

**Stable performance but uncertain growth prospects;  
not supporting rich valuations**

**CMP: Rs 1,849**

**Rating: NEUTRAL**

**Target Price: Rs 1,809**

**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)	115,921
52w H/L (Rs)	2,059 / 1178
Avg Yearly Vol (in 000')	501

**Shareholding Pattern %**

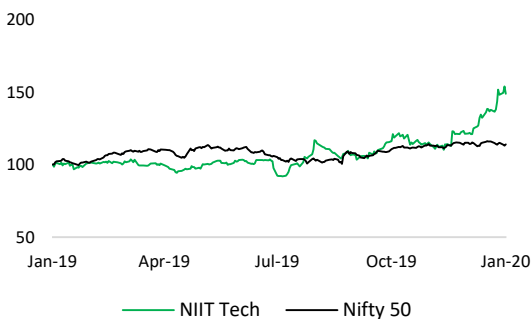
(As on Dec, 2019)

Promoters	70.11
FII	13.39
DII	7.70
Public & Others	8.80

**Stock Performance (%)**

	3m	6m	12m
NIIT Tech	27.9	60.9	48.72
Nifty	2.3	7.7	13.1

**NIIT Tech Vs Nifty**



*NIIT Technologies beat all our estimates with revenue, EBITDA and PAT increasing by 10.5%, 7.4% and 22.3% respectively on annual basis. Consolidated revenue for Q3FY20 stood at Rs 10,734mn, registering +10.5% YoY/+3.4% QoQ growth after a stable growth achieved in all segments. In Constant Currency terms, revenue growth for organic business was 2.0%. Reported EBITDA grew +7.4% YoY/+1.7% QoQ to Rs 1,948mn, on account of severe de-growth in other expenses by -14.7% YoY/-8.0% QoQ. However, EBITDA margin fell by -52 bps YoY/-30 bps QoQ to 18.1%. PAT for the quarter stood at Rs 1,233mn beating our estimate of Rs 1,102mn, growing by +23.1% YoY/+3.2% QoQ. We see business stability of NIIT Tech in near future but have concerns on the growth and expansion visibility of the company considering the amended H1B Visa rules, China corona virus spread (28.6% revenue from Travel, Transport & Hospitality segment) and longstanding trade war between US and China. Hence, we revise our rating to NEUTRAL on NIIT Tech from its current expensive valuations.*

**Operational Highlights – Q3FY20**

The travel, transportation and hospitality segments grew fastest at 6.2% QoQ, contributing 28.5% of total revenue. NIIT Tech added 10 new clients in Q3FY20; 6 in US, 2 in EMEA and 1 each in India and APAC region. The company got USD 218 mn new orders leading to US\$ 424mn of firm business executable over next 12 months.

**Business Highlights (Vertical wise) – Q3FY20**

- Travel, Transportation & Hospitality vertical was up 6.2% QoQ, contributed 28.5% in Q3FY20 against 27.8% in Q2FY20. NIIT Tech achieved growth from new client addition from all geographies.
- Performance of various vertical's was stable with Other's and Transport segment increasing marginally. The size of fresh orders increased making the Q3FY20 intake of fresh orders at US\$218 mn.
- The business concentration for the company has been on the decline with Top 5/Top 10 clients contributing 27%/36% of total revenue in Q3FY20 against 28%/40% respectively in Q3FY19.
- 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 1849, NIIT Technologies is trading at FY20/21E P/E of 24.3x/20.5x respectively. After factoring in Q3FY20 results, we maintain our FY20E/FY21E estimates and revise FY21E P/E multiple of 20.0x to arrive at a target price of Rs 1,809 per share. **We revise our rating to NEUTRAL on NIIT Tech owing to its current expensive valuations.**

