NIIT Technologies

3QFY17 Result Update

Robust revenue visibility, Margin expansion story intact

Sector: Technology

CMP: ` 416

Recommendation: Buy

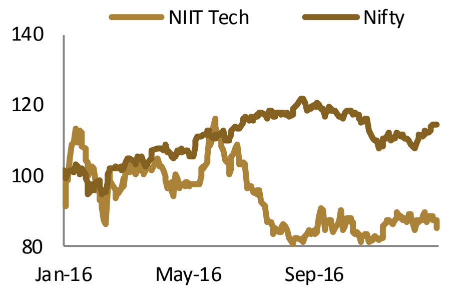
Market statistics

Current stock price (`)	416
Shares O/S (cr.)	6.1
Mcap (` cr)	2,555
52W H/L (`)	587/370
6m avg. volume	291,401
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	30.72
Domestic Institution	22.63
Foreign Institution	28.88
Non-institution	17.77
of which more than 1%	
HDFC Trustee Company A/C HDFC Mid Cap Opportunities Fund	*6.30*
DSP Blackrock Micro Cap Fund	*3.45*

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	18.8	15.7	15.7
EPS (`)	45.8	40.9	45.8
CEPS (`)	63.8	61.8	68.2
P/E (x)	11.5	10.2	9.1
P/BV (x)	2.0	1.5	1.4
EV/EBITDA (x)	6.0	4.5	3.8
Income growth (%)	13.1	3.1	7.5
EBITDA growth (%)	37.0	(4.6)	11.7
PAT growth (%)	47.9	(8.7)	11.6

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The revenues of NIIT Technologies (NITEC) decreased 0.5% QoQ, up 0.6% in cc terms to US$102.9mn in Q3FY17. The Company's operating margin increased 22bps QoQ in the quarter on account of INR depreciation, increased offshoring and lower wage costs QoQ. PAT was in-line on account of higher Other income. In 3Q, it signed deals worth US$101mn, with 12-month executable order book at US$311mn (up 0.6% 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 0.6% QoQ: The Company's order book – executable over the next 12 months – was up 0.6% at US$311mn. 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$439mn (~1.4xQ3FY17 order book). During the Quarter, the company added 3 clients, 1 each in USA, EMEA and RoW. NIIT Tech had a fresh order intake of US$101mn (US: US$38mn, EMEA: US$51mn and RoW: US$12mn) this quarter (vs US$143mn in the last quarter).

Quarter details: NIIT Tech reported a revenue decline of 0.5% QoQ, up 0.6% in cc terms to US$102.9mn (growth in top Insurance accounts, decline in BFS, increase in revenues in Manufacturing & Media accounts, Ramp down in large Travel & Transportation account in US and Growth in top accounts in EMEA). Digital revenues stood at 19% of revenue mix. Decline in ADM revenues was primarily on account of lower revenues in Travel & Transportation. The Company's operating margin increased 22bps QoQ in the quarter on account of INR depreciation, increased offshoring and lower wage costs QoQ. Incessant provided much needed Digital (Experience) push to the revenue (overall: ~19% 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. BFS was down 5.7% QoQ, Insurance was up 3.8% QoQ. Transport was down 3.5% while Manufacturing, Media & Others was up 3.5%. This quarter saw a major Travel account ramp down which affected revenue growth. However, Q4 will see better growth rate in terms of QoQ revenue and better margins compared to Q3.

Healthy pipeline and investments to drive growth: 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 10.2/9.1x of FY17E/18E EPS with dividend yield of 2.5% and Cash/share of `92/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

Exhibit 1: Quarterly details

` mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US$ mn)	**103**	**103**	**103**	**(0.5)**	**(0.5)**	Revenue increased 0.6% in cc terms.
Revenues	**6,787**	**6,929**	**6,938**	**0.1**	**2.2**	
- Operating costs	5,552	5,784	5,776	(0.1)	4.0	
EBITDA	**1,235**	**1,145**	**1,162**	**1.5**	**(5.9)**	
EBITDA margin (%)	**18.2**	**16.5**	**16.7**	**22bps**	**(145)bps**	Margin increased on account of INR depreciation, lower wage cost QoQ and higher offshorisation.
- Interest expense	-	-	-	-	-	
- Depreciation	273	317	321	1.3	17.6	
+ Other income, net (incl forex)	52	29	59	NA	NA	
PBT	**1,014**	**857**	**900**	**5.0**	**(11.2)**	
- Taxes	212	213	228	7.0	7.5	
Effective tax rate (%)	20.9	24.9	25.3	48bps	443bps	Effective tax rate for FY17 to be between ~21-22%
PAT	**802**	**644**	**672**	**4.3**	**(16.2)**	
Minority interest	48	54	48	NA	NA	
Consolidated profits	**754**	**590**	**624**	**5.8**	**(17.2)**	
Net Margin	11.1	8.5	9.0	48bps	(212)bps	
Reported profits	**741**	**590**	**624**	**5.8**	**(15.8)**	

