



# NIIT Technologies

## 4QFY16 Result Update

Margin beat positive, Re-iterate Buy

Sector: Technology

CMP: ₹ 488

Recommendation: Buy

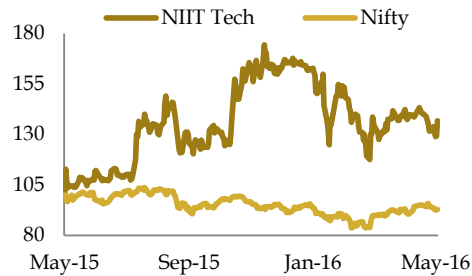
### Market statistics

Current stock price (₹)	488
Shares O/S (cr.)	6.1
Mcap (₹ cr)	2,983
52W H/L (₹)	632/365
6m avg. volume	262,976
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	10.0	9.0
P/BV (x)	2.0	1.6	1.5
EV/EBITDA (x)	6.0	4.6	3.7
Income growth (%)	13.1	6.9	10.9
EBITDA growth (%)	37.0	7.8	11.4
PAT growth (%)	47.9	5.2	11.5

The revenues of NIIT Technologies (NITEC) decreased 1.6% QoQ to US\$101.7mn in Q4FY16 (revenue flat QoQ in cc terms). The Company's operating margin increased 22bps QoQ in the quarter on account of lower SG&A, higher FPP and INR depreciation. The result was higher-than-expected on the revenue front. In 4Q, it signed deals worth US\$120mn, with 12-month executable order book at US\$301mn (flat 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 - though being flattish QoQ:** The Company's order book - executable over the next 12 months - was flat at US\$301mn. 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\$441mn (~1.5xQ4FY16 order book). During the Quarter, the company added 4 clients, 2 each in USA and RoW. NIIT Tech had a fresh order intake of US\$120mn (US: US\$30mn, EMEA: US\$61mn and RoW: US\$28mn) this quarter (vs US\$123mn in the last quarter). NITEC won GBP23mn deal from Ofcom (UK-based Insurance company) as well a large deal was won in US. Revenue from both these deals will start ramping up from Q1FY17. Q1FY17 is expected to be soft on account of seasonal weakness, but NITEC management expects 6-7% CQGR growth for Q2-Q4FY17, which would translate to a double digit US\$ growth for FY17.

**Incessant drives the quarter:** NIIT Tech reported a revenue decline of 1.6% QoQ (International business grew faster than Company average QoQ) to US\$101.7mn (flat QoQ in cc terms), and up 0.9% QoQ in INR terms to ₹6,847mn. EBITDA margins were up at 18.4% quarter on account of lower SG&A, higher FPP and INR depreciation. Incessant provided much needed Digital (Experience) push to the revenue (overall: ~15% 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.

**Higher margins in 4Q augur well for NIIT Tech in FY17.** We expect the company to report EBITDA margin expansion of 20bps in FY17, despite expectations of lower hedging gains. Margin expansion in FY17 is likely to be driven by: a) Higher share of revenues from the international business (higher margin), b) Lower pass through of revenues, c) Smaller provisions for some of the domestic contracts that the company undertook in FY15 (~2-4% of revenues)

**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 10/9x of FY17E/18E EPS with dividend yield of 2.2% and Cash/share of ₹69/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

ANALYST

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## Exhibit 1: Quarterly details

₹ mn	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	98	103	102	(1.6)	3.7	Q1FY17 is expected to be soft on account of seasonal weakness, but NITEC management expects 6-7% CQGR growth for Q2-Q4FY17, which would translate to a double digit US\$ growth for FY17.
<b>Revenues</b>	<b>6,112</b>	<b>6,787</b>	<b>6,847</b>	<b>0.9</b>	<b>12.0</b>	
- Operating costs	5,115	5,552	5,586	0.6	9.2	
<b>EBITDA</b>	<b>997</b>	<b>1,235</b>	<b>1,261</b>	<b>2.1</b>	<b>26.5</b>	
<b>EBITDA margin (%)</b>	<b>16.3</b>	<b>18.2</b>	<b>18.4</b>	<b>22bps</b>	<b>210bps</b>	Margin increased 22bps QoQ in the quarter on account of lower SG&A, higher FPPand INR depreciation
- Interest expense	-	-	-			
- Depreciation	242	273	287	5.1	18.6	
+ Other income, net (incl forex)	(66)	52	39	NA	NA	
<b>PBT</b>	<b>689</b>	<b>1,014</b>	<b>1,013</b>	<b>(0.1)</b>	<b>47.0</b>	
- Taxes	47	212	184	(13.2)	291.5	
Effective tax rate (%)	6.8	20.9	18.2	(274)bps	1,134bps	Effective tax rate for FY16 to be between 22-23% for FY17
<b>PAT</b>	<b>642</b>	<b>802</b>	<b>829</b>	<b>3.4</b>	<b>29.1</b>	
Minority interest	18	48	39	NA	NA	
<b>Consolidated profits</b>	<b>624</b>	<b>754</b>	<b>790</b>	<b>4.8</b>	<b>26.6</b>	
Net Margin	10.2	11.1	11.5	43bps	133bps	
<b>Reported profits</b>	<b>(176)</b>	<b>741</b>	<b>790</b>	<b>6.6</b>	<b>NA</b>	

