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NIIT Technologies

Analyst Meet Update

Digital & IMS is the way ahead, Re-iterate Buy

Sector: Technology

CMP: ₹ 512

Recommendation: Buy

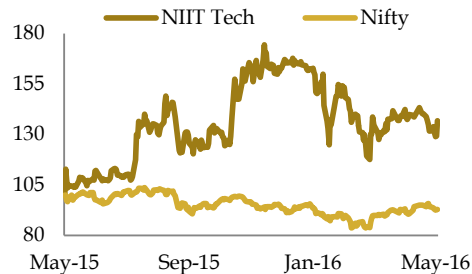
Market statistics

Current stock price (₹)	512
Shares O/S (cr.)	6.1
Mcap (₹ cr)	3,225
52W H/L (₹)	632/372
6m avg. volume	225,805
Bloomberg	NITEC IN

Shareholding pattern

Promoters	30.80
Domestic Institution	21.52
Foreign Institution	31.80
Non-institution	15.88
of which more than 1%	
HDFC Trustee Company Ltd A/c HDFC Mid Cap Opportunities Fund	6.32
Fidelity Management And Research Company A/c Fidelity Advisor Series 1 Fidelity Advisor Small Cap Fund	6.21

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	18.8	17.3	16.9
EPS (₹)	45.8	48.3	53.8
CEPS (₹)	63.8	68.0	74.7
P/E (x)	11.5	10.6	9.5
P/BV (x)	2.0	1.7	1.5
EV/EBITDA (x)	6.0	4.9	4.0
Income growth (%)	13.1	6.9	10.9
EBITDA growth (%)	37.0	7.8	11.4
PAT growth (%)	47.9	5.2	11.5

At NITEC's analyst meet, the company elaborated its progress on reshaping the organization by reduction in domestic government business and increased focus on its international business. NITEC has also focused on improving its presence in Digital and IMS. Digital and IMS in FY16 accounted for ~15% and ~17% of its revenue respectively. However, there is some near-term weakness expected on account of client-specific issues. NITEC expects double-digit revenue growth in FY17. We maintain our Buy recommendation on NITEC on account of healthy FY17 revenue visibility.

Focusing on geographies paying off. Revenue growth was 13.1% YoY on a cc basis, international revenue grew by 17.1% for the same period. NITEC has increased its thrust on the US region, while appointing senior members for increasing thrust in Europe. This has reflected in the fact that 79% of deal wins in FY16 were from the US and Europe region, compared to 66% in FY15.

Digital and IMS – new waves for NITEC. NITEC has been focusing on the integration of legacy systems. Incessant Technologies, which specializes in Digital integration of enterprise BPM solutions, partnering with platform providers like Pegasystems, Appian, Akana and Adobe was acquired last year. Digital now constitutes ~15% of the revenue. The company secured several large deals in IMS in FY16, which now constitutes ~17% of its revenue. In IMS, it has been focusing on building an ecosystem to deliver cloud led agile infrastructure management services.

Healthy pipeline and investments to drive growth: Post the induction of Mr. Sudhir Chaturvedi, NIIT Tech has restructured its business and will focus on a four-point agenda to drive future growth. The four key points are: 1) scaling & growing US business 2) carved out IMS as a separate unit for large deal wins 3) continued focus on maintaining leadership position in Travel and Transportation vertical and 4) greater emphasis on digital services. We believe that the momentum remains intact for the company as it ramps up large deals won earlier. We expect sustained traction in new deal addition given the incremental focus on US geography, BFS/ Travel and Transportation verticals (on account of correction in oil prices) and IMS service offering.

2H looks promising compared to 1H. NITEC acquired 28 new clients in FY16. 4QFY16 was weak on revenue growth on account of ramp-down in top customer, some project closures and delays in the commencement of deals ramp-ups. This softness is expected to continue into 1QFY17. The management believes that it possible to achieve a double-digit revenue growth in FY17, translating to ~6% CQGR over 2Q-4QFY17, which we believe, is a tall claim. NITEC won deals with a TCV of US\$420mn for FY16, which was lower than that in FY15 (US\$425mn).

Moving in the right direction: The public sector and government spending is likely to witness increased spending with the strong focus of the current government with their Digital India program. NITEC's emphasis on the government business has come down, but there are projects that are being executed and also there are deals in the pipeline. Focus during the year was increased on collections from government contracts. In FY16, NITEC's DSO improved by 13 days to 80 in FY16. With improved operating cash flow generation and lower expected capital expenditure in, the company will generate higher FCF.

Outlook & Valuation: We expect NITEC's US\$ revenue to grow at a CAGR of 9.1% over FY16-18. With the margin levers already utilized last year, margin expansion will now depend on a revival in non-linear revenue growth. NIIT Tech is trading at 10.6/9.5x of FY17E/18E EPS with dividend yield of 2.1% and Cash/share of ₹69/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	23,050	23,724	26,824	28,683	31,797
Op. Expenses	19,534	20,268	22,091	23,582	26,114
EBITDA	3,516	3,456	4,733	5,101	5,683
Other Income	288	19	183	140	165
Depreciation	619	916	1,101	1,217	1,301
EBIT	3,185	2,559	3,815	4,025	4,548
Interest	-	-	-	-	-
PBT	3,185	2,559	3,815	4,025	4,548
Tax	803	541	831	885	1,046
PAT	2,382	2,018	2,984	3,139	3,502
Minority	(75)	(79)	(170)	(156)	(156)
Ex. Ordinary	-	800	-	-	-
Adj Pat	2,307	1,139	2,814	2,983	3,346

