

Market statistics

| | |
|-------------------------|-----------|
| Current stock price (₹) | 1,121 |
| Shares O/S (cr.) | 6.1 |
| Mcap (₹ cr) | 6,894 |
| 52W H/L (₹) | 1190/463 |
| 6m avg. volume | 1,814,202 |
| Bloomberg | NITEC.IN |

The revenues of NIIT Technologies (NITEC) increased 1.7% QoQ to US\$124.3mn (3.3% in cc terms QoQ) in Q1FY19. The Company's operating margin decreased 213bps QoQ in the quarter on account of wage hikes, visa costs and seasonally weak GIS business. PAT was higher account of higher OI. In 1Q, it signed deals worth US\$151mn, with 12-month executable order book at US\$347mn (up 2.4% 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.

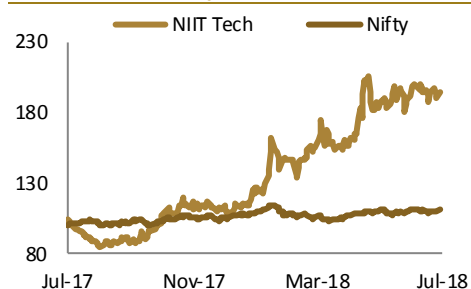
Shareholding pattern

| | |
|-----------------------|-------|
| Promoters | 30.65 |
| Domestic Institution | 15.44 |
| Foreign Institution | 40.73 |
| Non-institution | 13.18 |
| of which more than 1% | |

Healthy Order Book - up 2.4% QoQ: The Company's order book - executable over the next 12 months - was up 2.4% QoQ at US\$347mn. 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\$535.4mn (~1.5xQ1FY19 order book). During the quarter, the company added 9 clients, 5 in USA, 1 in RoW and the rest in EMEA. NIIT Tech had a fresh order intake of US\$151mn (US: US\$69mn, EMEA: US\$56mn and RoW: US\$26mn) this quarter (vs US\$144mn in the last quarter).

Quarter details: NIIT Tech reported a revenue increase of 3.3% in US\$ terms to US\$124.3mn (BFSI up 8.8% QoQ - Growth in top accounts in US and ramp up in new accounts in EMEA. 2 New accounts added. Transport was up 7.7% QoQ in cc terms - Increase in top accounts in EU and in US. 2 New account added. Insurance up 10% QoQ - Growth in key accounts in US and NITL, 3 New Accounts. Other Verticals down 5.3% QoQ - Seasonal decrease in GIS, Decline in Morris due to ramp down, 2 New accounts added. 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 confident of winning two large deals in the quarter (US\$20mn+), closed 3 deals (US\$10m+) in the quarter. It is expecting to close 2 large deals in Q2 as well.

NIIT Tech vs Nifty



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 margin expansion as well. NIIT Tech is trading at 19.8/16.8x of FY19E/20E EPS with dividend yield of 1.6% and Cash/share of ₹110/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

Capital efficiency & valuations

| Particulars | FY18 | FY19E | FY20E |
|-------------------|------|-------|-------|
| RoE (%) | 17.4 | 18.7 | 19.2 |
| EPS (₹) | 45.0 | 56.6 | 66.9 |
| CEPS (₹) | 65.5 | 77.2 | 89.6 |
| P/E (x) | 19.2 | 19.8 | 16.8 |
| P/BV (x) | 3.0 | 3.5 | 3.1 |
| EV/EBITDA (x) | 8.8 | 10.0 | 8.4 |
| Income growth (%) | 6.8 | 16.5 | 12.0 |
| EBITDA growth (%) | 3.4 | 15.8 | 14.6 |
| PAT growth (%) | 4.9 | 20.9 | 17.2 |

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**Exhibit 1: Quarterly details**

