

October 24, 2019

## Q2FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,551		1,445	
Sales (Rs. m)	42,146	48,137	41,844	47,766
% Chng.	0.7	0.8		
EBITDA (Rs. m)	7,271	8,665	7,039	8,598
% Chng.	3.3	0.8		
EPS (Rs.)	73.6	91.5	70.8	89.7
% Chng.	4.0	2.0		

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	36,762	42,146	48,137	53,637
EBITDA (Rs. m)	6,453	7,271	8,665	9,655
Margin (%)	17.6	17.3	18.0	18.0
PAT (Rs. m)	4,144	4,550	5,655	6,253
EPS (Rs.)	67.1	73.6	91.5	101.2
Gr. (%)	47.1	9.8	24.3	10.6
DPS (Rs.)	21.5	24.3	30.2	33.4
Yield (%)	1.5	1.7	2.1	2.3
RoE (%)	21.5	20.6	22.5	21.8
RoCE (%)	26.9	25.4	27.6	26.9
EV/Sales (x)	2.2	1.9	1.6	1.4
EV/EBITDA (x)	12.7	10.9	8.8	7.6
PE (x)	21.9	19.9	16.1	14.5
P/BV (x)	4.4	3.9	3.4	3.0

### Key Data

### NITT.BO | NITEC IN

52-W High / Low	Rs.1,545 / Rs.1,031
Sensex / Nifty	39,059 / 11,604
Market Cap	Rs.92bn / \$ 1,292m
Shares Outstanding	62m
3M Avg. Daily Value	Rs.1112.47m

### Shareholding Pattern (%)

Promoter's	70.04
Foreign	14.89
Domestic Institution	6.11
Public & Others	8.80
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.1	12.7	19.9
Relative	4.2	11.2	3.9

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## Strong trajectory continues

### Quick Pointers:

- Strong Solid revenue growth supported by strong operating performance.
- NIIT Tech recorded 10th consecutive quarter of order book improvement in a weak macro environment (deal win of USD176mn) orders executable in one year increased to USD 405 mn, the highest ever.

**NIIT Tech delivered a strong revenue growth of 7.7% QoQ (4.1% organic cc) to USD 148.7mn (Ple: USD145.4mn, Cons: USD 146mn). EBIT margin expanded 350 bps QoQ to 17.1% (Ple: 15.5%, Cons: 13.4%) aided by visa seasonality, INR depreciation and no one-time M&A expense. Q2FY20 was tenth consecutive quarter of improvement in deal closure. Management mentioned one of its top 5 client is in the process of budget cut due to financial pressure, however NITEC has managed to maintain its wallet share.**

**NIIT Tech reported deal win of USD176mn highest ever with 10 new clients (7 in US, 1 in EMEA and 2 in ROW). & orders executable in one year increased to USD 405 mn, the highest ever. Deals are getting bigger & better every quarter. Management also showed confidence on growth momentum across the verticals, but management gave cautious outlook on US capital markets & suggested seasonal moderation in revenue growth in Q3FY20E quarter on account of lower billing days though sees no unusual weakness/possibility of extended furloughs. Strong order wins coupled with healthy order pipeline gives us confidence on visibility of revenue growth momentum in FY20E(mid-teens). We fine tune our estimates & introduce FY22E estimates valuing NIIT Tech on Sep-21 EPS of Rs. 97 at 16x multiple to arrive at a changed target price of Rs. 1551 (earlier Rs.1445). NIIT Tech is currently trading at 16x/14.4x FY21E/22E multiple.**

- Sustained strong revenue growth momentum:** NIIT Tech delivered a strong revenue growth of 7.7% QoQ (4.1% organic cc) to USD 148.7mn (Ple: USD145.4mn, Cons: USD 146mn). EBIT margin expanded 350 bps QoQ to 17.1% (Ple: 15.5%, Cons: 13.4%) aided by visa seasonality, INR depreciation and no one-time M&A expense. Management was confident of retaining the margin trajectory of high teen as the cost structure is the new normal. It has not factored in any offshore leverage in its guidance. NITL: Rs 517 mn (margin: 28%) and Whishworks: Rs 425 mn (margin: 28%).
- Strong deal momentum:** Q2FY20 was tenth consecutive quarter of improvement in deal closure. NIIT Tech ability to win deals has improved significantly despite no large (USD 20 mn+) deal wins in quarter the company reported deal win of USD 176mn with 10 new clients (7 in US, 1 in EMEA and 2 in ROW); Deal wins across geographies – USD 65 mn was from US, USD 41 mn from EMEA and USD 70 mn from RoW; and orders executable in one year increased to USD 405 mn, the highest ever.