Particulars (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	16.2

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

## Q3 FY20 - Quarterly Performance (Consolidated)

Particulars (Rs million)	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y	9MFY20	9MFY19	Y-o-Y
<b>Net Revenue</b>	<b>10,734</b>	<b>10,385</b>	<b>9,717</b>	<b>3.4%</b>	<b>10.5%</b>	<b>30,746</b>	<b>27,040</b>	<b>13.7%</b>
Employee cost	6,858	6,374	5,644	7.6%	21.5%	19,445	15,893	22.3%
Other Expenses	1,928	2,095	2,259	-8.0%	-14.7%	6,052	6,377	-5.1%
<b>EBITDA</b>	<b>1,948</b>	<b>1,916</b>	<b>1,814</b>	<b>1.7%</b>	<b>7.4%</b>	<b>5,249</b>	<b>4,770</b>	<b>10.0%</b>
<i>EBITDA margin %</i>	<i>18.1%</i>	<i>18.4%</i>	<i>18.7%</i>	<i>-30bps</i>	<i>-52bps</i>	<i>17.1%</i>	<i>17.6%</i>	<i>-57bps</i>
Other Income	148	102	16	45.1%	825.0%	456	462	-1.3%
Depreciation	449	447	314	0.4%	43.0%	1,297	945	37.2%
Finance costs	26	44	20	-40.9%	30.0%	101	58	74.1%
<b>PBT</b>	<b>1,621</b>	<b>1,527</b>	<b>1,496</b>	<b>6.2%</b>	<b>8.4%</b>	<b>4,307</b>	<b>4,229</b>	<b>1.8%</b>
Tax Expense	336	276	445	21.7%	-24.5%	930	1,107	-16.0%
Effective tax rate %	20.7%	18.1%	29.7%	265bps	-902bps	21.6%	26.2%	-211bps
<b>PAT</b>	<b>1,285</b>	<b>1,251</b>	<b>1,051</b>	<b>2.7%</b>	<b>22.3%</b>	<b>3,377</b>	<b>3,122</b>	<b>8.2%</b>
MI & Associates	-52	-56	-49			-130	-144	
<b>Consolidated PAT</b>	<b>1,233</b>	<b>1,195</b>	<b>1,002</b>	<b>3.2%</b>	<b>23.1%</b>	<b>3,247</b>	<b>2,978</b>	<b>9.0%</b>
Exceptional item	-	-	-			-57	-	
<b>Reported PAT</b>	<b>1,233</b>	<b>1,195</b>	<b>1,002</b>	<b>3.2%</b>	<b>23.1%</b>	<b>3,304</b>	<b>2,978</b>	<b>10.9%</b>
<i>PAT margin %</i>	<i>11.5%</i>	<i>11.5%</i>	<i>10.3%</i>	<i>-2bps</i>	<i>118bps</i>	<i>10.6%</i>	<i>11.0%</i>	<i>-134bps</i>
<b>EPS (Rs)</b>	<b>19.8</b>	<b>19.3</b>	<b>16.3</b>	<b>2.6%</b>	<b>21.4%</b>	<b>53.2</b>	<b>48.4</b>	<b>9.9%</b>

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 management also expects to maintain the Off-site revenue a around 65% which blipped by 200 bps to 64%.
- The management maintained positivity on rebounding revenues from BFSI sector in next few quarters since the BFS segment remains weak in general during Q3FY20.
- The company's firm business over next 12 months stood at USD 424 mn while the addition of a another BFS client will help its growth.
- Under the broader leadership talent acquisition program, the company appointed 3 new executive Vice Presidents during the quarter.
- The company saw an increase of 49 in headcount during the quarter. The employee utilization stood at 79.3% from 80.7% last quarter while the attrition rate also improved to 11.9%.

## Key Financials

### Profit & Loss Statement

Particulars (in Rs)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	29,915	36,762	43,645	50,427
Change (%)	6.8%	22.9%	18.7%	15.5%
Operating Costs	317	291	436	504
<b>Gross Profit</b>	<b>29,598</b>	<b>36,471</b>	<b>43,208</b>	<b>49,922</b>
Employee Costs	17,601	21,532	25,619	29,550
Other Expenses	6,983	8,454	10,038	11,598
<b>Total Expenses</b>	<b>24,901</b>	<b>30,277</b>	<b>36,094</b>	<b>41,652</b>
<b>EBITDA</b>	<b>5,014</b>	<b>6,485</b>	<b>7,551</b>	<b>8,774</b>
Other Income	391	535	524	504
Depreciation	1,274	1,248	1,264	1,274
Interest	94	92	95	94
<b>PBT</b>	<b>4,037</b>	<b>5,680</b>	<b>6,715</b>	<b>7,910</b>
Extra-ordinary	0	56	0	0
<b>PBT after ext-ord.</b>	<b>4,037</b>	<b>5,624</b>	<b>6,715</b>	<b>7,910</b>
Tax	949	1,403	1,679	1,978
Rate (%)	23.5%	24.9%	25.0%	25.0%
<b>PAT</b>	<b>3,088</b>	<b>4,221</b>	<b>5,036</b>	<b>5,933</b>
<b>MI &amp; Associates</b>	<b>-285</b>	<b>-188</b>	<b>-280</b>	<b>-290</b>
<b>Consolidated PAT</b>	<b>2,803</b>	<b>4,089</b>	<b>4,756</b>	<b>5,643</b>
Change (%)	3.0%	45.9%	16.3%	18.6%

