9
FY19	36,762	6,485	4,089	65.3	17.6	19.7	18.8
FY20E	43,645	7,551	4,756	77.0	17.3	22.5	15.9
FY21E	50,427	8,774	5,643	91.3	17.4	24.0	13.4

Source: Company, Arihant Research

Q4FY19 and FY19 Financial Performance

Rs Mn (consolidated)	Q4FY19	Q4FY18	Q3FY19	Y-o-Y	Q-o-Q	FY19	FY18	Y-o-Y
Net Revenue	9,722	7,888	9,717	23.3%	0.1%	36,762	29,914	22.9%
Employee cost	5,930	4,609	5,644	28.7%	5.1%	21,823	17,918	21.8%
Other Expenses	2,077	1,829	2,259	13.6%	-8.1%	8,454	6,983	21.1%
EBITDA	1,715	1,450	1,814	18.3%	-5.5%	6,485	5,013	29.4%
<i>EBITDA margin %</i>	<i>17.6%</i>	<i>18.4%</i>	<i>18.7%</i>	<i>-74</i>	<i>-103</i>	<i>17.6%</i>	<i>16.8%</i>	<i>88</i>
Other Income	73	148	16	-50.7%	356.3%	535	391	36.8%
Depreciation	303	305	314	-0.7%	-3.5%	1,248	1,274	-2.0%
Finance costs	34	32	20	6.3%	70.0%	92	94	-2.1%
PBT	1,451	1,261	1,496	15.1%	-3.0%	5,680	4,036	40.7%
Tax Expense	296	288	445	2.8%	-33.5%	1,403	949	47.8%
<i>Effective tax rate %</i>	<i>20.4%</i>	<i>22.8%</i>	<i>29.7%</i>	<i>-244</i>	<i>-935</i>	<i>24.7%</i>	<i>23.5%</i>	<i>119</i>
PAT	1,155	973	1,051	18.7%	9.9%	4,277	3,087	38.5%
MI & Associates	-44	-112	-49			-188	-285	
Consolidated PAT	1,111	861	1,002	29.0%	10.9%	4,089	2,802	45.9%
Exceptional item	-56	-	-			-56		
Reported PAT	1,055	861	1,002	22.5%	5.3%	4,033	2,802	43.9%
<i>PAT margin %</i>	<i>11.4%</i>	<i>10.9%</i>	<i>10.3%</i>	<i>51</i>	<i>112</i>	<i>11.1%</i>	<i>9.4%</i>	<i>176</i>
EPS (Rs)	18.1	14.0	16.3	29.0%	10.9%	66.6	45.6	45.9%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Q4 has always been the strongest quarter for the GIS business but this year the GIS Business declined 13% in Q4 over Q3 because of the code of conduct before the General Elections which came into effect impacting government procurement. Sequential QoQ revenue growth in constant currency stood at 1.3% and excluding GIS, 2.1%. In reported terms, revenues remained flat on QoQ basis due to adverse impact of currency.
- The company secured new orders of US\$ 170mn during the quarter, with Q4FY19 being the 8th consecutive quarter of sequential increase. Total order intake for FY19 stood at US\$ 646mn, up 27% YoY. Of late offshore business mix is coming down, and onsite is increasing (currently ~66% of sales), company expects this trend to continue as with focus on digital business, digital engagements are usually short term in nature and onsite heavy.
- As digital business carries higher margin, so with increased digital focus, going forward company expects 18% margins to be maintained and reiterate the fact that it is the new normal margin for the company.
- Attrition rate increased to 12.2% in Q4FY19 from 11.7% in Q3FY19 and 10.5% in Q4FY18, when enquired about it, company said this attrition rate is best in class for this quarter for the mid-sized companies like NIIT Tech in the light of the supply side resource constraints faced by the industry. Going forward company will try to keep attrition under control and do not expect the number to increase further.
- As far as Incessant acquisition is concerned, Mr. Bala has been appointed and for last 4-5 months he is in the helm of the affairs of Incessant, so company does not expect any transitional impact or attrition when it gains full control of Incessant in May 2019 (N-Tech to complete its acquisition of Incessant in May 2019).

Business Metrics of N-Tech over the Quarters

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Vertical Mix										
BFS	18%	18%	17%	17%	17%	16%	17%	16%	15%	16%
Insurance	24%	24%	25%	25%	26%	28%	29%	29%	30%	28%
Travel and Transport	32%	31%	29%	27%	27%	26%	27%	27%	26%	27%
Manufacturing and Media	26%	25%	29%	31%	27%	29%	27%	28%	29%	29%
Government		2%			3%	1%	0%			
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Service Line Mix										
ADM	67%	66%	66%	64%	65%	66%	68%	68%	68%	70%
IP assets	7%	6%	6%	7%	7%	7%	7%	6%	6%	5%
Managed services	17%	17%	18%	18%	19%	19%	19%	18%	18%	17%
SI and PI	4%	6%	5%	6%	5%	4%	3%	4%	4%	4%
BPO	5%	5%	5%	4%	4%	4%	3%	4%	4%	4%
Total	100%	100%	100%	99%	100%	100%	100%	100%	100%	100%

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

Billable People										
Onsite	1857	1877	1984	2040	2018	2088	2217	2369	2408	2345
Offshore	6180	6189	6164	6156	6217	6500	6684	6815	6881	7018
Total	8037	8066	8148	8196	8235	8588	8901	9184	9289	9363
Sales and marketing (Ex-GIS)	139	133	137	135	147	145	131	123	114	122
sales and marketing (GIS)	82	81	85	85	85	85	90	94	94	89
Others	551	573	593	606	614	605	642	624	647	689
Total	8809	8853	8963	9022	9081	9423	9764	10025	10144	10263

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

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

Repeat business	90%	88%	96%	91%	91%	89%	96%	89%	88%	88%
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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	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, Arian 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	26.6	27.6	26.9	18.8	15.9	13.4
P/CEPS	19.1	18.8	18.5	14.3	12.6	10.9
P/BV	4.7	4.5	4.2	3.7	3.6	3.2
EV/EBITDA	15.6	15.4	14.8	11.2	9.5	7.8
Dividend Yield (%)	0.8%	1.0%	1.1%	1.6%	1.9%	2.2%
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, Arian 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%

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