



In partnership. With trust.

NIIT Technologies

1QFY17 Result Update

Weak margins, maintain faith, Re-iterate Buy

Sector: Technology

CMP: ₹ 470

Recommendation: Buy

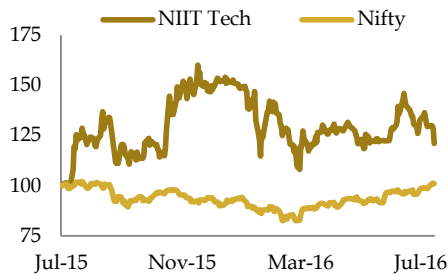
Market statistics

Current stock price (₹)	470
Shares O/S (cr.)	6.1
Mcap (₹ cr)	2,878
52W H/L (₹)	632/405
6m avg. volume	248,500
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	30.79
Domestic Institution	20.18
Foreign Institution	32.74
Non-institution	16.29
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	16.0	16.0
EPS (₹)	45.8	44.2	49.8
CEPS (₹)	63.8	63.6	70.5
P/E (x)	11.5	10.6	9.4
P/BV (x)	2.0	1.7	1.5
EV/EBITDA (x)	6.0	5.1	4.1
Income growth (%)	13.1	2.1	8.9
EBITDA growth (%)	37.0	(4.9)	13.8
PAT growth (%)	47.9	(4.0)	12.9

The revenues of NIIT Technologies (NITEC) decreased 0.9% QoQ to US\$100.8mn in Q1FY17 (Domestic business declined by 26.5% due to seasonality in GIS and lower revenues from Govt clients, International business grew 0.5% QoQ). The Company's operating margin decreased 313bps QoQ in the quarter on account of weak revenue trajectory, wage hikes and INR appreciation. The result was lower-than-expected on the revenue front. In 1Q, it signed deals worth US\$101mn, with 12-month executable order book at US\$307mn (up 2% QoQ). We believe, going forward, NITEC would be able to show a higher revenue growth compared to FY16 and higher margins on account of ramp up of recently won deals. We maintain our Buy recommendation on NITEC.

Healthy Order Book - up 2% QoQ: The Company's order book - executable over the next 12 months - was up 2% at US\$307mn. 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\$419mn (~1.4xQ1FY17 order book). During the Quarter, the company added 4 clients, 2 each in USA and EMEA. NIIT Tech had a fresh order intake of US\$101mn (US: US\$42mn, EMEA: US\$30mn and RoW: US\$29mn) this quarter (vs US\$120mn in the last quarter). NITEC management expects FY17 US\$ revenue growth to be high single-digit number.

Quarter details - International business: NIIT Tech reported a revenue decline of 0.9% QoQ (International business grew faster than Company average QoQ, there was a significant decline in the domestic business) to US\$100.8mn (Domestic business declined by 26.5% due to seasonality in GIS and lower revenues from Govt clients, International business grew 0.5% QoQ) and down 2.3% QoQ in INR terms to ₹6,692mn. EBITDA margins were down to 15.3% in the quarter on account of weak revenue trajectory, wage hikes and INR appreciation. Incessant provided much needed Digital (Experience) push to the revenue (overall: ~18% of revenue). NIIT Tech drives ~40% Digital Revenue from Digital Experience and ~50% of Digital revenue from Digital Integration (Incessant). Management sees strong cross selling opportunities for Digital Services to NIIT Tech clients.

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.

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.

Outlook & Valuation: NIIT Tech is trading at 10.6/9.4x of FY17E/18E EPS with dividend yield of 2.2% and Cash/share of ₹71/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

ANALYST

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Exhibit 1: Quarterly details

₹ mn	1QFY16	4QFY16	1QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	101	102	101	(0.9)	(0.4)	NITEC management expects a single mid-digit number revenue growth for FY17 in US\$ terms.
Revenues	6,411	6,847	6,692	(2.3)	4.4	
- Operating costs	5,368	5,586	5,669	1.5	5.6	
EBITDA	1,043	1,261	1,023	(18.9)	(1.9)	
EBITDA margin (%)	16.3	18.4	15.3	(313)bps	(98)bps	Margin decreased 313bps QoQ in the quarter on account of weak revenue trajectory, wage hike and INR appreciation
- Interest expense	-	-	-			
- Depreciation	276	287	291	1.4	5.4	
+ Other income, net (incl forex)	79	39	71	NA	NA	
PBT	846	1,013	803	(20.7)	(5.1)	
- Taxes	219	184	83	(54.9)	(62.1)	
Effective tax rate (%)	25.9	18.2	10.3	(783)bps	(1,555)bps	Effective tax rate for FY17 to be between 22-23% for FY17
PAT	627	829	720	(13.1)	14.8	
Minority interest	40	39	46	NA	NA	
Consolidated profits	587	790	674	(14.7)	14.8	
Net Margin	9.2	11.5	10.1	(147)bps	92bps	
Reported profits	587	790	313	(60.4)	(46.7)	₹361mn provision for Government business (all outstanding amount)

