

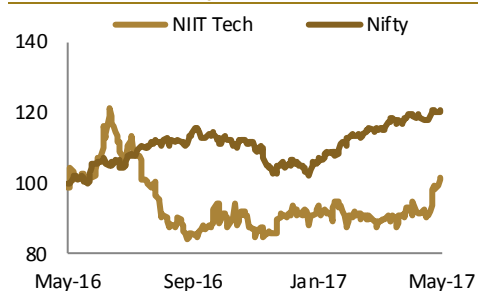
Market statistics

Current stock price (₹)	496
Shares O/S (cr.)	6.1
Mcap (₹ cr)	3,043
52W H/L (₹)	588/370
6m avg. volume	252,062
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	30.72
Domestic Institution	23.44
Foreign Institution	28.91
Non-institution	16.93
of which more than 1%	
HDFC Mutual Fund	8.99
DSP Blackrock Mutual Fund	4.02

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	16.7	16.1	16.6
EPS (₹)	41.9	45.3	52.1
CEPS (₹)	62.6	66.6	75.6
P/E (x)	10.4	10.9	9.5
P/BV (x)	1.6	1.7	1.5
EV/EBITDA (x)	4.2	4.5	4.1
Income growth (%)	3.5	5.8	10.1
EBITDA growth (%)	(3.3)	8.9	12.8
PAT growth (%)	(5.8)	7.4	14.8

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NIIT Tech management at the analyst meet articulated the path the company has undertaken to change the current organisation from services to a product mindset. The management reiterated confidence in sustaining revenue momentum and improving cash conversion going forward. We believe NITEC would see further gains in profitability on account of better operating leverage and gains on automation/lean practices in its fixed pricing projects. We maintain our Buy rating on NITEC on account of decent revenue visibility and margin expansion story available at cheap valuations compared to its peers.

Journey towards a product company: The management re-iterated NIIT Tech's strategy to be able to differentiate as a company that traverses its journey from a Services company to a solution-oriented product company. It would start by re-skilling workforce and hiring talent across the globe. The effort is to invest in Smart IT (which is into both automation & platform-based) coupled with superior client experience that is driven by (a) think customer: value-add for customer (b) challenge status quo: disrupting through technology, (c) unleash ideas: new ways of doing things, (d) improve continuously: learnability, (e) take ownership.

Automation platform - Tron and non-linearity: The company showcased its automation platform - Tron. It would help to drive test automation, intelligent maintenance, infrastructure automation, and intelligent business process. Moreover, insurance platform and inorganic growth through Incessant have helped NIIT Tech further accelerate non-linearity. Digital revenues stood at 21% of revenue mix. Incessant provided much needed Digital (Experience) push to the revenue. NIIT Tech drives ~40% Digital Revenue from Digital Experience and ~50% of Digital revenue from Digital Integration (Incessant).

Improving margin and sustaining cash conversion: Management is focused to improving margin in constant currency terms and has guided to better margins in FY18. Investment in automation platform and growth from digital business would help improve margin. NIIT Tech reduced its DSO days by 16 days in FY17 to 64 days. NITEC increased its dividend in FY17 by ~25% to Rs12.5/share (~35% payout).

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 10.9/9.5x of FY18E/19E EPS with dividend yield of 2.9% and Cash/share of ₹118/share, which provides it a strong downside cushion. We maintain our Buy recommendation. Management initiatives have improved deal win and revenue momentum in business outside India in FY17. Moreover, as the revenue contribution from digital (currently ~21%) improves, the revenue momentum would increase further. We believe improved cash conversion and revenue momentum would drive re-rating.

