



NIIT Technologies

2QFY18 Result Update

Sector: Technology

CMP: ₹614

Robust revenue visibility, Margin expansion story intact

Recommendation: Buy

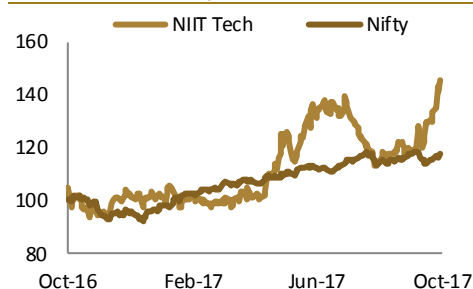
Market statistics

Current stock price (₹)	614
Shares O/S (cr.)	6.1
Mcap (₹ cr)	3,770
52W H/L (₹)	646/370
6m avg. volume	490,869
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	30.68
Domestic Institution	19.4
Foreign Institution	36.08
Non-institution	13.84
of which more than 1%	
HDFC Mutual Fund	8.98
Brandes Investment Trust	4.86

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	16.7	15.3	16.6
EPS (₹)	41.9	42.3	51.7
CEPS (₹)	62.6	64.1	75.8
P/E (x)	10.4	14.5	11.9
P/BV (x)	1.6	2.2	2.0
EV/EBITDA (x)	4.2	6.5	5.9
Income growth (%)	3.5	5.7	11.5
EBITDA growth (%)	(3.3)	(1.2)	14.5
PAT growth (%)	(5.8)	(3.9)	21.5

ANALYST

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The revenues of NIIT Technologies (NITEC) increased 2.7% QoQ to US\$112.9mn in Q2FY18. The Company's operating margin increased 51bps QoQ in the quarter on account of favourable cross-currency movements and tight SG&A costs. PAT was higher account of lower tax expense. In 2Q, it signed deals worth US\$122mn, with 12-month executable order book at US\$320mn (flat QoQ). We believe, going forward, NITEC would be able to show a higher revenue growth and higher margins on account of ramp up of recently won deals. We maintain our Buy recommendation on NITEC.

Healthy Order Book - flat QoQ: The Company's order book - executable over the next 12 months - was flat QoQ at US\$320mn. 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\$480.4mn (~1.5xQ2FY18 order book). During the Quarter, the company added 7 clients, 2 in USA, 3 in RoW and the rest in EMEA. NIIT Tech had a fresh order intake of US\$122mn (US: US\$64mn, EMEA: US\$32mn and RoW: US\$26mn) this quarter (vs US\$110mn in the last quarter).

Quarter details: NIIT Tech reported a revenue increase of 4% in US\$ terms to US\$112.9mn (BFSI up 5.6% QoQ - Growth in Insurance in US and NITL, 2 New client added. Transport down 4.8% QoQ - Decline in EMEA due to ramp down in a key client, 1 new client added. Manufacturing/Media & Others up 10.7% QoQ in cc terms - Ramp up in Digital engagements in US, Execution of new SI engagements in India, Delay in movement of DGS&D rate contracts to GeM impacts GIS revenues, GateHouse Media acquired the newspaper business of our client Morris Publications Group, 4 New accounts added. NIIT Tech drives 23% 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. NITEC was confident of winning two large deals in the coming quarter, which

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, BFSI/ 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: We believe, going forward, NITEC would be able to show a higher revenue growth and higher margins on account of ramp up of recently won deals NIIT Tech is trading at 14.5/11.9x of FY18E/19E EPS with dividend yield of 2.2% and Cash/share of ₹104/share, which provides it a strong downside cushion. We maintain our Buy recommendation.