Source: Company

Exhibit 2: Change in estimates

` mn	FY17E			FY18E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US$ mn)	419	413	(1.4)	464	451	(2.8)
Revenue	27,566	27,663	0.4	30,151	29,747	(1.3)
EBITDA margin (%)	16.4	16.3	(10)bps	17.1	17.0	(10)bps
EPS (`)	41.9	40.9	(2.4)	47.8	45.8	(4.2)

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
US	44.0	44.0	45.0	46.0	46.0	45.0	48.0	49.0	48.0
Europe	35.0	35.0	35.0	35.0	34.0	33.0	32.0	34.0	34.0
APAC	21.0	21.0	20.0	19.0	20.0	22.0	20.0	17.0	18.0
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	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
BFS	16.0	15.0	16.0	16.0	17.0	19.0	20.0	19.0	18.0
Insurance	17.0	18.0	20.0	21.0	21.0	21.0	22.0	23.0	24.0
Transportation	40.0	38.0	37.0	37.0	36.0	32.0	32.0	33.0	32.0
Manufacturing, Med and Other	27.0	29.0	27.0	26.0	26.0	28.0	26.0	25.0	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 59 QoQ to 8,809. 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 decreased 100bps QoQ to 80%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Billable Personnel - onsite	1,781	1,785	1,885	1,845	1,874	1,902	1,901	1,906	1,857
Billable Personnel - offshore	5,606	6,037	6,662	7,008	6,901	6,841	6,374	6,203	6,180
Total billable employees	**7,387**	**7,822**	**8,517**	**8,853**	**8,784**	**8,743**	**8,275**	**8,109**	**8,037**
Sales and Marketing (Excl GIS)	134	137	139	144	136	127	132	141	139
Sales and Marketing (GIS)	52	65	65	68	63	72	72	76	82
Others	486	470	507	527	534	534	543	542	551
Total employees	**8,059**	**8,494**	**9,228**	**9,592**	**9,517**	**9,476**	**9,022**	**8,868**	**8,809**
Utilization (%, excl BPO)	78.8	79.0	79.5	79.7	78.7	79.0	79.8	81.0	80.0
Attrition Rate (%, excl BPO)	15.8	15.8	14.3	13.7	13.6	12.7	13.4	12.9	12.6

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US$101mn (US: US$38mn, EMEA: US$51mn and RoW: US$12mn) this quarter (vs US$143mn in the last quarter). The Company's order book – executable over the next 12 months – was up 0.6% QoQ at US$311mn.

Exhibit 6: Client details

Client concentration	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Top 5 clients (%)	34.0	34.0	35.0	32.0	33.0	31.0	32.0	32.0	33.0
Top 10 clients (%)	47.0	46.0	46.0	43.0	45.0	43.0	45.0	46.0	44.0
Top 20 clients (%)	62.0	61.0	63.0	59.0	60.0	58.0	58.0	61.0	59.0
US$1m clients (Nos)	64	66	71	73	73	73	74	74	73

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
USA	2	2	6	2	-	2	2	1	1
EMEA	1	2	3	2	2	-	2	2	1
ROW	2	1	8	-	2	2	-	-	1
Total	**5**	**5**	**17**	**4**	**4**	**4**	**4**	**3**	**3**

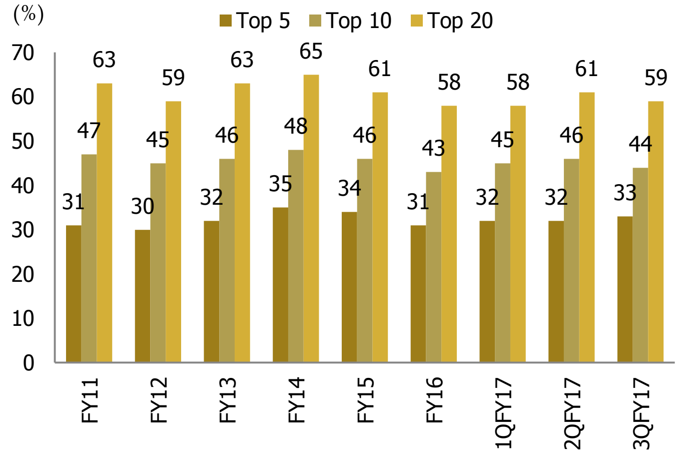
Source: Company

Exhibit 8: Fresh Order Intake

US$mn	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
USA	61	39	43	29	50	30	42	85	38
EMEA	25	29	31	34	55	61	30	45	51
ROW	23	21	23	17	18	28	29	13	12
Total	**109**	**89**	**97**	**80**	**123**	**120**	**101**	**143**	**101**