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	38.2	31.9	45.8	48.3	53.8
CEPS	48.5	47.0	63.8	68.0	74.7
BVPS	219.3	223.3	259.2	294.1	333.7
DPS	9.0	9.5	10.0	10.5	11.0
Payout (%)	27.6	34.9	25.5	25.4	23.9
Valuation (x)					
P/E	7.9	10.9	11.5	10.6	9.5
P/BV	1.5	1.6	2.0	1.7	1.5
EV/EBITDA	4.2	5.2	6.0	4.9	4.0
Dividend Yield (%)	2.8	2.7	2.2	2.1	2.1
Return ratio (%)					
EBIDTA Margin	15.3	14.6	17.6	17.8	17.9
PAT Margin	10.3	8.5	11.1	10.9	11.0
ROAE	18.0	14.9	18.8	17.3	16.9
ROACE	23.5	18.6	22.8	21.2	21.1
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.7	2.1	2.2	2.5	2.7
Growth Ratios (%)					
Income growth	14.0	2.9	13.1	6.9	10.9
EBITDA growth	6.7	(1.7)	37.0	7.8	11.4
PAT growth	9.0	(15.3)	47.9	5.2	11.5
Turnover Ratios					
F.A Turnover x	5.3	4.4	3.8	4.2	4.8
Debtors Days	81	90	89	92	90
Payable days	30	34	37	38	37

Balance Sheet (₹ mn)

Year End-March	FY14	FY15	FY16P	FY17E	FY18E
Sources of Funds					
Equity Share Capital	607	610	612	612	612
Reserves & Surplus	12,632	12,963	15,296	17,520	20,065
Total Shareholders Fund	13,239	13,573	15,908	18,132	20,677
Minority Interest	189	189	645	645	645
Non-current liabilities	139	1	206	231	272
Long term Borrowings	53	49	102	102	102
Deferred tax liabilities	(223)	(386)	(259)	(259)	(259)
Other LT liabilities & prov	310	339	363	388	429
Current Liabilities	4,224	5,618	5,983	6,391	7,080
Trade payables	1,636	2,157	2,352	2,515	2,788
Other cur liabilities & Prov	2,588	3,461	3,631	3,876	4,293
Total Liabilities	17,791	19,381	22,742	25,399	28,675
Assets					
Non-current Assets	6,375	7,530	9,401	9,256	9,274
Fixed assets	4,326	5,400	6,990	6,773	6,673
Non-current investments	1,494	1,382	1,382	1,382	1,382
Long-term loans & adv	444	619	882	943	1,045
Other non-current assets	111	129	147	157	174
Current assets	11,416	11,851	13,341	16,143	19,400
Current investments	551	554	554	554	554
Trade receivables	5,643	6,060	6,982	7,465	8,276
Inventories	52	85	110	118	131
Cash & bank balances	2,212	2,692	3,050	5,177	7,304
Short-term loans & adv	1,527	1,530	1,764	1,886	2,091
Other current assets	1,431	930	882	943	1,045
Total Assets	17,791	19,381	22,742	25,399	28,675

Cash flow Statement

Year End-March	FY14	FY15	FY16P	FY17E	FY18E
PBT	3,185	2,559	3,815	4,025	4,548
Depreciation	518	753	1,228	1,217	1,301
Others	(75)	(879)	(170)	(156)	(156)
CF before W.cap	3,628	2,433	4,873	5,085	5,692
Inc/dec in W.cap	1,433	(1,278)	1,024	314	519
Op CF after W.cap	2,196	3,711	3,850	4,772	5,173
Less Taxes	803	541	831	885	1,046
Net CF From Operations	1,393	3,170	3,019	3,886	4,127
Inc/(dec) in F.A + CWIP	1,516	1,990	2,691	1,000	1,200
(Pur)/sale of Investments	(7)	(109)	-	-	-
CF from Invst Activities	(1,509)	(1,881)	(2,691)	(1,000)	(1,200)
Loan Raised/(repaid)	9	(4)	510	-	-
Equity Raised	630	(126)	239	(0)	(0)
Dividend	639	679	718	759	801
CF from Fin Activities	(1)	(809)	30	(759)	(801)
Net inc/(dec) in cash	(117)	480	358	2,127	2,127
Op. bal of cash	2,329	2,212	2,692	3,050	5,177
Cl. balance of cash	2,212	2,692	3,050	5,177	7,304



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.co.in	+91-22-4084-5074
Institutional Sales				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.co.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.co.in	+91-22-4224-5197
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.co.in	+91-22-4224-5123
Nitin Dalvi	Dealer		nitin.dalvi@trustgroup.co.in	+91-22-4084-5089
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.co.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.co.in	+91-22-4224-5125
Naveen Trivedi	Analyst	Consumer Staple & Durable	naveen.trivedi@trustgroup.co.in	+91-22-4224-5181
Shashwat Nanda	Analyst	Rates & Credit Research	shashwat.nanda@trustgroup.co.in	+91-22-4224-5038
Tejas Sarvaiya	Analyst	Seeds, Exchanges & MidCap	tejas.sarvaiya@trustgroup.co.in	+91-22-4084-5064
Ritu Chaudhary	Associate	Consumer Durable	ritu.chaudhary@trustgroup.co.in	+91-22-4224-5183

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