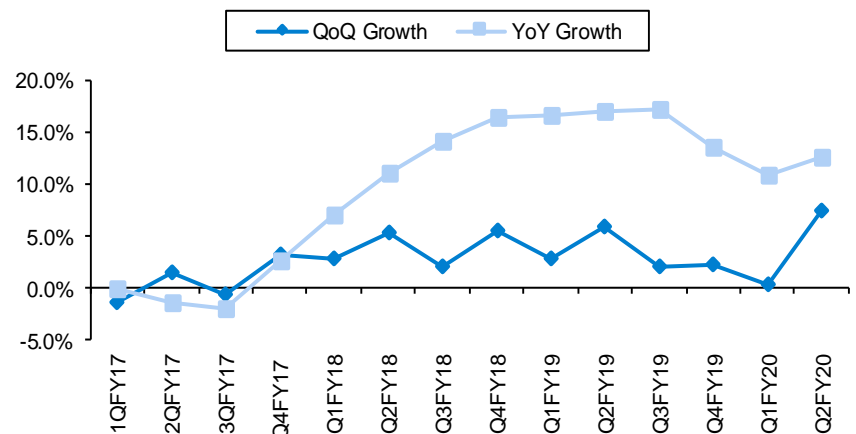
**Exhibit 1: Q2FY20: Quick view on results**

Rs mn	2QFY20	1QFY20	QoQ gr.	2QFY19	YoY gr.	PLe	Variance(PL VS ACTUAL)
Revenue (USDmn)	148.7	138.5	7.3%	132.2	12.5%	145.4	2.2%
Revenue	10385	9627	7.9%	9074	14.4%	10254	1.3%
EBITDA	1898	1389	36.6%	1634	16.2%	1589	19.4%
<i>EBITDA Margin</i>	<i>18.3%</i>	<i>14.4%</i>	<i>385 bps</i>	<i>18.0%</i>	<i>27 bps</i>	<i>15.5%</i>	<i>278 bps</i>
Adj. PAT	1195	877	36.3%	1118	6.9%	958	24.8%
EPS	19.4	14.3	36.3%	18.2	6.9%	15.6	24.8%

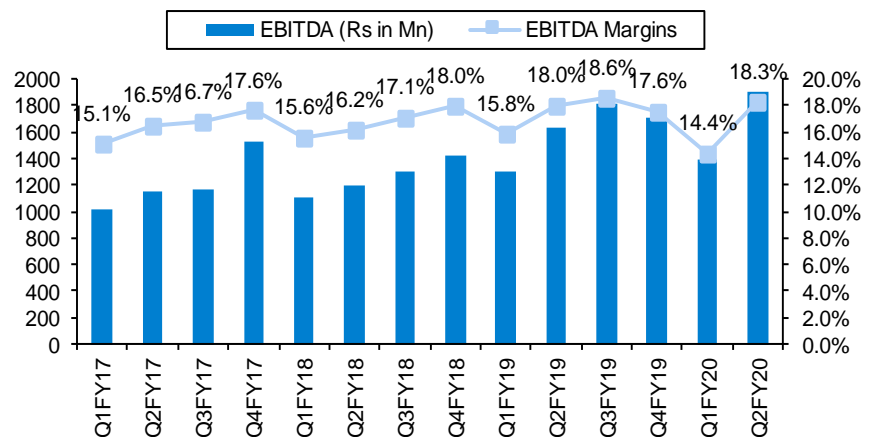
Source: Company, PL

NIIT Tech delivered a strong revenue growth of 7.7% QoQ (4.1% organic cc) to USD 148.7mn (PLe: USD 145.4mn, Cons: USD 146mn).

