

NIIT Technologies

1QFY21 Result Update

Outlook for FY21 remains strong

Sector: Technology

CMP: ₹1766

Recommendation: Buy

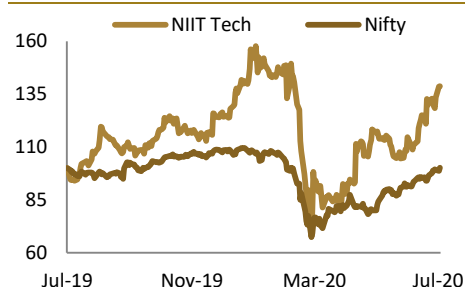
Market statistics

Current stock price (₹)	1,766
Shares O/S (cr.)	6.1
Mcap (₹ cr)	11,038
52W H/L (₹)	2057/739
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	70.32
Domestic Institution	6.39
Foreign Institution	13.99
Non-institution	9.30
of which more than 1%	
AKM Systems Pvt. Ltd.	1.21

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	19.9	18.6	19.1
EPS (₹)	73.5	78.7	91.5
CEPS (₹)	101.5	106.4	120.8
P/E (x)	15.6	22.5	19.3
P/BV (x)	3.0	5.0	4.3
EV/EBITDA (x)	8.2	12.4	10.4
Income growth (%)	13.7	8.6	12.7
EBITDA growth (%)	12.1	8.7	14.7
PAT growth (%)	11.8	4.1	15.9

NIIT Tech reported 1QFY21 revenues of US\$140.2m down 9.4% QoQ. The decline was led by travel vertical (lower by 32% QoQ), contributes 19.4% to total revenues (versus 27% during Q4); while all other verticals witnessed growth. Excluding travel vertical revenues was up 3.2% QoQ in cc terms. Margins came in higher-than-expectations. Deal signing continue to remain strong as company signed 3 large deals; one in BFSI vertical with US\$30mn+ revenues and other two deals were in travel vertical. Overall, order book remains positive as company got new orders of US\$186mn leading to US\$465mn of business executable over next 12 months. We believe, going forward in the long term, NITEC would be able to grow at industry leading revenue growth and margins on account of ramp up of recently won deals. We maintain our Buy recommendation on NITEC.

Healthy Order Book - down 0.6% QoQ: The Company's order book - executable over the next 12 months - was down 0.6% QoQ at US\$465mn. Historically, the NIIT Tech's revenues over the next 12 months have grown 2x the initial order book. We estimate a 12-month forward revenue of US\$628mn (~1.4xQ1FY21 order book). The company added 10 clients, 5 each in USA and EMEA. NIIT Tech had a fresh order intake of US\$186mn (US: US\$85mn, EMEA: US\$70mn and RoW: US\$31mn) this quarter (vs US\$180mn in 4Q).

Quarter details: NIIT Tech reported Q1FY21 revenues of US\$140.2mn, down 6.8% QoQ in cc terms. EBIT margins were higher-than-our expectations. NITL reported revenue of Rs.663mn with EBITDA margin of 23.5% while Wishworks revenue stood at Rs.496mn with EBITDA margin of 20.4%. Revenue decline was led by 12.8% QoQ in top 5 clients.

FY21 outlook better than industry average: Despite the sharp deceleration in travel vertical (Airlines contributing to revenues now ~5.5% from 13% during Q4) company expect mid-single digit growth in FY21 compared to flat or revenue deceleration expected for many peers. For Q2FY21, company expects to report at least 7% QoQ growth, followed by mid-single digit growth to achieve full year guidance. The deal momentum, ongoing ramp-ups and strong deal pipeline give company confidence of the mid-single digit growth. On Margins company expect FY21 EBITDA before RSUs to be similar to FY20 levels.

Senior Hires in past quarter to help: 1. **Ajay Kalra:** Chief Financial Officer: Till recently Ajay Kalra was the SVP and Global Controller at Genpact managing the Controllershship function. In his 20 years stint in Genpact, Ajay has held critical roles in Genpact Finance including leading the Pricing function, 2. **Arun Varadarajan:** EVP and Global Head of Digital Business. 27+ years of global experience in various leadership roles spanning Sales, Practice, and Delivery. Last 5 years have been with Cognizant. 3. **Puneet Sharma,** EVP & Global Head of Sales: Till recently was with Infosys as a VP, Head of Sales Manufacturing. Spent 20+ years at Infosys. Renewed vigour in S&M strategy is ensuring higher win ratios amongst client consolidation.