| ` mn | 1QFY18 | 4QFY18 | 1QFY19 | QoQ (%) | YoY (%) | Comments |
|----------------------------------|--------------|--------------|--------------|-----------------|--------------|---|
| Revenues (in US\$ mn) | 110 | 122 | 124 | 1.7 | 13.1 | Revenue growth of 3.3% in cc terms. Morris business not to decline any further. Strong traction across verticals. |
| Revenues | 7,089 | 7,888 | 8,249 | 4.6 | 16.4 | |
| - Operating costs | 5,981 | 6,470 | 6,942 | 7.3 | 16.1 | |
| EBITDA | 1,108 | 1,418 | 1,307 | (7.8) | 18.0 | |
| EBITDA margin (%) | 15.6 | 18.0 | 15.8 | (213)bps | 21bps | Margin decreased due wage hikes, visa costs and seasonally weak GIS business. |
| - Interest expense | - | - | - | | | |
| - Depreciation | 316 | 305 | 312 | 2.3 | (1.3) | |
| + Other income, net (incl forex) | 58 | 148 | 209 | NA | NA | |
| PBT | 850 | 1,261 | 1,204 | (4.5) | 41.6 | |
| - Taxes | 295 | 288 | 300 | 4.2 | 1.7 | |
| Effective tax rate (%) | 34.7 | 22.8 | 24.9 | 208bps | (979)bps | Effective tax rate for FY19 to be between ~23-24% |
| PAT | 555 | 973 | 904 | (7.1) | 62.9 | |
| Minority interest | 42 | 112 | 46 | NA | NA | |
| Consolidated profits | 513 | 861 | 858 | (0.3) | 67.3 | |
| Net Margin | 7.2 | 10.9 | 10.4 | (51)bps | 316bps | |
| Reported profits | 513 | 861 | 858 | (0.3) | 67.3 | |

Source: Company

Exhibit 2: Change in estimates

| ` mn | FY19E | | | FY20E | | |
|-------------------|--------|--------|---------|--------|--------|---------|
| | Old | New | % Chg | Old | New | % Chg |
| Revenue (US\$ mn) | 508 | 522 | 2.8 | 568 | 583 | 2.6 |
| Revenue | 33,011 | 34,863 | 5.6 | 36,897 | 39,038 | 5.8 |
| EBITDA margin (%) | 17.3 | 16.7 | (55)bps | 17.4 | 17.0 | (35)bps |
| EPS (₹) | 52.9 | 56.6 | 7.0 | 60.3 | 66.9 | 10.9 |

Source: Trust Research

Exhibit 3: Geographical wise Performance

| Geographical mix | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| US | 48.0 | 49.0 | 48.0 | 48.0 | 49.0 | 50.0 | 50.0 | 48.0 | 50.0 |
| Europe | 32.0 | 34.0 | 34.0 | 33.0 | 32.0 | 29.0 | 30.0 | 32.0 | 32.0 |
| APAC | 20.0 | 17.0 | 18.0 | 19.0 | 19.0 | 21.0 | 20.0 | 20.0 | 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 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| BFS | 20.0 | 19.0 | 18.0 | 18.0 | 17.0 | 17.0 | 17.0 | 16.0 | 17.0 |
| Insurance | 22.0 | 23.0 | 24.0 | 24.0 | 25.0 | 25.0 | 26.0 | 28.0 | 28.0 |
| Transportation | 32.0 | 33.0 | 32.0 | 31.0 | 29.0 | 27.0 | 27.0 | 26.0 | 27.0 |
| Manufacturing, Med and Other | 26.0 | 25.0 | 26.0 | 27.0 | 29.0 | 31.0 | 30.0 | 30.0 | 28.0 |
| 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 341 QoQ to 9,081 (up 3.6% QoQ). 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 60bps QoQ to 80.1%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

| Employee details | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Billable Personnel - onsite | 1,901 | 1,906 | 1,857 | 1,877 | 1,984 | 2,040 | 2,018 | 2,088 | 2,217 |
| Billable Personnel - offshore | 6,374 | 6,203 | 6,180 | 6,189 | 6,164 | 6,156 | 6,217 | 6,500 | 6,684 |
| Total billable employees | 8,275 | 8,109 | 8,037 | 8,066 | 8,148 | 8,196 | 8,235 | 8,588 | 8,901 |
| Sales and Marketing (Excl GIS) | 132 | 141 | 139 | 133 | 137 | 135 | 147 | 145 | 131 |
| Sales and Marketing (GIS) | 72 | 76 | 82 | 81 | 85 | 85 | 85 | 85 | 90 |
| Others | 543 | 542 | 551 | 573 | 593 | 606 | 614 | 605 | 642 |
| Total employees | 9,022 | 8,868 | 8,809 | 8,853 | 8,963 | 9,022 | 9,081 | 9,423 | 9,764 |
| Utilization (% , excl BPO) | 79.8 | 81.0 | 80.0 | 81.0 | 81.2 | 79.5 | 79.0 | 79.5 | 80.1 |
| Attrition Rate (% , excl BPO) | 13.4 | 12.9 | 12.6 | 12.7 | 12.1 | 11.4 | 10.6 | 10.5 | 10.1 |

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$151mn (US: US\$69mn, EMEA: US\$56mn and RoW: US\$26mn) this quarter (vs US\$144mn in the last quarter).