**Exhibit 1: Geographical wise Performance**

Geographical mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
US	44.0	45.0	46.0	46.0	45.0	48.0	49.0	48.0	48.0
Europe	35.0	35.0	35.0	34.0	33.0	32.0	34.0	34.0	33.0
APAC	21.0	20.0	19.0	20.0	22.0	20.0	17.0	18.0	19.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 2: Vertical segmentation

Vertical Mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
BFS	15.0	16.0	16.0	17.0	19.0	20.0	19.0	18.0	18.0
Insurance	18.0	20.0	21.0	21.0	21.0	22.0	23.0	24.0	24.0
Transportation	38.0	37.0	37.0	36.0	32.0	32.0	33.0	32.0	31.0
Manufacturing, Med and Other	29.0	27.0	26.0	26.0	28.0	26.0	25.0	26.0	27.0
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 3: Employee strength at NITEC

Employee details	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Billable Personnel - onsite	1,785	1,885	1,845	1,874	1,902	1,901	1,906	1,857	1,857
Billable Personnel - offshore	6,037	6,662	7,008	6,901	6,841	6,374	6,203	6,180	6,189
Total billable employees	7,822	8,517	8,853	8,784	8,743	8,275	8,109	8,037	8,066
Sales and Marketing (Excl GIS)	137	139	144	136	127	132	141	139	133
Sales and Marketing (GIS)	65	65	68	63	72	72	76	82	81
Others	470	507	527	534	534	543	542	551	573
Total employees	8,494	9,228	9,592	9,517	9,476	9,022	8,868	8,809	8,853
Utilization (% , excl BPO)	79.0	79.5	79.7	78.7	79.0	79.8	81.0	80.0	81.0
Attrition Rate (% , excl BPO)	15.8	14.3	13.7	13.6	12.7	13.4	12.9	12.6	12.7

Source: Company, Trust Research

Exhibit 4: Client details

Client concentration	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Top 5 clients (%)	34.0	35.0	32.0	33.0	31.0	32.0	32.0	33.0	34.0
Top 10 clients (%)	46.0	46.0	43.0	45.0	43.0	45.0	46.0	44.0	46.0
Top 20 clients (%)	61.0	63.0	59.0	60.0	58.0	58.0	61.0	59.0	62.0
US\$1m clients (Nos)	66	71	73	73	73	74	74	73	73

Source: Company

Exhibit 5: Significant new customers

Order Analysis	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
USA	2	6	2	-	2	2	1	1	1
EMEA	2	3	2	2	-	2	2	1	3
ROW	1	8	-	2	2	-	-	1	1
Total	5	17	4	4	4	4	3	3	5

Source: Company

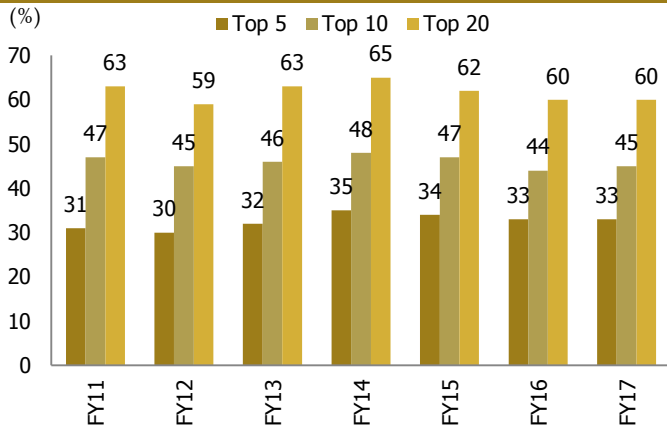
Exhibit 6: Fresh Order Intake

US\$m	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
USA	39	43	29	50	30	42	85	38	40
EMEA	29	31	34	55	61	30	45	51	47
ROW	21	23	17	18	28	29	13	12	25
Total	89	97	80	123	120	101	143	101	112