Outlook & Valuation: We rate NITEC as the best play in our mid-cap IT coverage portfolio. Though, while we expect the stock's incremental gains in the near-term could get capped by the relative premium valuations + growing investors concerns on macro headwinds for the sector, we would suggest using every correction to play the structural improvement in the business profile that can sustain the EPS upgrade cycle and potentially drive incremental - albeit modest - PER expansion. We maintain our Buy recommendation on NITEC.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in

**Exhibit 1: Quarterly details**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	138.1	154.8	140.2	(9.4)	1.6	Revenue decline of 6.8% in cc terms. Executable order book down 0.6% QoQ to US\$465mn
Revenues	9,597	11,093	10,570	(4.7)	10.1	
- Operating costs	8,191	9,105	8,764	(3.7)	7.0	
EBITDA	1,406	1,988	1,806	(9.2)	28.4	
EBITDA margin (%)	14.7	17.9	17.1	(84)bps	244bps	EBIT margin decreased due to lower license revenues from NITL business.
- Interest expense	-	-	-	-	-	
- Depreciation	401	433	417	(3.7)	4.0	
+ Other income, net (incl forex)	171	180	48	(73.3)	(71.9)	
PBT	1,176	1,735	1,437	(17.2)	22.2	
- Taxes	318	348	308	(11.5)	(3.1)	
Effective tax rate (%)	27.0	20.1	21.4	138bps	(561)bps	Effective tax rate for FY21 to be between ~22%
PAT	858	1,387	1,129	(18.6)	31.6	
Minority interest	24	106	30	NA	NA	
Consolidated profits	834	1,281	1,099	(14.2)	31.8	
Net Margin	8.7	11.5	10.4	(115)bps	171bps	
Reported profits	891	1,136	799	(29.7)	(10.3)	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	598	604	1.0	659	682	3.5
Revenue	43,623	45,385	4.0	48,105	51,169	6.4
EBITDA margin (%)	16.6	17.3	70bps	17.2	17.6	40bps
EPS (₹)	75.0	78.7	4.9	86.5	91.5	5.8

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
US	50.0	49.0	49.0	49.0	49.0	49.0	48.0	46.0	47.0
Europe	32.0	34.0	33.0	33.0	35.0	37.0	37.0	40.0	36.0
APAC	18.0	17.0	18.0	18.0	16.0	14.0	15.0	14.0	17.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Vertical segmentation

Vertical Mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
BFS	17.0	16.0	15.0	16.0	16.0	17.0	16.0	15.0	17.0
Insurance	28.0	29.0	30.0	28.0	29.0	31.0	30.0	31.0	33.0
Transportation	27.0	27.0	26.0	27.0	28.0	28.0	29.0	27.0	19.0
Manufacturing, Med and Other	28.0	28.0	29.0	29.0	27.0	24.0	25.0	27.0	31.0
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: Headcount decreased by 558 QoQ to 10,598 (down 5.1% QoQ). The company has already indicated of a higher employee utilization going forward once environment improves. NIIT Tech guided to 150-200 employees being added every quarter going ahead. Utilisation decreased 110bps QoQ to 77%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Billable Personnel - onsite	2,217	2,369	2,408	2,345	2,429	2,468	2,451	2,451	2,260
Billable Personnel - offshore	6,684	6,815	6,881	7,018	7,063	7,453	7,515	7,823	7,476
Total billable employees	8,901	9,184	9,289	9,363	9,492	9,921	9,966	10,274	9,736
Sales and Marketing (Excl GIS)	131	123	114	122	141	185	185	179	184
Sales and Marketing (GIS)	90	94	94	89	-	-	-	-	-
Others	642	624	647	689	664	694	698	712	678
Total employees	9,764	10,025	10,114	10,263	10,297	10,800	10,849	11,156	10,598
Utilization (% , excl BPO)	80.1	80.4	79.0	79.3	80.5	80.7	79.3	78.1	77.0
Attrition Rate (% , excl BPO)	10.1	10.8	11.7	12.2	12.9	12.3	11.9	11.8	11.8

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$186mn (US: US\$85mn, EMEA: US\$70mn and RoW: US\$31mn) this quarter (vs US\$180mn in the last quarter).

Exhibit 6: Client details

Client concentration	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Top 5 clients (%)	27.0	28.0	28.0	29.0	27.0	29.0	27.0	27.0	26.0
Top 10 clients (%)	36.0	40.0	40.0	41.0	39.0	39.0	36.0	37.0	38.0
US\$1m clients (Nos)	84	88	90	90	91	95	100	106	107

