



NIIT Technologies

3QFY18 Result Update

Sector: Technology

CMP: ₹728

Robust revenue visibility, Margin expansion story intact

Recommendation: Buy

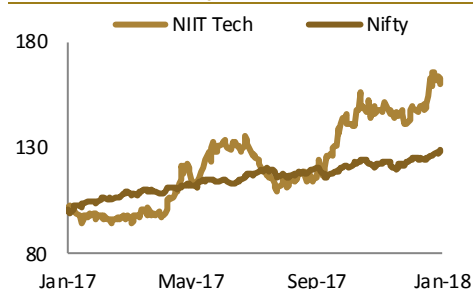
Market statistics

Current stock price (₹)	728
Shares O/S (cr.)	6.1
Mcap (₹ cr)	4,472
52W H/L (₹)	736/401
6m avg. volume	475,842
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	30.68
Domestic Institution	16.81
Foreign Institution	39.54
Non-institution	12.97
of which more than 1%	
HDFC Mutual Fund	8.98
UTI Bank	4.50

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY18E	FY19E	FY20E
RoE (%)	15.9	16.8	16.7
EPS (₹)	44.3	52.9	60.3
CEPS (₹)	64.9	74.5	84.0
P/E (x)	16.4	13.8	12.1
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	7.5	6.2	5.1
Income growth (%)	6.3	10.8	11.8
EBITDA growth (%)	1.9	15.9	12.3
PAT growth (%)	0.5	18.9	13.1

The revenues of NIIT Technologies (NITEC) increased 3.3% QoQ to US\$116.7mn in Q3FY18. The Company's operating margin increased 100bps QoQ in the quarter on account of favourable revenue trajectory, and tight wage costs. PAT was higher account of lower tax expense. In 3Q, it signed deals worth US\$130mn, with 12-month executable order book at US\$329mn (up 2.8% 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 - up 2.8% QoQ: The Company's order book - executable over the next 12 months - was up 2.8% QoQ at US\$329mn. 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\$495.1mn (~1.5xQ3FY18 order book). During the Quarter, the company added 8 clients, 4 in USA, 2 in RoW and the rest in EMEA. NIIT Tech had a fresh order intake of US\$130mn (US: US\$82mn, EMEA: US\$25mn and RoW: US\$23mn) this quarter (vs US\$122mn in the last quarter).

Quarter details: NIIT Tech reported a revenue increase of 3.3% in US\$ terms to US\$116.7mn (BFSI up 4% QoQ - Ramp up in top accounts in US and Digital engagements in EMEA. New accounts added: 2 in the US, 2 in NITL and 1 in APAC. Transport was up 4.4% QoQ in cc terms - Increase in top accounts in EMEA. 1 New account added in the US. Manufacturing/Media & Others down 0.9% QoQ -Decline in Morris, 2 New accounts added: 1 each in the US and APAC. NIIT Tech drives 25% 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 quarter, but finally closed 3 large deals - all in US. It is expecting to close 2 large deals in Q4 as well. The Board has appointed Sudhir Singh as CEO and elevated Arvind Thakur to VC & MD, NIIT Technologies.

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: NITEC has guided to double digit revenue growth for FY19 and healthy revenue growth in Q4 as well. NIIT Tech is trading at 13.8/12.1x of FY19E/20E EPS with dividend yield of 2% and Cash/share of ₹111/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

ANALYST

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**Exhibit 1: Quarterly details**

` mn	3QFY17	2QFY17	3QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	103	113	117	3.3	13.4	Revenue growth of 1.7% in cc terms.
Revenues	6,938	7,372	7,565	2.6	9.0	
- Operating costs	5,776	6,182	6,269	1.4	8.5	
EBITDA	1,162	1,190	1,296	8.9	11.5	
EBITDA margin (%)	16.7	16.1	17.1	99bps	38bps	Margin increased due to favourable revenue movements and tight wage costs
- Interest expense	-	-	-			
- Depreciation	321	341	311	(8.8)	(3.1)	
+ Other income, net (incl forex)	59	87	5	NA	NA	
PBT	900	936	990	5.8	10.0	
- Taxes	228	204	163	(20.1)	(28.5)	
Effective tax rate (%)	25.3	21.8	16.5	(533)bps	(887)bps	Effective tax rate for FY19 to be between ~21-22%
PAT	672	732	827	13.0	23.1	
Minority interest	48	61	70	NA	NA	
Consolidated profits	624	671	757	12.8	21.3	
Net Margin	9.0	9.1	10.0	90bps	101bps	
Reported profits	624	671	757	12.8	21.3	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	456	459	0.7	508	508	-
Revenue	29,607	29,796	0.6	33,015	33,011	-
EBITDA margin (%)	16.2	16.6	35bps	16.6	17.3	65bps
EPS (₹)	42.3	44.3	4.7	51.7	52.9	2.3