Exhibit 1: Quarterly details

` mn	2QFY17	1QFY17	2QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	103	110	113	2.7	9.2	Revenue was affected on account of ramp-down in one of the key client in Travel & transport vertical in EMEA
Revenues	6,929	7,089	7,372	4.0	6.4	
- Operating costs	5,784	5,981	6,182	3.4	6.9	
EBITDA	1,145	1,108	1,190	7.4	3.9	
EBITDA margin (%)	16.5	15.6	16.1	51bps	(38)bps	Margin increased due to favourable cross-currency movements and tight SG&A costs
- Interest expense	-	-	-			
- Depreciation	317	316	341	7.9	7.6	
+ Other income, net (incl forex)	29	58	87	NA	NA	
PBT	857	850	936	10.1	9.2	
- Taxes	213	295	204	(30.8)	(4.2)	
Effective tax rate (%)	24.9	34.7	21.8	(1,291)bps	(306)bps	Effective tax rate for FY18 to be between ~21-22%
PAT	644	555	732	31.9	13.7	
Minority interest	54	42	61	NA	NA	
Consolidated profits	590	513	671	30.8	13.7	
Net Margin	8.5	7.2	9.1	187bps	59bps	
Reported profits	590	513	671	30.8	13.7	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	455	456	0.2	501	508	1.4
Revenue	29,543	29,607	0.2	32,534	33,015	1.4
EBITDA margin (%)	16.3	16.2	-	16.5	16.6	10bps
EPS (₹)	42.3	42.3	-	50.0	51.7	3.4

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
US	46.0	46.0	45.0	48.0	49.0	48.0	48.0	49.0	50.0
Europe	35.0	34.0	33.0	32.0	34.0	34.0	33.0	32.0	29.0
APAC	19.0	20.0	22.0	20.0	17.0	18.0	19.0	19.0	21.0
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	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
BFS	16.0	17.0	19.0	20.0	19.0	18.0	18.0	17.0	17.0
Insurance	21.0	21.0	21.0	22.0	23.0	24.0	24.0	25.0	25.0
Transportation	37.0	36.0	32.0	32.0	33.0	32.0	31.0	29.0	27.0
Manufacturing, Med and Other	26.0	26.0	28.0	26.0	25.0	26.0	27.0	29.0	31.0
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 increased by 59 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 dipped 170bps QoQ to 79.5%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Billable Personnel - onsite	1,845	1,874	1,902	1,901	1,906	1,857	1,877	1,984	2,040
Billable Personnel - offshore	7,008	6,901	6,841	6,374	6,203	6,180	6,189	6,164	6,156
Total billable employees	8,853	8,784	8,743	8,275	8,109	8,037	8,066	8,148	8,196
Sales and Marketing (Excl GIS)	144	136	127	132	141	139	133	137	135
Sales and Marketing (GIS)	68	63	72	72	76	82	81	85	85
Others	527	534	534	543	542	551	573	593	606
Total employees	9,592	9,517	9,476	9,022	8,868	8,809	8,853	8,963	9,022
Utilization (% , excl BPO)	79.7	78.7	79.0	79.8	81.0	80.0	81.0	81.2	79.5
Attrition Rate (% , excl BPO)	13.7	13.6	12.7	13.4	12.9	12.6	12.7	12.1	11.4

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$122mn (US: US\$64mn, EMEA: US\$32mn and RoW: US\$26mn) this quarter (vs US\$110mn in the last quarter).

Exhibit 6: Client details

Client concentration	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Top 5 clients (%)	32.0	33.0	31.0	32.0	32.0	33.0	34.0	33.0	31.0
Top 10 clients (%)	43.0	45.0	43.0	45.0	46.0	44.0	46.0	45.0	43.0
Top 20 clients (%)	59.0	60.0	58.0	58.0	61.0	59.0	62.0	58.0	57.0
US\$1m clients (Nos)	73	73	73	74	74	73	73	72	74

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
USA	2	-	2	2	1	1	1	5	2
EMEA	2	2	-	2	2	1	3	1	2
ROW	-	2	2	-	-	1	1	3	3
Total	4	4	4	4	3	3	5	9	7

Source: Company

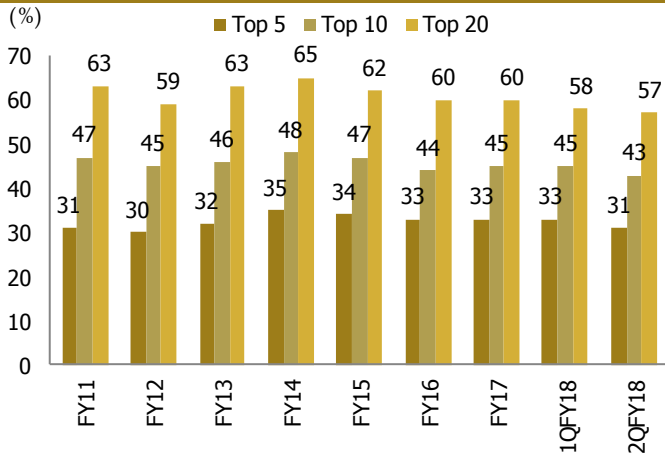
Exhibit 8: Fresh Order Intake

US\$m	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
USA	29	50	30	42	85	38	40	60	64
EMEA	34	55	61	30	45	51	47	23	32
ROW	17	18	28	29	13	12	25	27	26
Total	80	123	120	101	143	101	112	110	122