Source: Company

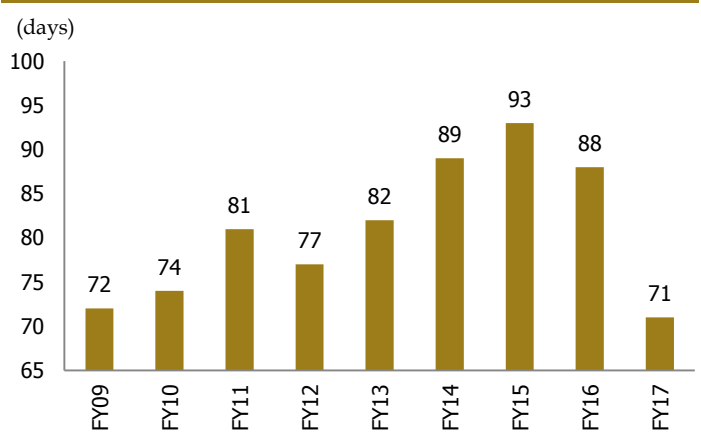


Exhibit 7: Top 5 clients did well this quarter



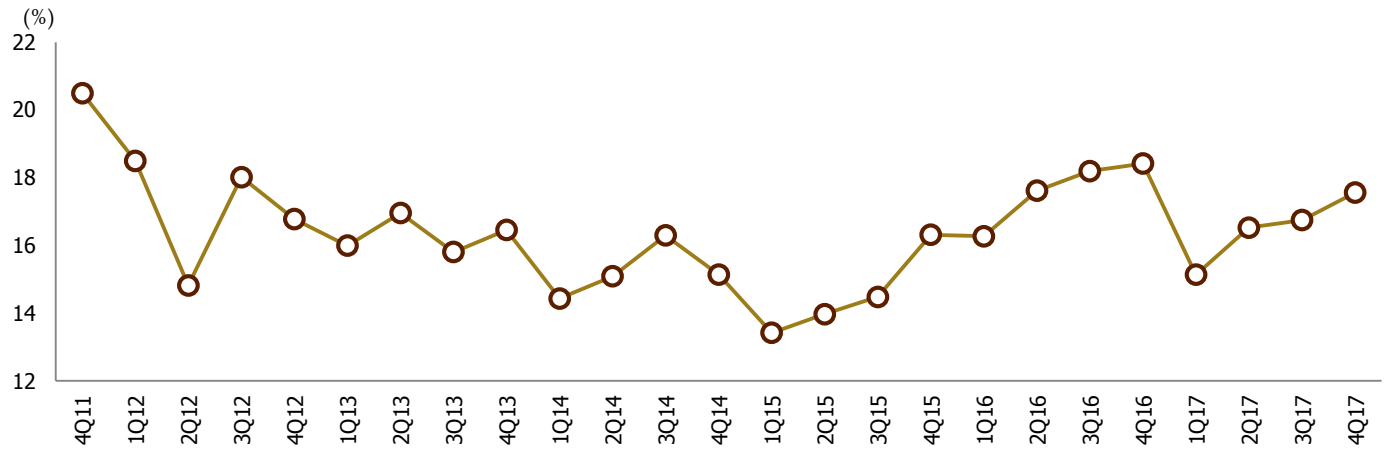
Source: Company, Trust

Exhibit 8: DSO decreased by 5 QoQ - lowest levels in years



Source: Company, Trust

Exhibit 9: NITEC's margin was higher on account of strong revenue trajectory, lower SG&A costs and higher offshorisation



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Revenues	23,724	26,824	27,750	29,365	32,345
Op. Expenses	20,268	22,091	23,175	24,383	26,724
EBITDA	3,456	4,733	4,575	4,982	5,621
Other Income	19	183	159	210	290
Depreciation	916	1,101	1,276	1,322	1,469
EBIT	2,559	3,815	3,458	3,871	4,442
Interest	-	-	-	-	-
PBT	2,559	3,815	3,458	3,871	4,442
Tax	541	831	646	852	977
PAT	2,018	2,984	2,812	3,019	3,465
Minority	(79)	(170)	(220)	(200)	(200)
Ex. Ordinary	800	13	(97)	-	-
Adj Pat	1,139	2,801	2,495	2,819	3,265

