

CMP: Rs 1418

Rating: Accumulate

Target Price: Rs 1637

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)	74272
52w H/L (Rs)	2,057 / 739
Avg Yearly Vol (in 000')	532

Shareholding Pattern %

(As on Dec, 2019)

Promoters	70.11
FII	13.39
DII	7.70
Public & Others	8.80

Stock Performance (%)

	3m	6m	12m
NIIT Tech	-38.6	-23.8	-6.3s
Sensex	-22.2	-21.3	-17.8

NIIT Tech Vs Sensex



NIIT Technologies Q4FY20 earnings were slightly below our estimates with revenue, EBITDA and PAT increasing by 14.1%, 15.7% and 18.6% respectively for the same quarter in the previous year.

Consolidated revenue for Q4FY20 stood at Rs 11,093mn, registering +14.1% YoY/+3.3% QoQ. The growth comes despite very strong headwinds that the firm has experienced on account of the COVID-19 outbreak, especially in the travel sector. The EBITDA increased by 1.8%QoQ/15.7%YoY at Rs 1,988 mn. The continued growth allied with a very strong operational rigor and cost cuts during a difficult quarter were the key drivers of the EBITDA growth. PAT contracted by 7.9% QoQ at Rs 1136mn and up by 7.7%YoY.

Business Highlights (Vertical wise) – Q4FY20

- Among verticals, during Q4 FY'20 Insurance grew 5.8% QoQ contributing 31% of overall revenues, BFS contracted 0.1% QoQ contributing to 15% of revenue, and Travel & Transport was down 2.1% QoQ contributing to 27% of revenue. The "Others" portfolio grew 8.7% QoQ and they account for 27% of overall revenues during Q4 FY'20.
- Digital revenues stood at 38% of the total revenues same as last quarter and increased 47% YoY. Among geographies, Americas, EMEA, and ROW contributed 46%, 40%, and 14% of the Q4 FY'20 revenue mix, respectively.
- Fresh business of US\$180 mn was secured by the company during the quarter, which included three large deals. As a result of this continued deal momentum, the order book executable over the next twelve months has also increased to US\$468 mn, representing a growth of 20% YoY.
- The company did checked its other expenses efficiently in the quarter which fell by -14.7% YoY / -8.0% QoQ which boosted its profits. Also, the attrition rates reflected the general job.

Valuations

At CMP of Rs 1418, NIIT Technologies is trading at FY20/22E P/E of 19.9x/13.9x respectively. After factoring in Q4FY20 results, we slightly lowered our FY21E estimates as significant exposure to travel vertical, company expect single digit revenue decline QoQ led by travel vertical (mostly airlines). In Q2FY21, expect growth to come back led by 3 large deals signed and recovery in non-travel industry. On large accounts, the company didn't see systematic risk in top 20 accounts, however, there are few airlines in top accounts where company expect some weakness which is baked in the guidance. On margins front, company took necessary steps to reduce non personnel cost and cancelled all salary hikes in the quarter. We value the stock at a target P/E of 16x, which yield a target price of Rs 1637 per share. **We upgrade our rating to Accumulate from NEUTRAL earlier.**

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	36,762	6,485	4,089	65.3	17.6%	19.7%	21.7
FY20	41,839	7,233	4,511	71.2	17.3%	18.8%	19.9
FY21E	47,816	8,320	5,421	86.9	17.4%	21.7%	16.3
FY22E	54,858	9,544	6,384	102.3	17.4%	24.0%	13.9

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

Q4 FY20 - Quarterly Performance (Consolidated)