EBIT margin expanded 350 bps QoQ to 17.1% (PLe: 15.5%, Cons: 13.4%) aided by visa seasonality, INR depreciation and no one-time M&A expense.

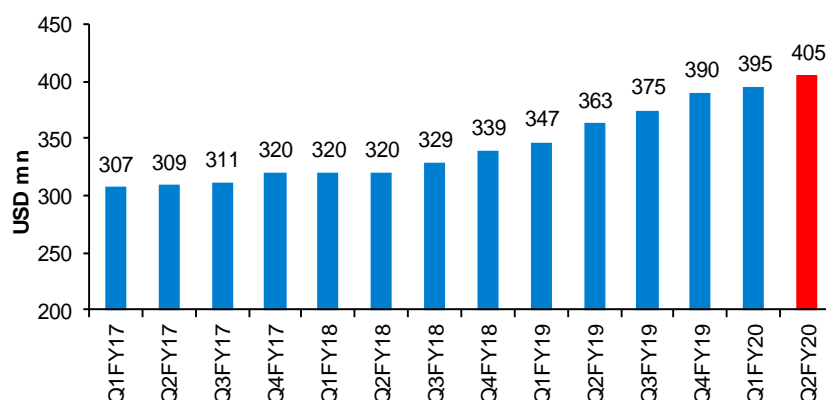
**Exhibit 2: Sustained revenue growth momentum (USD revenues)**


Source: Company, PL

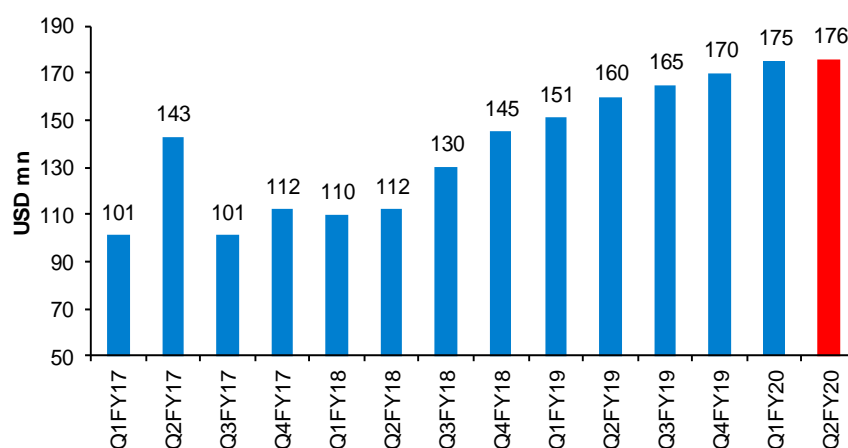
**Exhibit 3: Strong performance in margins**


Source: Company, PL

Q2FY20 was tenth consecutive quarter of improvement in deal closure.

**Exhibit 4: Strong order pipeline executable in one year**


Source: Company, PL

**Exhibit 5: Fresh order continues to grow**


Source: Company, PL

**Exhibit 6: Geography-wise revenues**

Geography revenues (USD Mn)	2QFY20	1QFY20	QoQ gr.	2QFY19	YoY gr.
Americas	72.9	67.9	7.3%	64.8	13%
EMEA	55.0	48.5	13.5%	44.9	22%
RoW	20.8	22.2	-6.1%	22.5	-7%
<b>Total</b>	<b>148.7</b>	<b>138.5</b>	<b>7.3%</b>	<b>132.2</b>	<b>13%</b>
<b>-as a % of total sales</b>					
Americas	49%	49%	0bp	49%	0bp
EMEA	37%	35%	200bp	34%	300bp
RoW	14%	16%	-200bp	17%	-300bp

Source: Company, PL

**Exhibit 7: Vertical-wise revenues**

Vertical revenues (USD mn)	2QFY20	1QFY20	QoQ gr.	2QFY19	YoY gr.
BFS	25.3	22.2	14.1%	21.1	20%
Insurance	46.1	40.2	14.8%	38.3	20%
Travel and Transport	41.6	38.8	7.3%	35.7	17%
Others	35.7	37.4	-4.6%	37.0	-4%
<b>Total</b>	<b>148.7</b>	<b>138.5</b>	<b>7.3%</b>	<b>132.2</b>	<b>13%</b>
<b>-as a % of total sales</b>					
BFS	17%	16%	100bp	16%	100bp
Insurance	31%	29%	200bp	29%	200bp
Travel and Transport	28%	28%	0bp	27%	100bp
Others	24%	27%	-300bp	28%	-400bp