Source: Company

Exhibit 7: Significant new customers

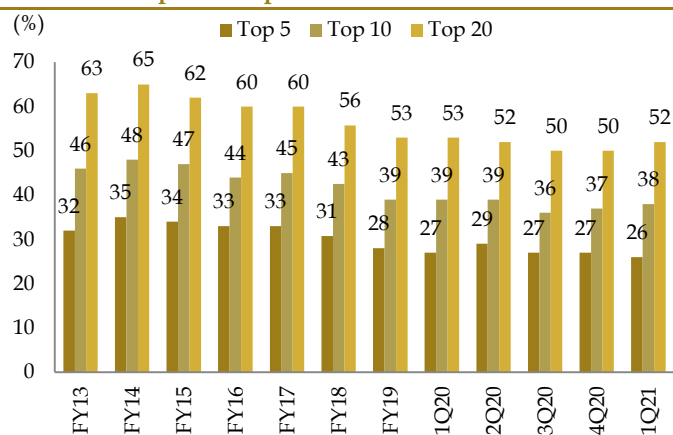
Order Analysis	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
USA	5	5	8	6	5	7	6	3	5
EMEA	3	3	-	-	3	1	2	6	5
ROW	1	2	2	5	3	2	2	1	0
Total	9	10	10	11	11	10	10	10	10

Source: Company

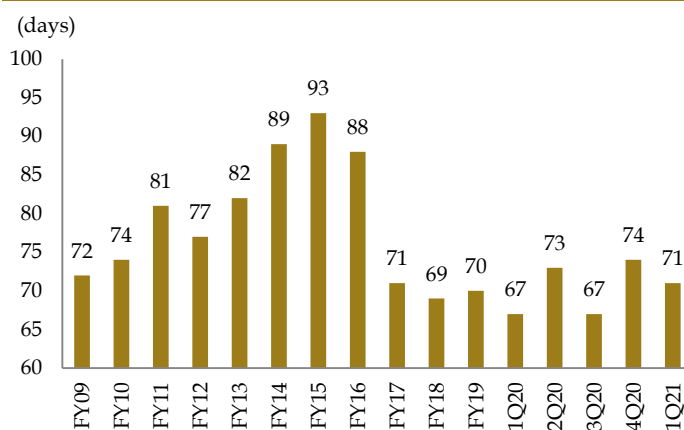
Exhibit 8: Fresh Order Intake

US\$mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
USA	69	86	96	94	100	65	90	81	85
EMEA	56	39	42	45	58	41	62	52	70
ROW	26	25	27	32	17	70	66	47	31
Total	151	160	165	171	175	176	218	180	186

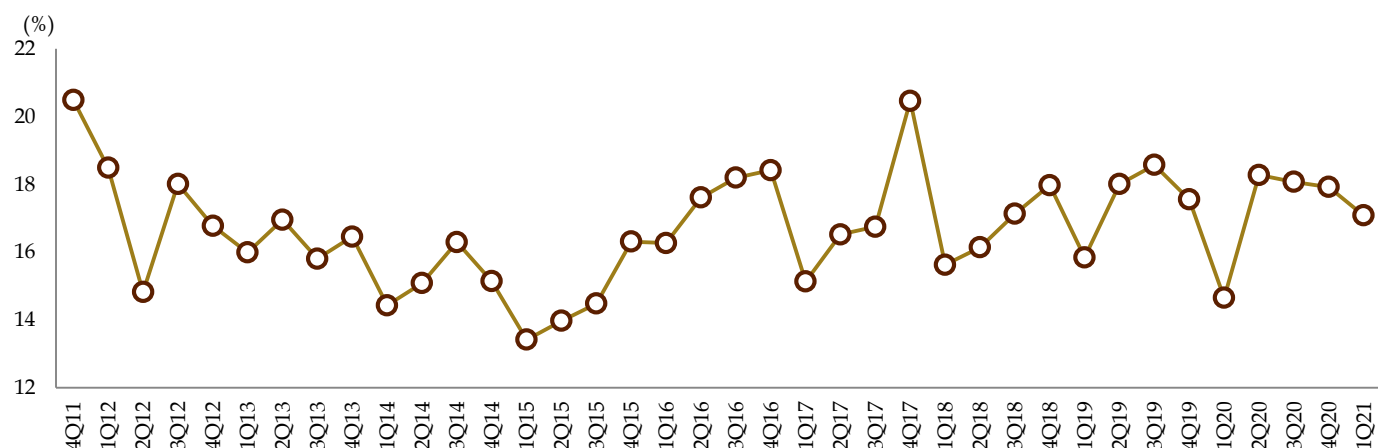
Source: Company

**Exhibit 9: Top clients' performance**

Source: Company, Trust

Exhibit 10: DSO decreased by 3 days QoQ

Source: Company, Trust

Exhibit 11: NITEC's margin better-than-expectation

Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY21E
Revenues	29,914	36,762	41,809	45,385	51,169
Op. Expenses	24,902	30,309	34,577	37,522	42,150
EBITDA	5,012	6,453	7,232	7,863	9,019
Other Income	298	476	557	222	292
Depreciation	1,273	1,248	1,730	1,712	1,814
EBIT	4,037	5,681	6,059	6,373	7,497
Interest	-	-	-	-	-
PBT	4,037	5,681	6,059	6,373	7,497
Tax	950	1,404	1,278	1,394	1,724
PAT	3,087	4,277	4,781	4,979	5,773
Minority	(285)	(188)	(238)	(120)	(120)
Ex. Ordinary	-	(56)	-	-	-
Adj Pat	2,802	4,033	4,543	4,859	5,653