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
US	46.0	45.0	48.0	49.0	48.0	48.0	49.0	50.0	50.0
Europe	34.0	33.0	32.0	34.0	34.0	33.0	32.0	29.0	30.0
APAC	20.0	22.0	20.0	17.0	18.0	19.0	19.0	21.0	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	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
BFS	17.0	19.0	20.0	19.0	18.0	18.0	17.0	17.0	17.0
Insurance	21.0	21.0	22.0	23.0	24.0	24.0	25.0	25.0	26.0
Transportation	36.0	32.0	32.0	33.0	32.0	31.0	29.0	27.0	27.0
Manufacturing, Med and Other	26.0	28.0	26.0	25.0	26.0	27.0	29.0	31.0	30.0
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 9,081. 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 50bps QoQ to 79%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	32FY18
Billable Personnel - onsite	1,874	1,902	1,901	1,906	1,857	1,877	1,984	2,040	2,018
Billable Personnel - offshore	6,901	6,841	6,374	6,203	6,180	6,189	6,164	6,156	6,217
Total billable employees	8,784	8,743	8,275	8,109	8,037	8,066	8,148	8,196	8,235
Sales and Marketing (Excl GIS)	136	127	132	141	139	133	137	135	147
Sales and Marketing (GIS)	63	72	72	76	82	81	85	85	85
Others	534	534	543	542	551	573	593	606	614
Total employees	9,517	9,476	9,022	8,868	8,809	8,853	8,963	9,022	9,081
Utilization (% , excl BPO)	78.7	79.0	79.8	81.0	80.0	81.0	81.2	79.5	79.0
Attrition Rate (% , excl BPO)	13.6	12.7	13.4	12.9	12.6	12.7	12.1	11.4	10.6

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$130mn (US: US\$82mn, EMEA: US\$25mn and RoW: US\$23mn) this quarter (vs US\$122mn in the last quarter).

Exhibit 6: Client details

Client concentration	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Top 5 clients (%)	33.0	31.0	32.0	32.0	33.0	34.0	33.0	31.0	30.0
Top 10 clients (%)	45.0	43.0	45.0	46.0	44.0	46.0	45.0	43.0	42.0
Top 20 clients (%)	60.0	58.0	58.0	61.0	59.0	62.0	58.0	57.0	54.0
US\$1m clients (Nos)	73	73	74	74	73	73	72	74	78

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
USA	-	2	2	1	1	1	5	2	4
EMEA	2	-	2	2	1	3	1	2	2
ROW	2	2	-	-	1	1	3	3	2
Total	4	4	4	3	3	5	9	7	8

Source: Company

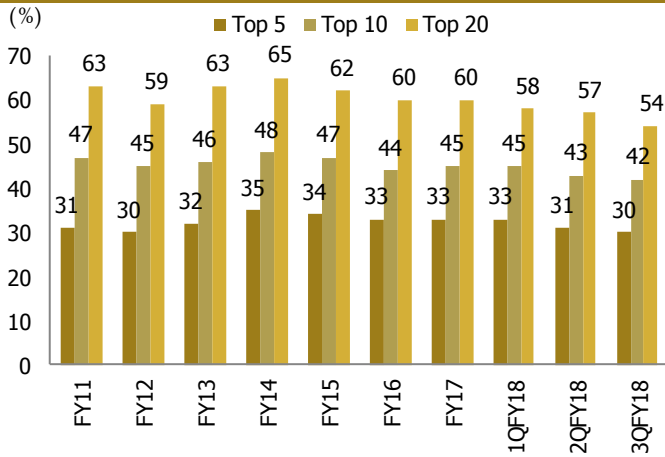
Exhibit 8: Fresh Order Intake

US\$m	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
USA	50	30	42	85	38	40	60	64	82
EMEA	55	61	30	45	51	47	23	32	25
ROW	18	28	29	13	12	25	27	26	23
Total	123	120	101	143	101	112	110	122	130