Source: Company

## Exhibit 2: Change in estimates

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	450	441	(2.0)	497	489	(1.6)
Revenue	28,773	28,683	(0.3)	31,861	31,797	(0.2)
EBITDA margin (%)	17.9	17.8	(5)bps	18.0	17.9	(5)bps
EPS (₹)	48.5	48.3	(0.4)	54.1	53.8	(0.6)

Source: Trust Research

## Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
US	45.0	44.0	44.0	44.0	44.0	45.0	46.0	46.0	45.0
Europe	38.0	36.0	38.0	35.0	35.0	35.0	35.0	34.0	33.0
APAC	17.0	20.0	18.0	21.0	21.0	20.0	19.0	20.0	22.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

## Exhibit 4: Vertical segmentation

Vertical Mix	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
BFS	17.0	16.0	16.0	16.0	15.0	16.0	16.0	17.0	19.0
Insurance	18.0	18.0	17.0	17.0	18.0	20.0	21.0	21.0	21.0
Transportation	37.0	39.0	42.0	40.0	38.0	37.0	37.0	36.0	32.0
Manufacturing	7.0	7.0	7.0	7.0	8.0	6.0	8.0	9.0	8.0
Government	5.0	6.0	3.0	5.0	6.0	5.0	3.0	3.0	4.0
Others	16.0	14.0	15.0	15.0	15.0	16.0	15.0	14.0	16.0
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Human Resources:** Headcount decreased by 41 QoQ to 9,476. 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 30bps QoQ to 79%, would be used as a margin lever as guided by the management.

#### Exhibit 5: Employee strength at NITEC

Employee details	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Billable Personnel - onsite	1,844	1,834	1,786	1,781	1,785	1,885	1,845	1,874	1,902
Billable Personnel - offshore	5,787	5,774	5,815	5,606	6,037	6,662	7,008	6,901	6,841
<b>Total billable employees</b>	<b>7,631</b>	<b>7,608</b>	<b>7,601</b>	<b>7,387</b>	<b>7,822</b>	<b>8,517</b>	<b>8,853</b>	<b>8,784</b>	<b>8,743</b>
Sales and Marketing (Excl GIS)	143	140	140	134	137	139	144	136	127
Sales and Marketing (GIS)	49	46	51	52	65	65	68	63	72
Others	467	488	496	486	470	507	527	534	534
<b>Total employees</b>	<b>8,290</b>	<b>8,282</b>	<b>8,288</b>	<b>8,059</b>	<b>8,494</b>	<b>9,228</b>	<b>9,592</b>	<b>9,517</b>	<b>9,476</b>
Utilization (% , excl BPO)	77.3	78.0	78.6	78.8	79.0	79.5	79.7	78.7	79.0
Attrition Rate (% , excl BPO)	14.4	15.4	15.8	15.8	15.8	14.3	13.7	13.6	12.7

Source: Company, Trust Research

**Client Concentration and order intake:** NIIT Tech had a fresh order intake of US\$120mn (US: US\$30mn, EMEA: US\$61mn and RoW: US\$28mn) this quarter (vs US\$123mn in the last quarter). The Company's order book - executable over the next 12 months - was flat QoQ at US\$301mn.