Exhibit 6: Client details

| Client concentration | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Top 5 clients (%) | 32.0 | 32.0 | 33.0 | 34.0 | 33.0 | 31.0 | 30.0 | 29.0 | 27.0 |
| Top 10 clients (%) | 45.0 | 46.0 | 44.0 | 46.0 | 45.0 | 43.0 | 42.0 | 40.0 | 36.0 |
| Top 20 clients (%) | 58.0 | 61.0 | 59.0 | 62.0 | 58.0 | 57.0 | 54.0 | 54.0 | 49.0 |
| US\$1m clients (Nos) | 74 | 74 | 73 | 73 | 72 | 74 | 78 | 80 | 84 |

Source: Company

Exhibit 7: Significant new customers

| Order Analysis | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|----------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| USA | 2 | 1 | 1 | 1 | 5 | 2 | 4 | 2 | 5 |
| EMEA | 2 | 2 | 1 | 3 | 1 | 2 | 2 | 4 | 3 |
| ROW | - | - | 1 | 1 | 3 | 3 | 2 | 1 | 1 |
| Total | 4 | 3 | 3 | 5 | 9 | 7 | 8 | 7 | 9 |

Source: Company

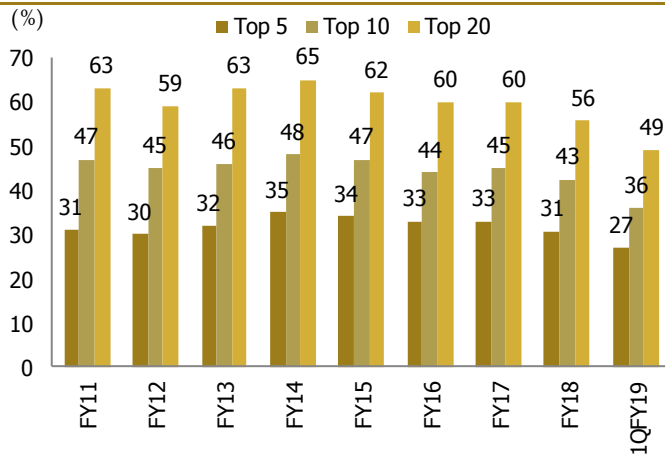
Exhibit 8: Fresh Order Intake

| US\$m | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| USA | 42 | 85 | 38 | 40 | 60 | 64 | 82 | 43 | 69 |
| EMEA | 30 | 45 | 51 | 47 | 23 | 32 | 25 | 69 | 56 |
| ROW | 29 | 13 | 12 | 25 | 27 | 26 | 23 | 33 | 26 |
| Total | 101 | 143 | 101 | 112 | 110 | 122 | 130 | 145 | 151 |