Particulars (in Rs million)	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
Net Revenue	11,093	10,734	9,722	3.3%	14.1%
Employee cost	6,697	6,858	5,930	-2.3%	12.9%
Other Expenses	2,412	1,928	2,077	25.1%	16.1%
EBITDA	1,984	1,948	1,715	1.8%	15.7%
<i>EBITDA margin %</i>	<i>17.9%</i>	<i>18.1%</i>	<i>17.6%</i>	<i>-26bps</i>	<i>24bps</i>
Other Income	221	148	73	49.3%	202.7%
Depreciation	433	449	303	-3.6%	42.9%
Finance costs	54	26	34	107.7%	58.8%
PBT	1,718	1,621	1,451	6.0%	18.4%
Tax Expense	348	336	296	3.6%	17.6%
Effective tax rate %	20.3%	20.7%	20.4%	-47bps	-14bps
PAT	1,370	1,285	1,155	6.6%	18.6%
MI & Associates	-106	-52	-44		
Consolidated PAT	1,264	1,233	1,111	2.5%	13.8%
Exceptional item	-128	-	-56		
Reported PAT	1,136	1,233	1,055	-7.9%	7.7%
<i>PAT margin %</i>	<i>11.4%</i>	<i>11.5%</i>	<i>11.4%</i>	<i>-9bps</i>	<i>-3bps</i>
EPS (Rs)	18.2	19.8	18.1	-7.9%	0.5%

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

Key Concall Highlights

- The management attributed the flat EBITDA margin to the transition cost involved in 2 out of 4 large deal won in Q3FY20. The company also expects the margins to improve going through Q4FY20 and ahead.
- The geo-based growth cuts also shows sustained growth. Americas, which contributes to 48% of global revenues, grew by 11.7% owing to higher revenues in all 3 verticals. EMEA revenues grew by 27.9%, and they now represent 37% of the revenue mix. APAC revenues grew 6.7%, and they contributed 9% of the firm's total revenue. India contributed 6% to the firm's total revenue and increased by 33.6%.
- The digital portfolio of the firm, which contributed to 37% of aggregate revenue, grew by 47% over the previous year. The IP-led products business of the firm contributed another 6% on top of the 37%. The quality of digital revenue and the higher rate realization that we get therein as a consequence has been a significant influencer in the firm recording best-in-class margins over the last 2 years. Significant revenue growth in the year was accompanied by a material uptick in operating profits during the year as well.
- The order intake story remains very positive. Company secured fresh business of USD 180 mn during the quarter. Out of this USD 180 mn order intake, the U.S. contribution stood at \$81 mn. EMEA was at \$52 mn, and secured \$47 mn from the rest of the world.
- The cumulative order intake for fiscal year '20, was \$748 mn, which was 16% over the FY19. The large deal signing momentum continued from the FY19. NIIT Tech signed 3 large deals in this quarter as well. 2 large deals were in the BFS vertical, and 1 was in the APAC business outside India.
- Company signed 10 new customers during the quarter and with the sharpened market focus over the last 2.5 years to 3 years, opened 40 new clients during FY 2019/'20, and Company's have opened 81 new clients over the last 8 quarters. The total number of company's clients now stands at 355. Order book executable over the next 12 months has expanded again, and it now stands at \$468 million. And that number, you will note, is up 20% YoY.
- **Outlook:** In Q1FY21, company expect single digit revenue decline QoQ led by travel vertical (mostly airlines). In Q2FY21, expect growth to come back led by 3 large deals signed and recovery in non-travel industry.
- On large accounts, the company didn't see systematic risk in top 20 accounts, however, there are few airlines in top accounts where company expect some weakness which is baked in the guidance. On margins front, company took necessary steps to reduce non personnel cost and cancelled all salary hikes in the quarter. Expect FY21 margins to be in +/- 80bps around FY20 margin.

Key Financials

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	65.3	71.2	86.9	102.3
CEPS	85.5	98.9	104.3	119.9
BVPS	335.4	384.1	401.1	426.3
DPS	19.9	21.7	26.1	30.7
Div. Payout (%)	0.3	0.3	0.3	0.3
Valuation (x)				
P/E	21.7	19.9	16.3	13.9
P/CEPS	16.6	14.3	13.6	11.8
P/BV	4.2	3.7	3.5	3.3
EV/EBITDA	10.5	9.0	6.9	5.9
Dividend Yield (%)	1.4%	1.5%	1.8%	2.2%
Return ratio (%)				
EBIDTA Margin	17.6%	17.3%	17.4%	17.4%
PAT Margin	11.1%	10.8%	11.3%	11.6%
ROE	19.7%	18.8%	21.7%	24.0%
ROCE	24.0%	21.4%	27.0%	29.8%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.4	-0.7	-0.7
Turnover Ratios				
Asset Turnover (x)	1.7	1.6	1.8	1.9
Inventory Days	0	2	2	3
Receivable Days	59	75	70	70
Payable days	68	76	70	71