Source: Company, PL

**Exhibit 8: Client Metrics**

Client Concentration (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Top 5	32	33	34	33	31	30	29	27	28	28	29	27	29
Top 10	46	44	46	45	43	42	40	36	40	40	41	39	39
Client Details													
Between 1 mn - 5mn	56	55	55	52	55	59	60	63	63	62	66	66	70
5mn-10 mn	10	10	10	14	13	12	13	14	18	20	16	17	16
>10mn	8	8	8	6	6	7	7	7	7	8	8	8	9
<b>Total</b>	<b>74</b>	<b>73</b>	<b>73</b>	<b>73</b>	<b>74</b>	<b>78</b>	<b>80</b>	<b>84</b>	<b>88</b>	<b>90</b>	<b>90</b>	<b>91</b>	<b>95</b>

Source: Company, PL

**Exhibit 9: Revenue Mix**

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Onsite	61%	60%	59%	60%	61%	61%	61%	64%	64%	65%	66%	66%	66%
Offshore	39%	40%	41%	40%	39%	39%	39%	36%	36%	35%	34%	34%	34%

Source: Company, PL

**Exhibit 10: Employee Metrics**

Billable Personnel	Q2FY17	1QFY20	2QFY20	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Onsite	1,906	1857	1877	1984	2040	2018	2088	2217	2369	2408	2345	2429	2468
Offshore	6,203	6180	6189	6164	6156	6217	6500	6684	6815	6881	7018	7063	7453
<b>Total Billable</b>	<b>8,109</b>	<b>8,037</b>	<b>8,066</b>	<b>8,148</b>	<b>8,196</b>	<b>8,235</b>	<b>8,588</b>	<b>8,901</b>	<b>9,184</b>	<b>9,289</b>	<b>9,363</b>	<b>9,492</b>	<b>9,921</b>
Sales & Marketing (Excl GIS)	141	139	133	137	135	147	145	131	123	114	122	141	185
Sales & Marketing (GIS)	76	82	81	85	85	85	85	90	94	94	89	0	0
Others	542	551	573	593	606	614	605	642	624	647	689	664	694
<b>Grand Total</b>	<b>8,868</b>	<b>8,809</b>	<b>8,853</b>	<b>8,963</b>	<b>9,022</b>	<b>9,081</b>	<b>9,423</b>	<b>9,764</b>	<b>10,025</b>	<b>10,144</b>	<b>10,263</b>	<b>10,297</b>	<b>10,800</b>
Net addition	(154)	(59)	44	110	59	59	342	341	261	119	119	34	503
Capacity Utilisation	<b>81.0%</b>	<b>80.0%</b>	<b>81.0%</b>	<b>81.2%</b>	<b>79.5%</b>	<b>79.0%</b>	<b>79.5%</b>	<b>80.1%</b>	<b>80.4%</b>	<b>79.0%</b>	<b>79.3%</b>	<b>80.5%</b>	<b>80.7%</b>
Attrition (%)	12.9	12.6	12.7	12.1	11.4	10.6	10.5	10.1	10.8	11.7	12.2	12.9	12.3