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	441	419	(5.0)	489	459	(6.1)
Revenue	28,683	27,400	(4.5)	31,797	29,827	(6.2)
EBITDA margin (%)	17.8	16.4	(115)bps	17.9	17.2	(65)bps
EPS (₹)	48.3	44.2	(8.5)	53.8	49.8	(7.4)

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
US	44.0	44.0	44.0	44.0	45.0	46.0	46.0	45.0	48.0
Europe	36.0	38.0	35.0	35.0	35.0	35.0	34.0	33.0	32.0
APAC	20.0	18.0	21.0	21.0	20.0	19.0	20.0	22.0	20.0
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	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
BFS	16.0	16.0	16.0	15.0	16.0	16.0	17.0	19.0	20.0
Insurance	18.0	17.0	17.0	18.0	20.0	21.0	21.0	21.0	22.0
Transportation	39.0	42.0	40.0	38.0	37.0	37.0	36.0	32.0	32.0
Manufacturing, Med and Other	27.0	25.0	27.0	29.0	27.0	26.0	26.0	28.0	26.0
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 454 QoQ to 9,022. The company has already indicated of a higher employee utilization going forward. NIIT Tech guided to 150-200 employees being added every quarter going ahead. Utilisation increased 80bps QoQ to 79.8%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Billable Personnel - onsite	1,834	1,786	1,781	1,785	1,885	1,845	1,874	1,902	1,901
Billable Personnel - offshore	5,774	5,815	5,606	6,037	6,662	7,008	6,901	6,841	6,374
Total billable employees	7,608	7,601	7,387	7,822	8,517	8,853	8,784	8,743	8,275
Sales and Marketing (Excl GIS)	140	140	134	137	139	144	136	127	132
Sales and Marketing (GIS)	46	51	52	65	65	68	63	72	72
Others	488	496	486	470	507	527	534	534	543
Total employees	8,282	8,288	8,059	8,494	9,228	9,592	9,517	9,476	9,022
Utilization (% , excl BPO)	78.0	78.6	78.8	79.0	79.5	79.7	78.7	79.0	79.8
Attrition Rate (% , excl BPO)	15.4	15.8	15.8	15.8	14.3	13.7	13.6	12.7	13.4

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$101mn (US: US\$42mn, EMEA: US\$30mn and RoW: US\$29mn) this quarter (vs US\$120mn in the last quarter). The Company's order book - executable over the next 12 months - was up 2% QoQ at US\$307mn.

Exhibit 6: Client details

Client concentration	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Top 5 clients (%)	34.0	34.0	34.0	34.0	35.0	32.0	33.0	31.0	32.0
Top 10 clients (%)	48.0	47.0	47.0	46.0	46.0	43.0	45.0	43.0	45.0
Top 20 clients (%)	64.0	62.0	62.0	61.0	63.0	59.0	60.0	58.0	58.0
US\$1m clients (Nos)	64	63	64	66	71	73	73	73	74

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
USA	3	4	2	2	6	2	-	2	2
EMEA	1	0	1	2	3	2	2	-	2
ROW	0	1	2	1	8	-	2	2	-
Total	4	5	5	5	17	4	4	4	4

Source: Company

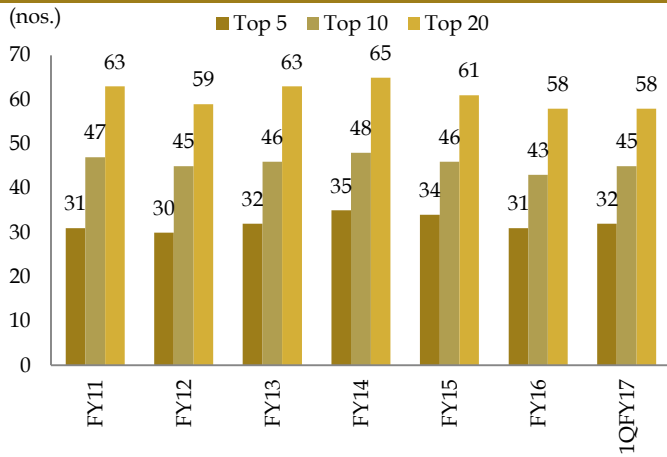
Exhibit 8: Fresh Order Intake

US\$mn	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
USA	34	46	61	39	43	29	50	30	42
EMEA	27	21	25	29	31	34	55	61	30
ROW	63	36	23	21	23	17	18	28	29
Total	124	103	109	89	97	80	123	120	101