Source: Company, Ariha

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	36,762	41,839	47,816	54,858
Change (%)	22.9%	13.8%	14.3%	14.7%
Operating Costs	291	844	478	550
Gross Profit	36,471	40,995	47,338	54,309
Employee Costs	21,532	25,298	28,020	32,147
Other Expenses	8,454	8,464	10,998	12,617
Total Expenses	30,277	34,606	39,496	45,314
EBITDA	6,485	7,233	8,320	9,544
Other Income	535	677	478	549
Depreciation	1,248	1,730	1,089	1,099
Interest	92	155	94	95
PBT	5,680	6,025	7,615	8,899
Extra-ordinary	56	71	0	1
PBT after ext-ord.	5,624	5,954	7,615	8,898
Tax	1,403	1,278	1,904	2,225
Rate (%)	24.9%	25.0%	25.0%	25.0%
PAT	4,221	4,676	5,711	6,672
MI & Associates	-188	-236	-290	-289
Consolidated PAT	4,089	4,511	5,421	6,384
Change (%)	45.9%	10.3%	20.2%	17.8%

Source: Company, Arihant Research

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	618	625	625	625
Reserves & Surplus	20,105	23,340	24,401	25,976
Net Worth	20,723	23,965	25,026	26,601
Loan Funds	100	48	28	8
MI, Deferred Tax & other Liabilities	1,020	1,719	1,719	1,719
Capital Employed	21,843	25,732	26,773	28,328
Application of Funds				
Gross Block	8,187	10,793	10,893	10,992
Less: Depreciation	4,356	6,086	7,175	8,275
Net Block	3,831	4,707	3,718	2,718
CWIP	14	3	3	4
Other Non-current Assets	320	790	790	790
Deferred Tax Assets	1,032	1,302	1,231	1,232
Net Fixed Assets	5,197	6,802	5,742	4,744
Investments	3,651	137	137	137
Debtors	5,922	8,565	9,170	10,521
Inventories	0	0	3	5
Cash & Bank Balance	5,576	9,034	16,800	17,939
Loans & Advances & other CA	4,032	3,774	5,240	6,012
Total Current Assets	15,530	21,373	31,213	34,476
Current Liabilities	5,832	7,819	9,170	10,671
Provisions	1,059	922	922	922
Net Current Assets	8,639	12,632	21,121	22,883
Total Assets	21,843	25,732	26,773	28,328

Source: Company, Arihant Research

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY21E
PBT	5,680	6,025	7,615	8,899
Depreciation	1,248	1,730	1,089	1,099
Interest & others	-631	-758	-674	-743
Cash flow before WC changes	6,297	6,997	8,030	9,255
(Inc)/dec in working capital	-1,066	-533	-723	-623
Operating CF after WC changes	5,231	6,464	7,307	8,632
Less: Taxes	-1,403	-1,814	-1,904	-2,225
Operating Cash Flow	3,828	4,650	5,404	6,407
(Inc)/dec in F.A + CWIP	5,607	-840	-29	-100
(Pur)/sale of investment	-585	3,514	0	0
Cash Flow from Investing	5,022	2,674	-29	-100
Free Cash Flow (FCF)	9,422	4,550	5,304	6,308
Loan raised/(repaid)	-79	-52	-20	-20
Equity raised	3	7	0	0
Interest & others	-1,798	942	-2,589	-1,733
Dividend	-1,227	-1,353	-1,626	-1,915
Cash Flow from Financing Activities	-3,101	-456	-4,236	-3,668
Net inc/(dec) in cash	5,749	6,868	1,139	2,639
Opening balance of cash	4,183	9,932	16,800	17,939
Closing balance of cash	9,932	16,800	17,939	20,577

Source: Company, Arihant 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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