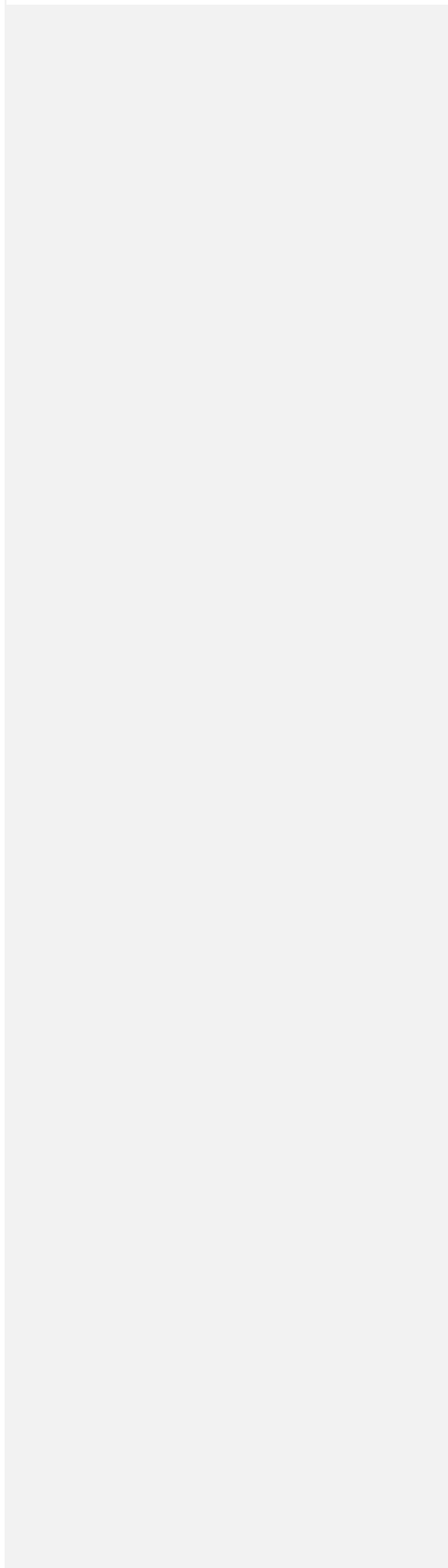
Source: Company, PL



**Exhibit 11: Strong Order Book**

Figures in USD Mn	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Fresh Order Intake	143	101	112	110	112	130	145	151	160	165	170	175	176
Executable Order Book over Next 12 months	309	311	320	320	320	329	339	347	363	375	390	395	405