Source: Company

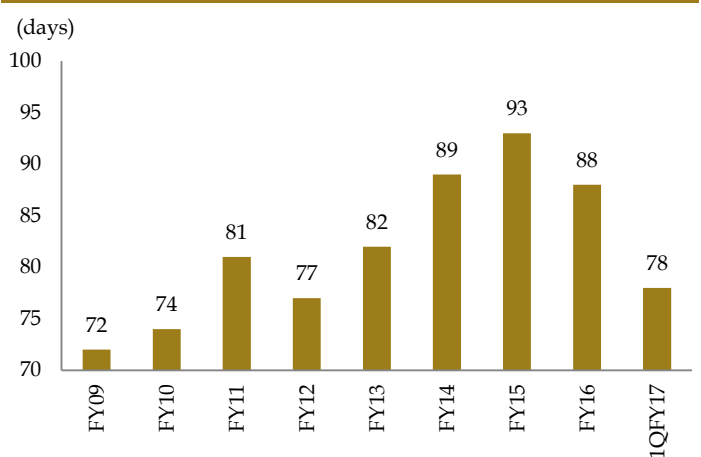


Exhibit 9: Top clients did not do well this quarter



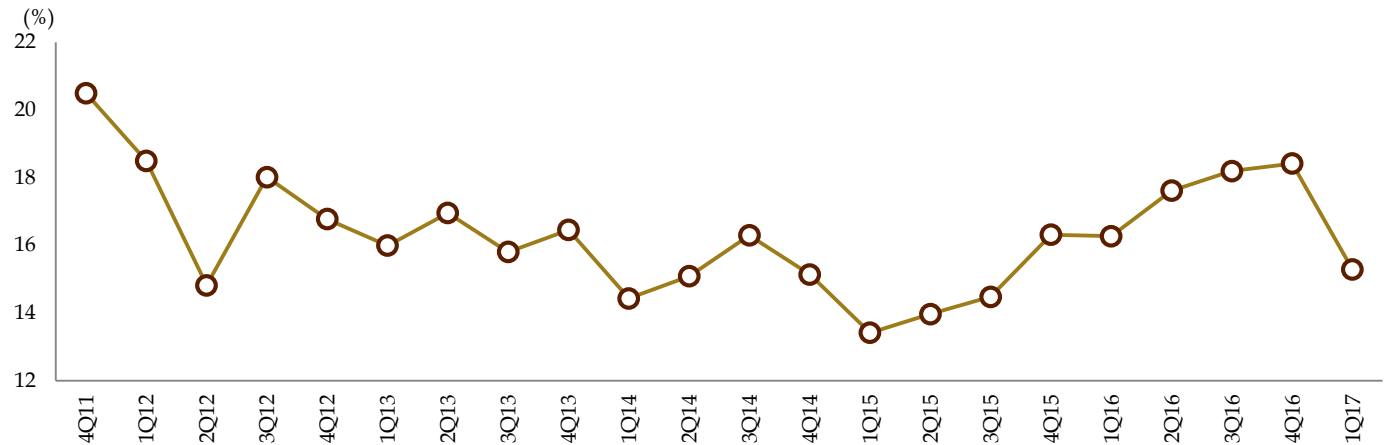
Source: Company, Trust

Exhibit 10: DSO decreased by 2 QoQ



Source: Company, Trust

Exhibit 11: NITEC's margin was lower on account of weak revenue trajectory, INR appreciation and wage hikes