#### Exhibit 6: Client details

Client concentration	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Top 5 clients (%)	35.0	34.0	34.0	34.0	34.0	35.0	32.0	33.0	31.0
Top 10 clients (%)	49.0	48.0	47.0	47.0	46.0	46.0	43.0	45.0	43.0
Top 20 clients (%)	63.0	64.0	62.0	62.0	61.0	63.0	59.0	60.0	58.0
US\$1m clients (Nos)	66	64	63	64	66	71	73	73	73

Source: Company

#### Exhibit 7: Significant new customers

Order Analysis	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
USA	1	3	4	2	2	6	2	-	2
EMEA	1	1	0	1	2	3	2	2	-
ROW	2	0	1	2	1	8	-	2	2
<b>Total</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>17</b>	<b>4</b>	<b>4</b>	<b>4</b>

Source: Company

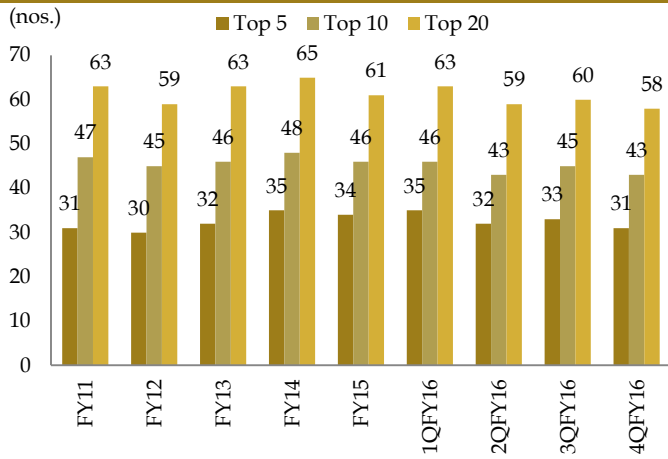
#### Exhibit 8: Fresh Order Intake

US\$m	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
USA	89	34	46	61	39	43	29	50	30
EMEA	30	27	21	25	29	31	34	55	61
ROW	25	63	36	23	21	23	17	18	28
<b>Total</b>	<b>144</b>	<b>124</b>	<b>103</b>	<b>109</b>	<b>89</b>	<b>97</b>	<b>80</b>	<b>123</b>	<b>120</b>