Source: Company

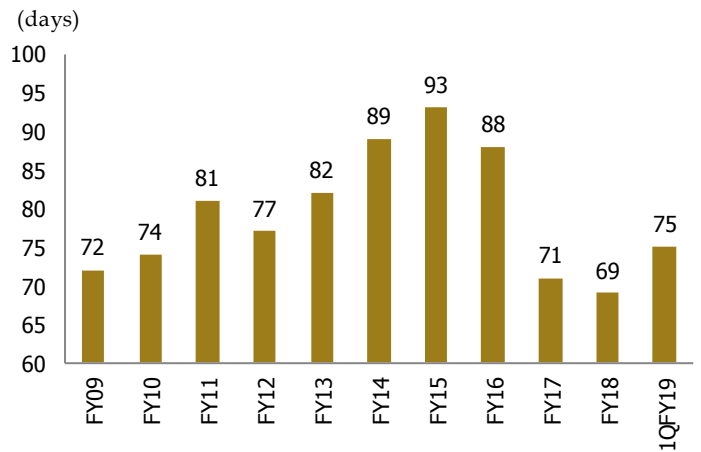


Exhibit 9: Top 5 clients did not perform this quarter



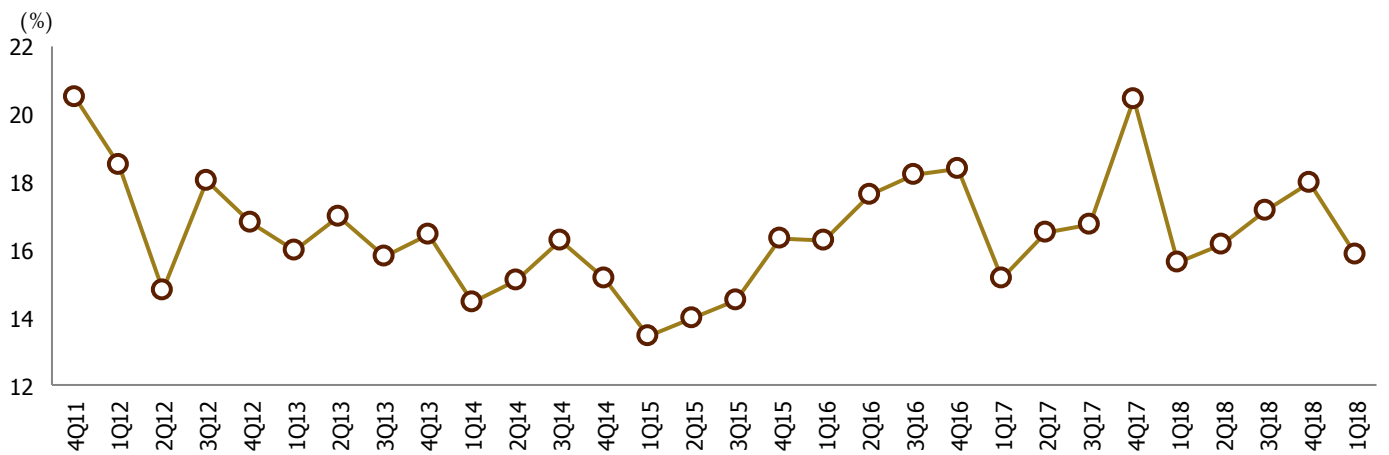
Source: Company, Trust

Exhibit 10: DSO increased 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 | FY16 | FY17 | FY18 | FY19E | FY20E |
|-----------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 26,824 | 28,021 | 29,914 | 34,863 | 39,037 |
| Op. Expenses | 22,091 | 23,175 | 24,902 | 29,058 | 32,384 |
| EBITDA | 4,733 | 4,846 | 5,012 | 5,805 | 6,653 |
| Other Income | 183 | 159 | 298 | 359 | 450 |
| Depreciation | 1,101 | 1,276 | 1,273 | 1,288 | 1,424 |
| EBIT | 3,815 | 3,729 | 4,037 | 4,876 | 5,679 |
| Interest | - | - | - | - | - |
| PBT | 3,815 | 3,729 | 4,037 | 4,876 | 5,679 |
| Tax | 831 | 786 | 950 | 1,145 | 1,306 |
| PAT | 2,984 | 2,943 | 3,087 | 3,732 | 4,373 |
| Minority | (170) | (220) | (285) | (184) | (184) |
| Ex. Ordinary | 13 | (221) | - | - | - |
| Adj Pat | 2,801 | 2,502 | 2,802 | 3,548 | 4,189 |

Key Parameters

| Year End-March | FY16 | FY17 | FY18 | FY19E | FY20E |
|----------------------------|-------|-------|-------|-------|-------|
| Per share (₹) | | | | | |
| EPS | 45.8 | 41.9 | 45.0 | 56.6 | 66.9 |
| CEPS | 63.8 | 62.6 | 65.5 | 77.2 | 89.6 |
| BVPS | 259.2 | 272.9 | 285.2 | 320.1 | 363.6 |
| DPS | 10.0 | 12.5 | 15.0 | 17.5 | 20.0 |
| Payout (%) | 25.5 | 34.9 | 39.0 | 36.1 | 35.0 |
| Valuation (x) | | | | | |
| P/E | 11.5 | 10.4 | 19.2 | 19.8 | 16.8 |
| P/BV | 2.0 | 1.6 | 3.0 | 3.5 | 3.1 |
| EV/EBITDA | 6.0 | 4.2 | 8.8 | 10.0 | 8.4 |
| Dividend Yield (%) | 2.2 | 2.9 | 1.7 | 1.6 | 1.8 |
| Return ratio (%) | | | | | |
| EBITDA Margin | 17.6 | 16.5 | 16.8 | 16.7 | 17.0 |
| PAT Margin | 11.1 | 10.1 | 10.3 | 10.7 | 11.2 |
| ROAE | 18.8 | 16.7 | 17.4 | 18.7 | 19.2 |
| ROACE | 22.8 | 19.7 | 20.6 | 21.9 | 22.5 |
| Leverage Ratios (x) | | | | | |
| Long Term D/E | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Debt/Equity | (0.2) | (0.3) | (0.4) | (0.5) | (0.5) |
| Debt/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Coverage | - | - | - | - | - |
| Current ratio | 2.2 | 2.4 | 2.8 | 2.8 | 2.9 |
| Growth Ratios (%) | | | | | |
| Income growth | 13.1 | 3.5 | 6.8 | 16.5 | 12.0 |
| EBITDA growth | 37.0 | (3.3) | 3.4 | 15.8 | 14.6 |
| PAT growth | 47.9 | (5.8) | 4.9 | 20.9 | 17.2 |
| Turnover Ratios | | | | | |
| F.A Turnover x | 3.8 | 4.6 | 4.7 | 5.1 | 5.3 |
| Debtors Days | 81 | 70 | 69 | 68 | 67 |
| Payable days | 31 | 30 | 29 | 29 | 28 |