Source: Company

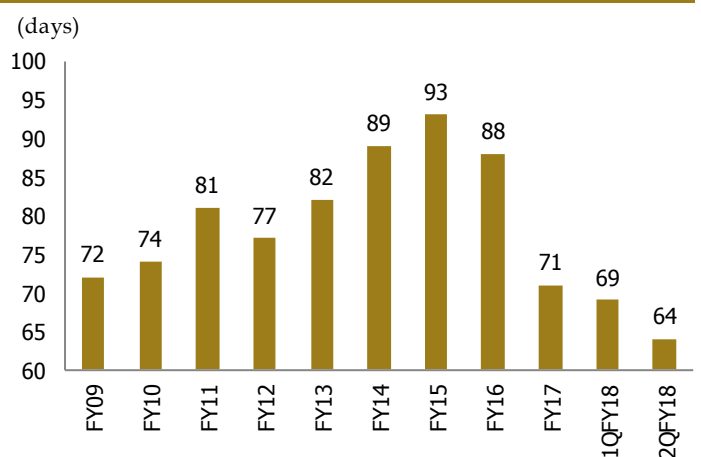


Exhibit 9: Top 5 clients did not perform this quarter



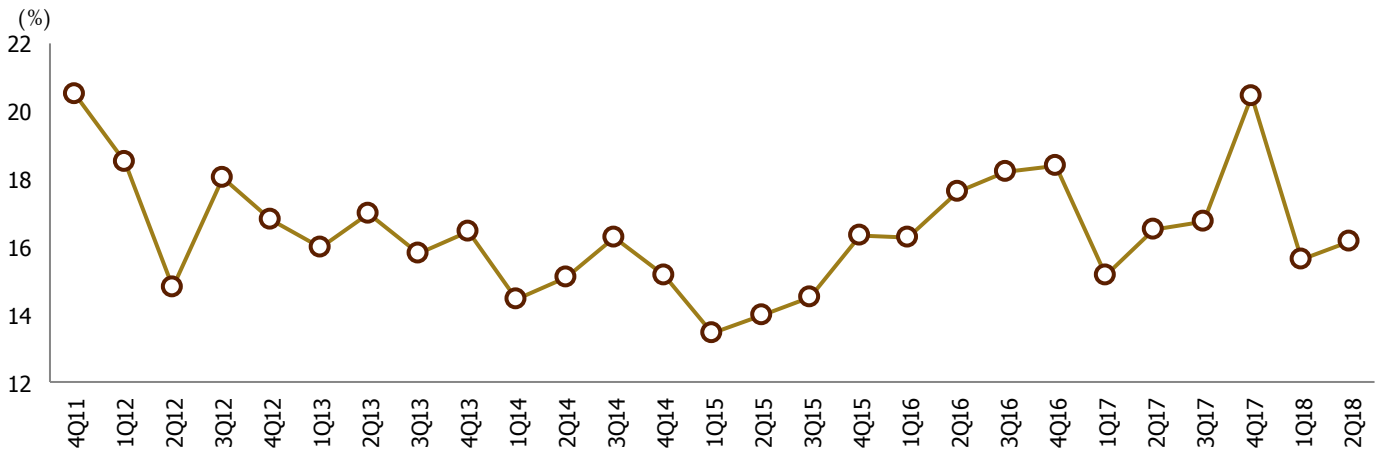
Source: Company, Trust

Exhibit 10: DSO decreased by 5 QoQ



Source: Company, Trust

Exhibit 11: NITEC's margin was as per expectation



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	23,724	26,824	28,021	29,607	33,015
Op. Expenses	20,268	22,091	23,175	24,821	27,534
EBITDA	3,456	4,733	4,846	4,787	5,482
Other Income	19	183	159	334	438
Depreciation	916	1,101	1,276	1,358	1,515
EBIT	2,559	3,815	3,729	3,763	4,405
Interest	-	-	-	-	-
PBT	2,559	3,815	3,729	3,763	4,405
Tax	541	831	786	934	969
PAT	2,018	2,984	2,943	2,829	3,436
Minority	(79)	(170)	(220)	(200)	(200)
Ex. Ordinary	800	13	(221)	-	-
Adj Pat	1,139	2,801	2,502	2,629	3,236