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>36,762</b>	<b>42,146</b>	<b>48,137</b>	<b>53,637</b>
YoY gr. (%)	22.9	14.6	14.2	11.4
Employee Cost	23,907	27,557	31,289	34,864
Gross Profit	12,855	14,589	16,848	18,773
Margin (%)	35.0	34.6	35.0	35.0
SG&A Expenses	6,402	7,318	8,183	9,118
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>6,453</b>	<b>7,271</b>	<b>8,665</b>	<b>9,655</b>
YoY gr. (%)	28.7	12.7	19.2	11.4
Margin (%)	17.6	17.3	18.0	18.0
Depreciation and Amortization	1,248	1,623	1,685	1,877
<b>EBIT</b>	<b>5,205</b>	<b>5,648</b>	<b>6,980</b>	<b>7,777</b>
Margin (%)	14.2	13.4	14.5	14.5
Net Interest	-	-	-	-
Other Income	476	498	500	500
<b>Profit Before Tax</b>	<b>5,681</b>	<b>6,146</b>	<b>7,480</b>	<b>8,277</b>
Margin (%)	15.5	14.6	15.5	15.4
Total Tax	1,404	1,459	1,745	1,944
Effective tax rate (%)	24.7	23.7	23.3	23.5
<b>Profit after tax</b>	<b>4,277</b>	<b>4,688</b>	<b>5,735</b>	<b>6,333</b>
Minority interest	188	138	80	80
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,144</b>	<b>4,550</b>	<b>5,655</b>	<b>6,253</b>
YoY gr. (%)	47.8	9.8	24.3	10.6
Margin (%)	11.3	10.8	11.7	11.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,144</b>	<b>4,550</b>	<b>5,655</b>	<b>6,253</b>
YoY gr. (%)	47.8	9.8	24.3	10.6
Margin (%)	11.3	10.8	11.7	11.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,144	4,550	5,655	6,253
<b>Equity Shares O/s (m)</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>
<b>EPS (Rs)</b>	<b>67.1</b>	<b>73.6</b>	<b>91.5</b>	<b>101.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>10,712</b>	<b>12,212</b>	<b>13,712</b>	<b>15,212</b>
Tangibles	6,893	7,793	8,693	9,593
Intangibles	3,819	4,419	5,019	5,619
<b>Acc: Dep / Amortization</b>	<b>4,973</b>	<b>6,596</b>	<b>8,280</b>	<b>10,158</b>
Tangibles	2,702	3,552	4,434	5,417
Intangibles	2,271	3,044	3,846	4,741
<b>Net fixed assets</b>	<b>5,739</b>	<b>5,616</b>	<b>5,432</b>	<b>5,054</b>
Tangibles	4,191	4,241	4,259	4,177
Intangibles	1,548	1,375	1,172	878
Capital Work In Progress	14	14	14	14
Goodwill	2,448	2,448	2,448	2,448
Non-Current Investments	288	298	308	318
Net Deferred tax assets	637	677	717	757
Other Non-Current Assets	280	280	280	280
<b>Current Assets</b>				
Investments	3,651	3,751	3,851	3,951
Inventories	-	-	-	-
Trade receivables	5,877	7,505	8,572	9,552
Cash & Bank Balance	5,576	7,696	10,395	13,714
Other Current Assets	1,136	1,136	1,136	1,136
<b>Total Assets</b>	<b>27,590</b>	<b>31,375</b>	<b>35,116</b>	<b>39,198</b>
<b>Equity</b>				
Equity Share Capital	618	618	618	618
Other Equity	20,105	22,839	26,238	29,996
<b>Total Network</b>	<b>20,723</b>	<b>23,457</b>	<b>26,856</b>	<b>30,614</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	100	110	120	130
Provisions	-	-	-	-
Other non current liabilities	737	762	787	812
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,647	1,697	1,747	1,797
Other current liabilities	4,186	4,331	4,578	4,805
<b>Total Equity &amp; Liabilities</b>	<b>28,401</b>	<b>31,375</b>	<b>35,116</b>	<b>39,197</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	5,681	6,146	7,480	8,277
Add. Depreciation	1,248	1,623	1,685	1,877
Add. Interest	-	-	-	-
Less Financial Other Income	476	498	500	500
Add. Other	-	-	-	-
Op. profit before WC changes	6,929	7,769	9,165	10,155
Net Changes-WC	(1,569)	(1,508)	(844)	(776)
Direct tax	(1,404)	(1,459)	(1,745)	(1,944)
<b>Net cash from Op. activities</b>	<b>3,956</b>	<b>4,802</b>	<b>6,576</b>	<b>7,434</b>
Capital expenditures	(649)	(1,500)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	1	(100)	(100)	(100)
<b>Net Cash from Inv. activities</b>	<b>(648)</b>	<b>(1,600)</b>	<b>(1,600)</b>	<b>(1,600)</b>
Issue of share cap. / premium	-	1	-	-
Debt changes	(3)	10	10	10
Dividend paid	(1,609)	(1,815)	(2,256)	(2,495)
Interest paid	-	-	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,612)</b>	<b>(1,804)</b>	<b>(2,246)</b>	<b>(2,485)</b>
<b>Net change in cash</b>	<b>1,696</b>	<b>1,398</b>	<b>2,730</b>	<b>3,349</b>
Free Cash Flow	3,307	3,302	5,076	5,934