Source: Company

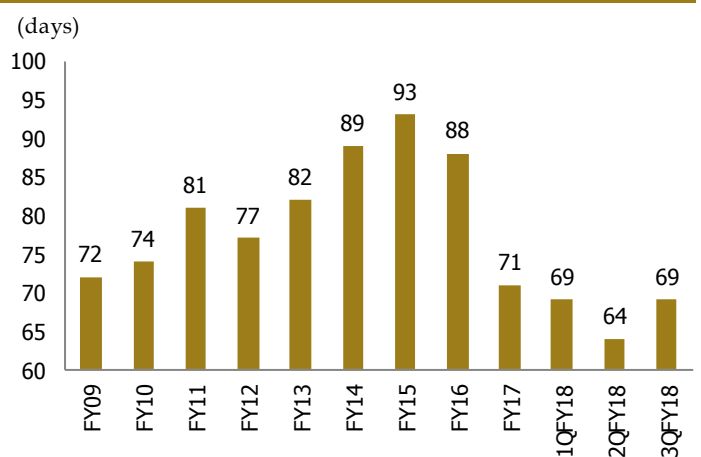


Exhibit 9: Top 5 clients did not perform this quarter



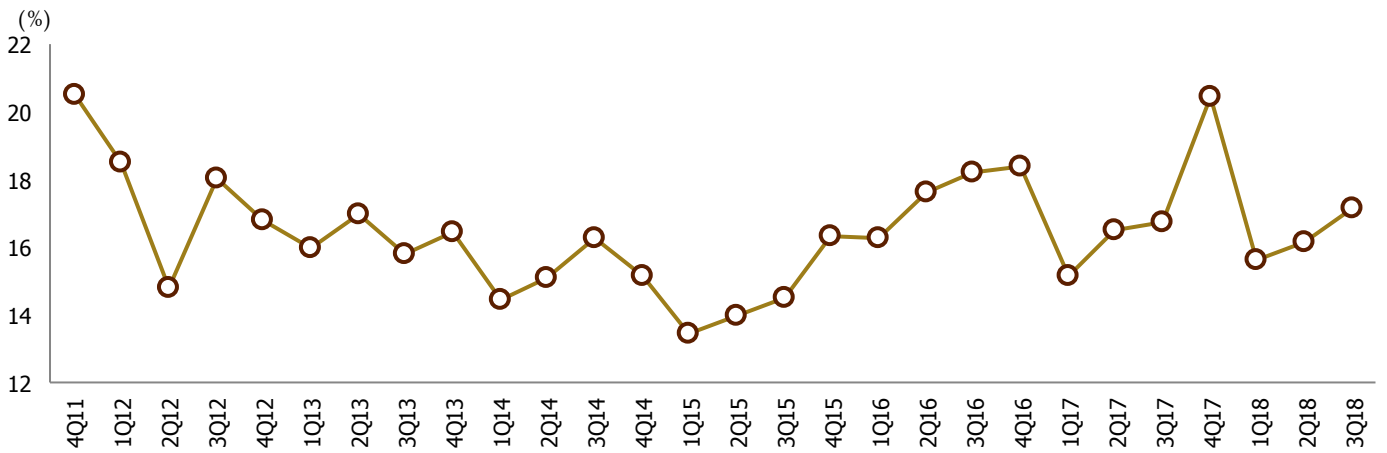
Source: Company, Trust

Exhibit 10: DSO decreased by 5 QoQ



Source: Company, Trust

Exhibit 11: NITEC's margin was higher than expectation



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	26,824	28,021	29,796	33,011	36,897
Op. Expenses	22,091	23,175	24,856	27,284	30,468
EBITDA	4,733	4,846	4,940	5,727	6,429
Other Income	183	159	200	100	155
Depreciation	1,101	1,276	1,283	1,350	1,486
EBIT	3,815	3,729	3,857	4,477	5,098
Interest	-	-	-	-	-
PBT	3,815	3,729	3,857	4,477	5,098
Tax	831	786	900	963	1,122
PAT	2,984	2,943	2,957	3,515	3,977
Minority	(170)	(220)	(200)	(200)	(200)
Ex. Ordinary	13	(221)	-	-	-
Adj Pat	2,801	2,502	2,757	3,315	3,777