Source: Company

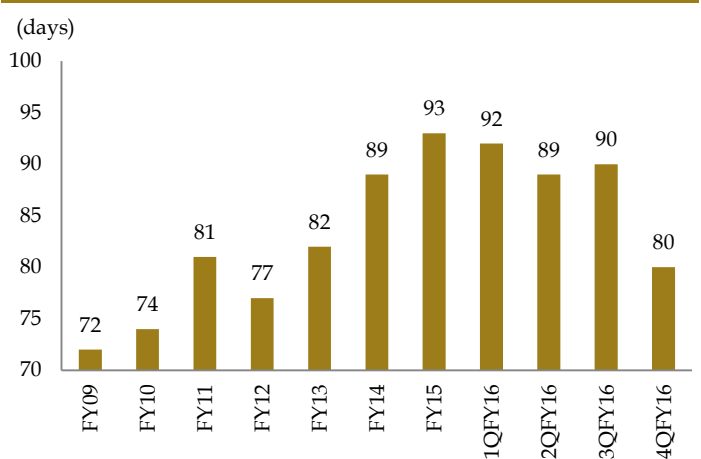


Exhibit 9: Top clients did not do well this quarter



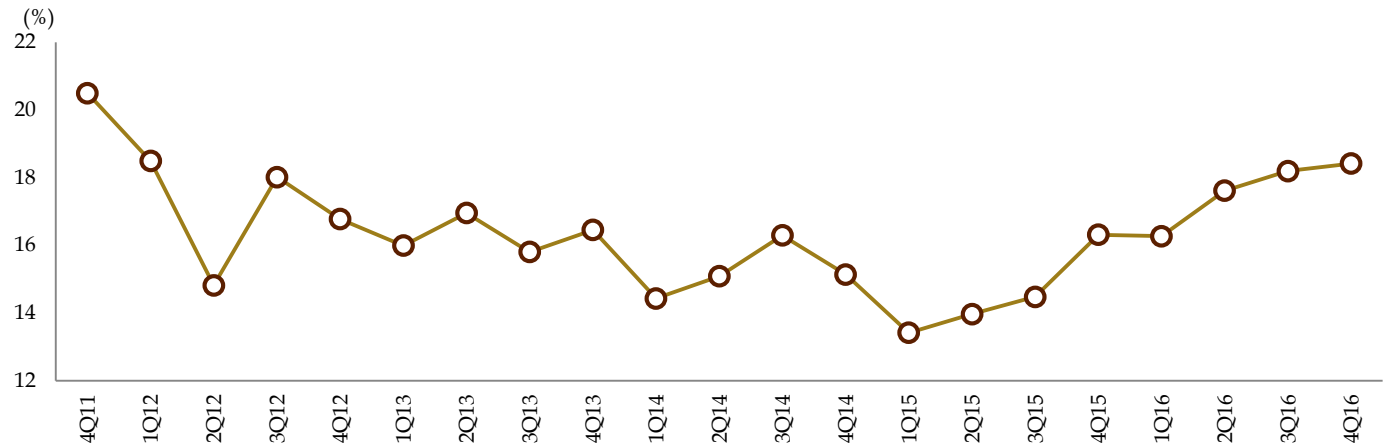
Source: Company, Trust

Exhibit 10: DSO decreased by 10 QoQ



Source: Company, Trust

Exhibit 11: NITEC's margin was higher on lower SG&A, INR depreciation and higher international business



Source: Company, Trust

## Financials

### Income Statement (₹ mn)

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

### Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
<b>Per share (₹)</b>					
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
<b>Valuation (x)</b>					
P/E	7.9	10.9	11.5	10.0	9.0
P/BV	1.5	1.6	2.0	1.6	1.5
EV/EBITDA	4.2	5.2	6.0	4.6	3.7
Dividend Yield (%)	2.8	2.7	2.2	2.2	2.3
<b>Return ratio (%)</b>					
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
<b>Leverage Ratios (x)</b>					
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
<b>Growth Ratios (%)</b>					
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
<b>Turnover Ratios</b>					
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
<b>Sources of Funds</b>					
Equity Share Capital	607	610	612	612	612
Reserves & Surplus	12,632	12,963	15,296	17,520	20,065
<b>Total Shareholders Fund</b>	<b>13,239</b>	<b>13,573</b>	<b>15,908</b>	<b>18,132</b>	<b>20,677</b>
<b>Minority Interest</b>	<b>189</b>	<b>189</b>	<b>645</b>	<b>645</b>	<b>645</b>
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
<b>Current Liabilities</b>	<b>4,224</b>	<b>5,618</b>	<b>5,983</b>	<b>6,391</b>	<b>7,080</b>
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
<b>Total Liabilities</b>	<b>17,791</b>	<b>19,381</b>	<b>22,742</b>	<b>25,399</b>	<b>28,675</b>
<b>Assets</b>					
<b>Non-current Assets</b>	<b>6,375</b>	<b>7,530</b>	<b>9,401</b>	<b>9,256</b>	<b>9,274</b>
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
<b>Current assets</b>	<b>11,416</b>	<b>11,851</b>	<b>13,341</b>	<b>16,143</b>	<b>19,400</b>
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
<b>Total Assets</b>	<b>17,791</b>	<b>19,381</b>	<b>22,742</b>	<b>25,399</b>	<b>28,675</b>

### 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)
<b>CF before W.cap</b>	<b>3,628</b>	<b>2,433</b>	<b>4,873</b>	<b>5,085</b>	<b>5,692</b>
Inc/dec in W.cap	1,433	(1,278)	1,024	314	519
<b>Op CF after W.cap</b>	<b>2,196</b>	<b>3,711</b>	<b>3,850</b>	<b>4,772</b>	<b>5,173</b>
Less Taxes	803	541	831	885	1,046
<b>Net CF From Operations</b>	<b>1,393</b>	<b>3,170</b>	<b>3,019</b>	<b>3,886</b>	<b>4,127</b>
Inc/(dec) in F.A + CWIP	1,516	1,990	2,691	1,000	1,200
(Pur)/sale of Investments	(7)	(109)	-	-	-
<b>CF from Invst Activities</b>	<b>(1,509)</b>	<b>(1,881)</b>	<b>(2,691)</b>	<b>(1,000)</b>	<b>(1,200)</b>
Loan Raised/(repaid)	9	(4)	510	-	-
Equity Raised	630	(126)	239	(0)	(0)
Dividend	639	679	718	759	801
<b>CF from Fin Activities</b>	<b>(1)</b>	<b>(809)</b>	<b>30</b>	<b>(759)</b>	<b>(801)</b>
<b>Net inc/(dec) in cash</b>	<b>(117)</b>	<b>480</b>	<b>358</b>	<b>2,127</b>	<b>2,127</b>
Op. bal of cash	2,329	2,212	2,692	3,050	5,177
<b>Cl. balance of cash</b>	<b>2,212</b>	<b>2,692</b>	<b>3,050</b>	<b>5,177</b>	<b>7,304</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
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Vivek Kumar	Sales		vivek.kumar@trustgroup.co.in	+91-22-4224-5197
<b>Sales Trading &amp; Dealing</b>				
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Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Research Team</b>				
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