### Balance Sheet

Particulars (in Rs)	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	615	618	624	624
Reserves & Surplus	17,125	20,105	20,515	22,887
<b>Net Worth</b>	<b>17,740</b>	<b>20,723</b>	<b>21,139</b>	<b>23,511</b>
<b>Loan Funds</b>	<b>179</b>	<b>100</b>	<b>80</b>	<b>60</b>
MI, Deferred Tax & other Liabilities	2,191	1,020	1,020	1,020
<b>Capital Employed</b>	<b>20,110</b>	<b>21,843</b>	<b>22,239</b>	<b>24,591</b>
<b>Application of Funds</b>				
Gross Block	12,540	12,543	12,643	12,743
Less: Depreciation	3,108	4,356	5,620	6,895
<b>Net Block</b>	<b>9,432</b>	<b>8,187</b>	<b>7,023</b>	<b>5,848</b>
CWIP	7	14	14	14
Other Non-current Assets	134	320	320	320
Deferred Tax Assets	1,231	1,032	1,231	1,231
<b>Net Fixed Assets</b>	<b>10,804</b>	<b>9,553</b>	<b>8,588</b>	<b>7,413</b>
<b>Investments</b>	<b>3,066</b>	<b>3,651</b>	<b>3,651</b>	<b>3,651</b>
Debtors	5,858	5,922	7,174	8,289
Inventories	3	0	2	3
Cash & Bank Balance	4,183	5,576	6,872	9,747
Loans & Advances & other CA	2,784	4,032	5,381	6,217
<b>Total Current Assets</b>	<b>12,828</b>	<b>15,530</b>	<b>19,430</b>	<b>24,256</b>
Current Liabilities	5,138	5,832	8,370	9,671
Provisions	1,450	1,059	1,059	1,059
<b>Net Current Assets</b>	<b>6,240</b>	<b>8,639</b>	<b>10,001</b>	<b>13,527</b>
<b>Total Assets</b>	<b>20,110</b>	<b>21,843</b>	<b>22,239</b>	<b>24,591</b>

### Cash Flow Statement

Particulars	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>4,037</b>	<b>5,680</b>	<b>6,715</b>	<b>7,910</b>
Depreciation	1,274	1,248	1,264	1,274
Interest & others	-582	-631	-709	-700
Cash flow before WC changes	4,729	6,297	7,271	8,484
<b>(Inc)/dec in working capital</b>	<b>252</b>	<b>-1,066</b>	<b>-66</b>	<b>-651</b>
Operating CF after WC changes	4,981	5,231	7,205	7,834
Less: Taxes	-949	-1,403	-1,679	-1,978
<b>Operating Cash Flow</b>	<b>4,032</b>	<b>3,828</b>	<b>5,526</b>	<b>5,856</b>
(Inc)/dec in F.A + CWIP	-1,237	1,251	-299	-100
(Pur)/sale of investment	170	-585	0	0
<b>Cash Flow from Investing</b>	<b>-1,067</b>	<b>666</b>	<b>-299</b>	<b>-100</b>
<b>Free Cash Flow (FCF)</b>	<b>3,069</b>	<b>5,066</b>	<b>5,426</b>	<b>5,756</b>
Loan raised/(repaid)	-35	-79	-20	-20
Equity raised	1	3	6	0
Interest & others	-2,013	-1,798	-2,490	-1,168
Dividend	-810	-1,227	-1,427	-1,693
<b>Cash Flow from Financing Activities</b>	<b>-2,857</b>	<b>-3,101</b>	<b>-3,931</b>	<b>-2,881</b>
<b>Net inc /(dec) in cash</b>	<b>108</b>	<b>1,393</b>	<b>1,296</b>	<b>2,875</b>
Opening balance of cash	4,075	4,183	5,576	6,872
Closing balance of cash	4,183	5,576	6,872	9,747

### Key Ratios

Particulars	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>				
EPS	45.6	65.3	76.2	90.4
CEPS	66.3	85.5	96.5	110.8
BVPS	288.5	335.4	338.8	376.8
DPS	13.2	19.9	22.9	27.1
Div. Payout (%)	0.3	0.3	0.3	0.3
<b>Valuation (x)</b>				
P/E	32.2	28.3	24.3	20.5
P/CEPS	22.2	21.6	19.2	16.7
P/BV	5.1	5.5	5.5	4.9
EV/EBITDA	17.2	13.2	11.2	9.3
Dividend Yield (%)	0.9%	1.1%	1.2%	1.5%
<b>Return ratio (%)</b>				
EBIDTA Margin	16.8%	17.6%	17.3%	17.4%
PAT Margin	9.4%	11.1%	10.9%	11.2%
ROE	15.8%	19.7%	22.5%	24.0%
ROCE	18.6%	24.0%	28.3%	30.5%
<b>Leverage Ratio (%)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.3	-0.3	-0.4
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.5	1.7	2.0	2.1
Inventory Days	3	0	2	2
Receivable Days	71	59	60	60
Payable days	80	68	70	70

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

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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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