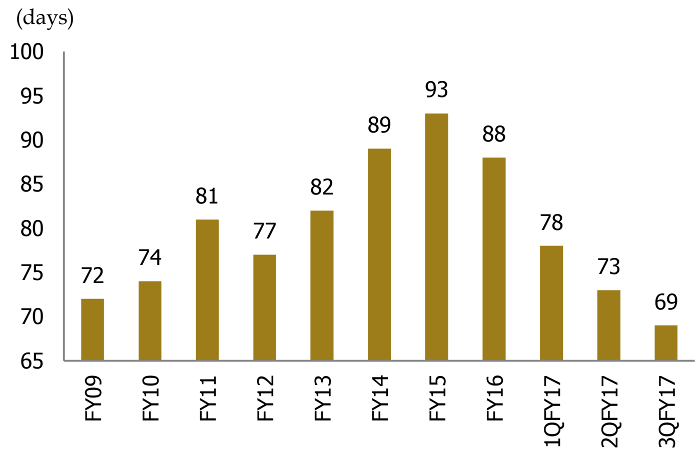
Source: Company

Exhibit 9: Top 5 clients did well this quarter



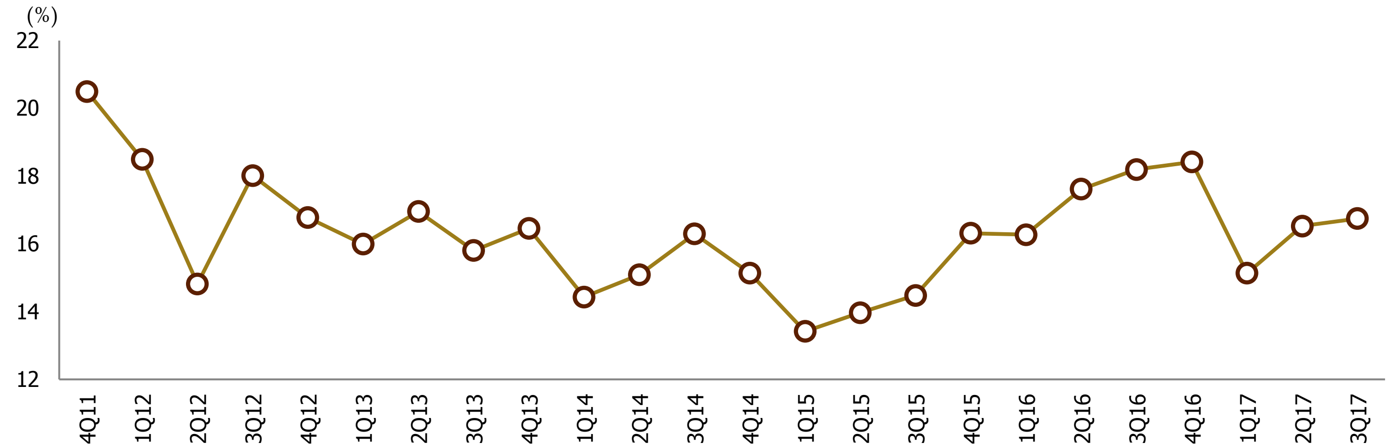
Source: Company, Trust

Exhibit 10: DSO decreased by 4 QoQ – lowest levels in years



Source: Company, Trust

Exhibit 11: NITEC's margin was higher on account of INR depreciation, lower wage costs QoQ and higher offshorisation



Source: Company, Trust

Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Revenues	**23,724**	**26,824**	**27,663**	**29,747**	**33,022**
Op. Expenses	20,268	22,091	23,148	24,704	27,314
EBITDA	**3,456**	**4,733**	**4,515**	**5,043**	**5,707**
Other Income	19	183	221	250	365
Depreciation	916	1,101	1,290	1,395	1,531
EBIT	**2,559**	**3,815**	**3,446**	**3,898**	**4,542**
Interest	-	-	-	-	-
PBT	**2,559**	**3,815**	**3,446**	**3,898**	**4,542**
Tax	541	831	723	858	1,045
PAT	**2,018**	**2,984**	**2,724**	**3,041**	**3,497**
Minority	(79)	(170)	(196)	(192)	(192)
Ex. Ordinary	800	13	361	-	-
Adj Pat	**1,139**	**2,801**	**2,167**	**2,849**	**3,305**

Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Per share (`)					
EPS	31.9	45.8	40.9	45.8	52.8
CEPS	47.0	63.8	61.8	68.2	77.2
BVPS	223.3	259.2	275.3	306.4	343.2
DPS	9.5	10.0	10.5	11.5	12.5
Payout (%)	34.9	25.5	30.0	29.4	27.7
Valuation (x)					
P/E	10.9	11.5	10.2	9.1	7.9
P/BV	1.6	2.0	1.5	1.4	1.2
EV/EBITDA	5.2	6.0	4.5	3.8	2.9
Dividend Yield (%)	2.7	2.2	2.5	2.8	3.0
Return ratio (%)					
EBIDTA Margin	14.6	17.6	16.3	17.0	17.3
PAT Margin	8.5	11.1	9.8	10.2	10.6
ROAE	14.9	18.8	15.7	15.7	16.1
ROACE	18.6	22.8	17.6	18.0	18.8
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.1	2.2	2.7	3.0	3.1
Growth Ratios (%)					
Income growth	2.9	13.1	3.1	7.5	11.0
EBITDA growth	(1.7)	37.0	(4.6)	11.7	13.2
PAT growth	(15.3)	47.9	(8.7)	11.6	15.0
Turnover Ratios					
F.A Turnover x	4.4	3.8	4.4	4.6	5.0
Debtors Days	90	81	79	77	76
Payable days	34	31	29	31	30

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Sources of Funds					
Equity Share Capital	610	612	614	614	614
Reserves & Surplus	12,963	15,296	16,703	18,714	21,104
Total Shareholders Fund	**13,573**	**15,907**	**17,317**	**19,328**	**21,718**
Minority Interest	**189**	**645**	**1,177**	**1,177**	**1,177**
Non- current liabilities	1	653	1,052	1,111	1,211
Long term Borrowings	49	64	64	64	64
Deferred tax liabilities	(386)	(259)	100	100	100
Other LT liabilities & prov	339	848	888	948	1,048
Current Liabilities	**5,618**	**5,027**	**5,598**	**5,909**	**6,633**
Trade payables	2,157	1,654	2,046	2,119	2,443
Other cur liabilities & Prov	3,461	3,373	3,551	3,790	4,191
Total Liabilities	**19,381**	**22,233**	**25,143**	**27,526**	**30,739**
Assets					
Non- current Assets	**7,530**	**9,458**	**9,793**	**9,979**	**10,274**
Fixed assets	5,400	5,959	6,319	6,425	6,594
Non-current investments	1,382	2,413	2,413	2,413	2,413
Long-term loans & adv	619	916	909	978	1,086
Other non-current assets	129	170	152	163	181
Current assets	**11,851**	**12,774**	**15,350**	**17,547**	**20,466**
Current investments	554	740	740	740	740
Trade receivables	6,060	5,901	6,063	6,520	7,238
Inventories	85	3	76	81	90
Cash & bank balances	2,692	3,362	5,515	7,027	8,869
Short-term loans & adv	1,530	1,805	1,895	2,037	2,262
Other current assets	930	965	1,061	1,141	1,267
Total Assets	**19,381**	**22,233**	**25,143**	**27,526**	**30,739**

Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	2,559	3,815	3,446	3,898	4,542
Depreciation	753	1,229	1,648	1,395	1,531
Others	(879)	(183)	(557)	(192)	(192)
CF before W.cap	**2,433**	**4,861**	**4,538**	**5,101**	**5,880**
Inc/dec in W.cap	(1,278)	487	(214)	394	378
Op CF after W.cap	**3,711**	**4,373**	**4,752**	**4,707**	**5,502**
Less Taxes	541	831	723	858	1,045
Net CF From Operations	**3,170**	**3,542**	**4,029**	**3,849**	**4,458**
Inc/(dec) in F.A + CWIP	1,990	1,660	1,650	1,500	1,700
(Pur)/sale of Investments	(109)	1,218	-	-	-
CF from Invst Activities	**(1,881)**	**(2,877)**	**(1,650)**	**(1,500)**	**(1,700)**
Loan Raised/(repaid)	(4)	472	532	-	-
Equity Raised	(126)	251	2	0	(0)
Dividend	679	718	759	837	916
CF from Fin Activities	**(809)**	**5**	**(225)**	**(837)**	**(916)**
Net inc /(dec) in cash	**480**	**669**	**2,153**	**1,512**	**1,842**
Op. bal of cash	2,212	2,692	3,362	5,515	7,027
Cl. balance of cash	**2,692**	**3,362**	**5,515**	**7,027**	**8,869**

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