Key Parameters

Year End-March	FY15	FY16	FY17P	FY18E	FY19E
Per share (₹)					
EPS	31.9	45.8	41.9	45.3	52.1
CEPS	47.0	63.8	62.6	66.6	75.6
BVPS	223.3	259.2	272.9	299.9	333.7
DPS	9.5	10.0	12.5	13.5	14.5
Payout (%)	34.9	25.5	34.9	34.9	32.5
Valuation (x)					
P/E	10.9	11.5	10.4	10.9	9.5
P/BV	1.6	2.0	1.6	1.7	1.5
EV/EBITDA	5.2	6.0	4.2	4.5	4.1
Dividend Yield (%)	2.7	2.2	2.9	2.7	2.9
Return ratio (%)					
EBIDTA Margin	14.6	17.6	16.5	17.0	17.4
PAT Margin	8.5	11.1	10.1	10.3	10.7
ROAE	14.9	18.8	16.7	16.1	16.6
ROACE	18.6	22.8	19.7	20.0	20.5
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.1	2.2	2.4	2.6	2.8
Growth Ratios (%)					
Income growth	2.9	13.1	3.5	5.8	10.1
EBITDA growth	(1.7)	37.0	(3.3)	8.9	12.8
PAT growth	(15.3)	47.9	(5.8)	7.4	14.8
Turnover Ratios					
F.A Turnover x	4.4	3.8	4.6	4.7	5.0
Debtors Days	90	81	79	78	76
Payable days	34	31	30	31	32

Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17P	FY18E	FY19E
Sources of Funds					
Equity Share Capital	610	612	614	614	614
Reserves & Surplus	12,963	15,296	16,251	18,087	20,290
Total Shareholders Fund	13,573	15,907	16,865	18,701	20,904
Minority Interest	189	645	237	237	237
Non- current liabilities	1	653	417	463	553
Long term Borrowings	49	64	113	113	113
Deferred tax liabilities	(386)	(259)	(585)	(585)	(585)
Other LT liabilities & prov	339	848	889	935	1,025
Current Liabilities	5,618	5,027	5,608	5,913	6,493
Trade payables	2,157	1,654	2,053	2,172	2,393
Other cur liabilities & Prov	3,461	3,373	3,556	3,741	4,100
Total Liabilities	19,381	22,233	23,127	25,315	28,186
Assets					
Non- current Assets	7,530	9,458	9,540	9,781	10,126
Fixed assets	5,400	5,959	6,063	6,241	6,472
Non-current investments	1,382	2,413	2,413	2,413	2,413
Long-term loans & adv	619	916	912	965	1,063
Other non-current assets	129	170	152	161	177
Current assets	11,851	12,774	13,587	15,534	18,060
Current investments	554	740	443	443	443
Trade receivables	6,060	5,901	6,082	6,436	7,089
Inventories	85	3	76	80	89
Cash & bank balances	2,692	3,362	4,021	5,437	6,983
Short-term loans & adv	1,530	1,805	1,901	2,011	2,215
Other current assets	930	965	1,064	1,126	1,241
Total Assets	19,381	22,233	23,127	25,315	28,186

Cash flow Statement

Year End-March	FY15	FY16	FY17P	FY18E	FY19E
PBT	2,559	3,815	3,458	3,871	4,442
Depreciation	753	1,229	950	1,322	1,469
Others	(879)	(183)	(317)	(200)	(200)
CF before W.cap	2,433	4,861	4,091	4,992	5,711
Inc/dec in W.cap	(1,278)	487	(193)	242	424
Op CF after W.cap	3,711	4,373	4,284	4,750	5,286
Less Taxes	541	831	646	852	977
Net CF From Operations	3,170	3,542	3,638	3,899	4,309
Inc/(dec) in F.A + CWIP	1,990	1,660	1,380	1,500	1,700
(Pur)/sale of Investments	(109)	1,218	(297)	-	-
CF from Invst Activities	(1,881)	(2,877)	(1,083)	(1,500)	(1,700)
Loan Raised/(repaid)	(4)	472	(359)	-	-
Equity Raised	(126)	251	(634)	(0)	-
Dividend	679	718	904	983	1,063
CF from Fin Activities	(809)	5	(1,896)	(983)	(1,063)
Net inc/(dec) in cash	480	669	659	1,416	1,547
Op. bal of cash	2,212	2,692	3,362	4,021	5,437
Cl. balance of cash	2,692	3,362	4,021	5,437	6,983



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