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	45.0	66.2	73.5	78.7	91.5
CEPS	65.5	86.4	101.5	106.4	120.8
BVPS	285.2	335.4	387.9	355.5	412.0
DPS	15.0	-	31.0	33.0	35.0
Payout (%)	39.0	-	47.0	42.0	38.3
Valuation (x)					
P/E	19.2	20.0	15.6	22.5	19.3
P/BV	3.0	4.0	3.0	5.0	4.3
EV/EBITDA	8.8	10.7	8.2	12.4	10.4
Dividend Yield (%)	1.7	-	2.7	1.9	2.0
Return ratio (%)					
EBITDA Margin	16.8	17.6	17.3	17.3	17.6
PAT Margin	10.3	11.6	11.4	11.0	11.3
ROAE	17.4	19.6	19.9	18.6	19.1
ROACE	20.6	23.6	24.1	22.7	23.6
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.5)	(0.4)	(0.4)	(0.5)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.8	2.9	2.7	2.7	2.9
Growth Ratios (%)					
Income growth	6.8	22.9	13.7	8.6	12.7
EBITDA growth	3.4	28.8	12.1	8.7	14.7
PAT growth	4.9	38.5	11.8	4.1	15.9
Turnover Ratios					
F.A Turnover x	4.7	5.4	6.2	6.5	7.0
Debtors Days	69	68	63	65	64
Payable days	20	21	23	25	24

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Equity Share Capital	615	618	625	605	605
Reserves & Surplus	17,125	20,438	23,340	26,161	29,651
Total Shareholders Fund	17,740	21,056	23,965	26,766	30,256
Minority Interest	222	75	-	-	-
Non- current liabilities	1,658	738	1,189	1,262	1,541
Long term Borrowings	179	100	48	48	48
Deferred tax liabilities	(776)	(637)	(905)	(1,048)	(1,048)
Other LT liabilities & prov	2,255	1,275	2,046	2,262	2,541
Current Liabilities	5,847	5,833	7,942	9,238	10,392
Trade payables	1,453	1,647	2,634	3,482	3,925.30
Other cur liabilities & Prov	4,394	4,186	5,308	5,757	6,467
Total Liabilities	25,467	27,702	33,096	37,265	42,188
Assets					
Non- current Assets	9,288	8,566	11,586	11,933	12,256
Fixed assets	6,370	5,753	6,705	7,005	7,305
Non-current investments	2,731	2,691	4,741	4,741	4,741
Other non-current assets	187	122	140	187	210
Current assets	16,179	19,136	21,510	25,333	29,932
Current investments	3,733	4,148	976	976	976
Trade receivables	5,858	5,877	8,565	9,326	10,514
Inventories	3	-	-	-	-
Cash & bank balances	4,102	5,079	8,195	10,679	13,535
Other current assets	2,483	4,032	3,774	4,352	4,907
Total Assets	25,467	27,702	33,096	37,265	42,188

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	4,037	5,681	6,059	6,373	7,497
Depreciation	1,081	1,387	1,462	1,569	1,814
Others	(285)	(244)	(238)	(120)	(120)
CF before W.cap	4,833	6,824	7,283	7,822	9,191
Inc/dec in W.cap	(247)	2,494	(432)	(127)	334
Op CF after W.cap	5,080	4,330	7,715	7,949	8,857
Less Taxes	950	1,404	1,278	1,394	1,724
Net CF From Operations	4,130	2,926	6,437	6,555	7,132
Inc/(dec) in F.A + CWIP	1,013	631	2,682	2,012	2,114
(Pur)/sale of Investments	681	375	(1,122)	-	-
CF from Invst Activities	(1,694)	(1,006)	(1,560)	(2,012)	(2,114)
Loan Raised/(repaid)	90	(226)	(127)	-	-
Equity Raised	(835)	(717)	502	(20)	(0)
Dividend	1,092	-	2,136	2,039	2,162
CF from Fin Activities	(1,836)	(943)	(1,761)	(2,059)	(2,162)
Net inc/(dec) in cash	600	977	3,116	2,484	2,856
Op. bal of cash	3,502	4,102	5,079	8,195	10,679
Cl. balance of cash	4,102	5,079	8,195	10,679	13,535



DISCLAIMER

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/or sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows: - Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/ subsidiary companies to registration or licensing requirements within such jurisdictions.