Key Parameters

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Per share (₹)					
EPS	45.8	41.9	44.3	52.9	60.3
CEPS	63.8	62.6	64.9	74.5	84.0
BVPS	259.2	272.9	278.0	312.8	358.4
DPS	10.0	12.5	13.5	14.5	15.5
Payout (%)	25.5	34.9	35.6	32.1	34.3
Valuation (x)					
P/E	11.5	10.4	16.4	13.8	12.1
P/BV	2.0	1.6	2.6	2.3	2.0
EV/EBITDA	6.0	4.2	7.5	6.2	5.1
Dividend Yield (%)	2.2	2.9	1.9	2.0	1.7
Return ratio (%)					
EBITDA Margin	17.6	16.5	16.6	17.3	17.4
PAT Margin	11.1	10.1	9.9	10.6	10.8
ROAE	18.8	16.7	15.9	16.8	16.7
ROACE	22.8	19.7	18.5	19.1	19.2
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.3)	(0.5)	(0.5)	(0.5)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.2	2.4	3.2	3.3	3.5
Growth Ratios (%)					
Income growth	13.1	3.5	6.3	10.8	11.8
EBITDA growth	37.0	(3.3)	1.9	15.9	12.3
PAT growth	47.9	(5.8)	0.5	18.9	13.1
Turnover Ratios					
F.A Turnover x	3.8	4.6	4.2	4.3	4.5
Debtors Days	81	70	69	69	68
Payable days	31	30	30	29	29

Balance Sheet (₹ mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Sources of Funds					
Equity Share Capital	612	614	614	614	614
Reserves & Surplus	15,296	16,251	18,025	20,277	23,137
Total Shareholders Fund	15,907	16,864	18,639	20,891	23,751
Minority Interest	645	237	197	197	197
Non-current liabilities	653	1,987	2,033	2,292	2,633
Long term Borrowings	64	74	74	74	74
Deferred tax liabilities	(259)	(584)	(697)	(697)	(697)
Other LT liabilities & prov	848	2,497	2,656	2,915	3,255
Current Liabilities	5,027	4,588	5,310	5,845	6,529
Trade payables	1,654	1,236	1,633	1,809	2,022
Other cur liabilities & Prov	3,373	3,352	3,677	4,036	4,508
Total Liabilities	22,233	23,677	26,179	29,226	33,110
Assets					
Non-current Assets	8,542	8,803	9,346	9,864	10,385
Fixed assets	5,959	6,630	7,130	7,630	8,130
Non-current investments	2,413	2,053	2,053	2,053	2,053
Other non-current assets	170	120	163	181	202
Current assets	13,690	14,874	16,833	19,362	22,725
Current investments	740	3,731	3,731	3,731	3,731
Trade receivables	5,901	4,903	5,306	5,879	6,571
Inventories	3	3	3	3	3
Cash & bank balances	3,362	3,502	4,772	6,403	8,680
Other current assets	3,685	2,735	3,020	3,346	3,740
Total Assets	22,233	23,677	26,179	29,226	33,110

Cash flow Statement

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
PBT	3,815	3,729	3,857	4,477	5,098
Depreciation	1,229	951	1,170	1,350	1,486
Others	(183)	(441)	(200)	(200)	(200)
CF before W.cap	4,861	4,239	4,827	5,627	6,384
Inc/dec in W.cap	487	(3,208)	(149)	121	83
Op CF after W.cap	4,373	7,447	4,976	5,506	6,301
Less Taxes	831	786	900	963	1,122
Net CF From Operations	3,542	6,661	4,076	4,543	5,179
Inc/(dec) in F.A + CWIP	1,660	1,947	1,783	1,850	1,986
(Pur)/sale of Investments	1,218	2,630	-	-	-
CF from Invst Activities	(2,877)	(4,578)	(1,783)	(1,850)	(1,986)
Loan Raised/(repaid)	472	(398)	(40)	-	-
Equity Raised	251	(641)	0	(0)	(0)
Dividend	718	904	983	1,063	1,123
CF from Fin Activities	5	(1,943)	(1,022)	(1,063)	(916)
Net inc/(dec) in cash	669	140	1,270	1,631	2,277
Op. bal of cash	2,692	3,362	3,502	4,772	6,403
Cl. balance of cash	3,362	3,502	4,772	6,403	8,680



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