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (₹)					
EPS	31.9	45.8	41.9	42.3	51.7
CEPS	47.0	63.8	62.6	64.1	75.8
BVPS	223.3	259.2	272.9	276.5	310.0
DPS	9.5	10.0	12.5	13.5	14.5
Payout (%)	34.9	25.5	34.9	37.4	32.8
Valuation (x)					
P/E	10.9	11.5	10.4	14.5	11.9
P/BV	1.6	2.0	1.6	2.2	2.0
EV/EBITDA	5.2	6.0	4.2	6.5	5.9
Dividend Yield (%)	2.7	2.2	2.9	2.2	2.4
Return ratio (%)					
EBIDTA Margin	14.6	17.6	16.5	16.2	16.6
PAT Margin	8.5	11.1	10.1	9.6	10.4
ROAE	14.9	18.8	16.7	15.3	16.6
ROACE	18.6	22.8	19.7	18.2	19.0
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.1	2.2	2.4	3.1	3.3
Growth Ratios (%)					
Income growth	2.9	13.1	3.5	5.7	11.5
EBITDA growth	(1.7)	37.0	(3.3)	(1.2)	14.5
PAT growth	(15.3)	47.9	(5.8)	(3.9)	21.5
Turnover Ratios					
F.A Turnover x	4.4	3.8	4.6	4.2	4.3
Debtors Days	90	81	70	67	65
Payable days	34	31	30	29	28

Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Sources of Funds					
Equity Share Capital	610	612	614	614	614
Reserves & Surplus	12,963	15,296	16,251	17,897	20,070
Total Shareholders Fund	13,573	15,907	16,864	18,511	20,684
Minority Interest	189	645	237	189	189
Non- current liabilities	1	653	1,987	2,025	2,315
Long term Borrowings	49	64	74	74	74
Deferred tax liabilities	(386)	(259)	(584)	(701)	(701)
Other LT liabilities & prov	339	848	2,497	2,652	2,942
Current Liabilities	5,618	5,027	4,588	5,294	5,883
Trade payables	2,157	1,654	1,236	1,622	1,809
Other cur liabilities & Prov	3,461	3,373	3,352	3,672	4,073
Total Liabilities	19,381	22,233	23,677	26,020	29,071
Assets					
Non- current Assets	6,911	8,542	8,803	9,345	9,864
Fixed assets	5,400	5,959	6,630	7,130	7,630
Non-current investments	1,382	2,413	2,053	2,053	2,053
Other non-current assets	129	170	120	162	181
Current assets	12,470	13,690	14,874	16,675	19,207
Current investments	554	740	3,731	3,731	3,731
Trade receivables	6,060	5,901	4,903	5,273	5,879
Inventories	85	3	3	3	3
Cash & bank balances	2,692	3,362	3,502	4,667	6,247
Other current assets	3,079	3,685	2,735	3,001	3,347
Total Assets	19,381	22,233	23,677	26,020	29,071

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	2,559	3,815	3,729	3,763	4,405
Depreciation	753	1,229	951	1,240	1,515
Others	(879)	(183)	(441)	(200)	(200)
CF before W.cap	2,433	4,861	4,239	4,803	5,720
Inc/dec in W.cap	(1,278)	487	(3,208)	(183)	93
Op CF after W.cap	3,711	4,373	7,447	4,987	5,627
Less Taxes	541	831	786	934	969
Net CF From Operations	3,170	3,542	6,661	4,053	4,658
Inc/(dec) in F.A + CWIP	1,990	1,660	1,947	1,858	2,015
(Pur)/sale of Investments	(109)	1,218	2,630	-	-
CF from Invst Activities	(1,881)	(2,877)	(4,578)	(1,858)	(2,015)
Loan Raised/(repaid)	(4)	472	(398)	(48)	-
Equity Raised	(126)	251	(641)	0	(0)
Dividend	679	718	904	983	1,063
CF from Fin Activities	(809)	5	(1,943)	(1,030)	(1,063)
Net inc/(dec) in cash	480	669	140	1,165	1,580
Op. bal of cash	2,212	2,692	3,362	3,502	4,667
Cl. balance of cash	2,692	3,362	3,502	4,667	6,247



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