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	23,050	23,724	26,824	27,400	29,827
Op. Expenses	19,534	20,268	22,091	22,900	24,706
EBITDA	3,516	3,456	4,733	4,500	5,121
Other Income	288	19	183	221	365
Depreciation	619	916	1,101	1,203	1,287
EBIT	3,185	2,559	3,815	3,517	4,198
Interest	-	-	-	-	-
PBT	3,185	2,559	3,815	3,517	4,198
Tax	803	541	831	653	966
PAT	2,382	2,018	2,984	2,864	3,233
Minority	(75)	(79)	(170)	(136)	(136)
Ex. Ordinary	-	800	13	361	-
Adj Pat	2,307	1,139	2,801	2,367	3,097

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	38.2	31.9	45.8	44.2	49.8
CEPS	48.5	47.0	63.8	63.6	70.5
BVPS	219.3	223.3	259.2	282.7	312.6
DPS	9.0	9.5	10.0	10.5	11.0
Payout (%)	27.6	34.9	25.5	27.8	25.9
Valuation (x)					
P/E	7.9	10.9	11.5	10.6	9.4
P/BV	1.5	1.6	2.0	1.7	1.5
EV/EBITDA	4.2	5.2	6.0	5.1	4.1
Dividend Yield (%)	2.8	2.7	2.2	2.2	2.3
Return ratio (%)					
EBIDTA Margin	15.3	14.6	17.6	16.4	17.2
PAT Margin	10.3	8.5	11.1	10.5	10.8
ROAE	18.0	14.9	18.8	16.0	16.0
ROACE	23.5	18.6	22.8	18.8	20.0
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	2.8
Growth Ratios (%)					
Income growth	14.0	2.9	13.1	2.1	8.9
EBITDA growth	6.7	(1.7)	37.0	(4.9)	13.8
PAT growth	9.0	(15.3)	47.9	(4.0)	12.9
Turnover Ratios					
F.A Turnover x	5.3	4.4	3.8	4.0	4.5
Debtors Days	81	90	89	94	91
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	16,904	19,200
Total Shareholders Fund	13,239	13,573	15,908	17,516	19,812
Minority Interest	189	189	645	691	691
Non-current liabilities	139	1	206	104	134
Long term Borrowings	53	49	102	102	102
Deferred tax liabilities	(223)	(386)	(259)	(374)	(374)
Other LT liabilities & prov	310	339	363	376	406
Current Liabilities	4,224	5,618	5,983	6,167	6,676
Trade payables	1,636	2,157	2,352	2,402	2,615
Other cur liabilities & Prov	2,588	3,461	3,631	3,764	4,061
Total Liabilities	17,791	19,381	22,742	24,478	27,314
Assets					
Non-current Assets	6,375	7,530	9,401	9,206	9,211
Fixed assets	4,326	5,400	6,990	6,773	6,685
Non-current investments	1,494	1,382	1,382	1,382	1,382
Long-term loans & adv	444	619	882	901	981
Other non-current assets	111	129	147	150	163
Current assets	11,416	11,851	13,341	15,273	18,102
Current investments	551	554	554	554	554
Trade receivables	5,643	6,060	6,982	7,132	7,763
Inventories	52	85	110	113	123
Cash & bank balances	2,212	2,692	3,050	4,773	6,721
Short-term loans & adv	1,527	1,530	1,764	1,802	1,961
Other current assets	1,431	930	882	901	981
Total Assets	17,791	19,381	22,742	24,478	27,314

Cash flow Statement

Year End-March	FY14	FY15	FY16P	FY17E	FY18E
PBT	3,185	2,559	3,815	3,517	4,198
Depreciation	518	753	1,228	1,088	1,287
Others	(75)	(879)	(183)	(497)	(136)
CF before W.cap	3,628	2,433	4,860	4,109	5,350
Inc/dec in W.cap	1,433	(1,278)	1,024	34	435
Op CF after W.cap	2,196	3,711	3,837	4,074	4,915
Less Taxes	803	541	831	653	966
Net CF From Operations	1,393	3,170	3,006	3,421	3,949
Inc/(dec) in F.A + CWIP	1,516	1,990	2,691	986	1,200
(Pur)/sale of Investments	(7)	(109)	-	-	-
CF from Invst Activities	(1,509)	(1,881)	(2,691)	(986)	(1,200)
Loan Raised/(repaid)	9	(4)	510	46	-
Equity Raised	630	(126)	239	(0)	(0)
Dividend	639	679	718	759	801
CF from Fin Activities	(1)	(809)	30	(713)	(801)
Net inc/(dec) in cash	(117)	480	358	1,722	1,949
Op. bal of cash	2,329	2,212	2,692	3,050	4,773
Cl. balance of cash	2,212	2,692	3,050	4,773	6,721



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