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

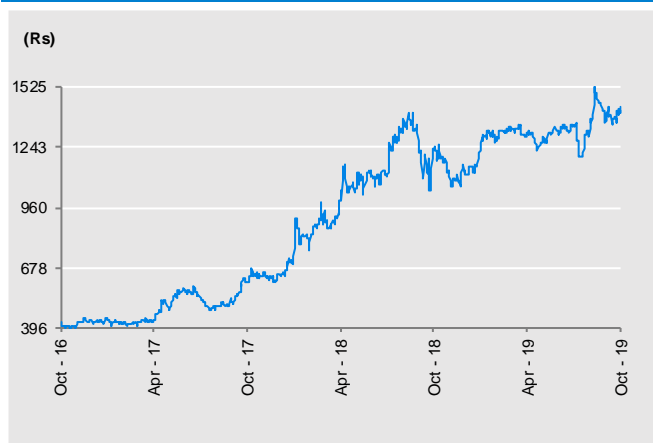
Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>9,717</b>	<b>9,722</b>	<b>9,627</b>	<b>10,385</b>
YoY gr. (%)	28.4	23.3	16.7	14.4
Raw Material Expenses	6,280	6,293	6,374	6,796
Gross Profit	3,437	3,429	3,253	3,589
Margin (%)	35.4	35.3	33.8	34.6
<b>EBITDA</b>	<b>1,805</b>	<b>1,707</b>	<b>1,389</b>	<b>1,898</b>
YoY gr. (%)	39.3	20.4	6.3	16.2
Margin (%)	18.6	17.6	14.4	18.3
Depreciation / Depletion	314	303	401	447
<b>EBIT</b>	<b>1,491</b>	<b>1,404</b>	<b>988</b>	<b>1,451</b>
Margin (%)	15.3	14.4	10.3	14.0
Net Interest	-	-	-	-
Other Income	5	47	172	76
<b>Profit before Tax</b>	<b>1,496</b>	<b>1,451</b>	<b>1,160</b>	<b>1,527</b>
Margin (%)	15.4	14.9	12.0	14.7
Total Tax	445	296	318	276
Effective tax rate (%)	29.7	20.4	27.4	18.1
<b>Profit after Tax</b>	<b>1,051</b>	<b>1,155</b>	<b>842</b>	<b>1,251</b>
Minority interest	49	44	22	56
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,002</b>	<b>1,056</b>	<b>877</b>	<b>1,195</b>
YoY gr. (%)	32.4	22.6	2.2	6.9
Margin (%)	10.3	10.9	9.1	11.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,002</b>	<b>1,056</b>	<b>877</b>	<b>1,195</b>
YoY gr. (%)	32.4	22.6	2.2	6.9
Margin (%)	10.3	10.9	9.1	11.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,002</b>	<b>1,056</b>	<b>877</b>	<b>1,195</b>
Avg. Shares O/s (m)	61	61	61	61
<b>EPS (Rs)</b>	<b>16.3</b>	<b>17.2</b>	<b>14.3</b>	<b>19.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	67.1	73.6	91.5	101.2
CEPS	87.2	99.9	118.8	131.6
BVPS	335.3	379.6	434.6	495.4
FCF	53.5	53.4	82.1	96.0
DPS	21.5	24.3	30.2	33.4
<b>Return Ratio(%)</b>				
RoCE	26.9	25.4	27.6	26.9
ROIC	33.8	35.5	42.0	45.5
RoE	21.5	20.6	22.5	21.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.6)
Debtor (Days)	58	65	65	65
<b>Valuation(x)</b>				
PER	21.9	19.9	16.1	14.5
P/B	4.4	3.9	3.4	3.0
P/CEPS	96.2	110.1	130.9	145.0
EV/EBITDA	12.7	10.9	8.8	7.6
EV/Sales	2.2	1.9	1.6	1.4
Dividend Yield (%)	1.5	1.7	2.1	2.3

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	Accumulate	1,445	1,368
2	23-Jul-19	Accumulate	1,445	1,354
3	04-Jul-19	BUY	1,539	1,338
4	10-Jun-19	BUY	1,539	1,322
5	05-May-19	BUY	1,539	1,268
6	08-Apr-19	BUY	1,539	1,348
7	05-Apr-19	BUY	1,539	1,348
8	07-Jan-19	BUY	1,460	1,141

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	507	466
2	HCL Technologies	BUY	1,210	1,077
3	Hexaware Technologies	Hold	347	369
4	Infosys	Hold	819	815
5	L&T Technology Services	Hold	1,444	1,639
6	Larsen & Toubro Infotech	Accumulate	1,825	1,500
7	Mindtree	Reduce	716	744
8	Mphasis	Accumulate	1,038	937
9	NIIT Technologies	Accumulate	1,445	1,368
10	Persistent Systems	Hold	534	560
11	Redington (India)	BUY	114	108
12	Sonata Software	Accumulate	382	313
13	Tata Consultancy Services	Hold	1,985	2,004
14	TeamLease Services	Hold	3,203	2,965
15	Tech Mahindra	Reduce	619	703
16	Wipro	Reduce	245	244
17	Zensar Technologies	Accumulate	249	211

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly





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