Balance Sheet (₹ mn)

| Year End-March | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | | |
| Equity Share Capital | 612 | 614 | 615 | 615 | 615 |
| Reserves & Surplus | 15,296 | 16,251 | 17,125 | 19,390 | 22,114 |
| Total Shareholders Fund | 15,907 | 16,864 | 17,740 | 20,005 | 22,729 |
| Minority Interest | 645 | 237 | 222 | 222 | 222 |
| Non-current liabilities | 653 | 1,987 | 1,658 | 2,030 | 2,331 |
| Long term Borrowings | 64 | 74 | 179 | 179 | 179 |
| Deferred tax liabilities | (259) | (584) | (776) | (776) | (776) |
| Other LT liabilities & prov | 848 | 2,497 | 2,255 | 2,627 | 2,928 |
| Current Liabilities | 5,027 | 4,588 | 5,847 | 7,101 | 7,924 |
| Trade payables | 1,654 | 1,236 | 1,453 | 2,006 | 2,246 |
| Other cur liabilities & Prov | 3,373 | 3,352 | 4,394 | 5,095 | 5,678 |
| Total Liabilities | 22,233 | 23,677 | 25,467 | 29,358 | 33,206 |
| Assets | | | | | |
| Non-current Assets | 8,542 | 8,803 | 9,288 | 9,792 | 10,315 |
| Fixed assets | 5,959 | 6,630 | 6,370 | 6,870 | 7,370 |
| Non-current investments | 2,413 | 2,053 | 2,731 | 2,731 | 2,731 |
| Other non-current assets | 170 | 120 | 187 | 191 | 214 |
| Current assets | 13,690 | 14,874 | 16,179 | 19,566 | 22,891 |
| Current investments | 740 | 3,731 | 3,733 | 3,733 | 3,733 |
| Trade receivables | 5,901 | 4,903 | 5,858 | 6,782 | 7,593 |
| Inventories | 3 | 3 | 3 | 3 | 3 |
| Cash & bank balances | 3,362 | 3,502 | 4,102 | 5,515 | 7,604 |
| Other current assets | 3,685 | 2,735 | 2,483 | 3,534 | 3,957 |
| Total Assets | 22,233 | 23,677 | 25,467 | 29,358 | 33,206 |

Cash flow Statement

| Year End-March | FY16 | FY17 | FY18 | FY19E | FY20E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 3,815 | 3,729 | 4,037 | 4,876 | 5,679 |
| Depreciation | 1,229 | 951 | 1,081 | 1,288 | 1,424 |
| Others | (183) | (441) | (285) | (184) | (184) |
| CF before W.cap | 4,861 | 4,239 | 4,833 | 5,980 | 6,919 |
| Inc/dec in W.cap | 487 | (3,208) | (247) | 353 | 134 |
| Op CF after W.cap | 4,373 | 7,447 | 5,080 | 5,628 | 6,785 |
| Less Taxes | 831 | 786 | 950 | 1,145 | 1,306 |
| Net CF From Operations | 3,542 | 6,661 | 4,130 | 4,483 | 5,479 |
| Inc/(dec) in F.A + CWIP | 1,660 | 1,947 | 1,013 | 1,788 | 1,924 |
| (Pur)/sale of Investments | 1,218 | 2,630 | 681 | - | - |
| CF from Invst Activities | (2,877) | (4,578) | (1,694) | (1,788) | (1,924) |
| Loan Raised/(repaid) | 472 | (398) | 90 | - | - |
| Equity Raised | 251 | (641) | (835) | (0) | 0 |
| Dividend | 718 | 904 | 1,092 | 1,282 | 1,466 |
| CF from Fin Activities | 5 | (1,943) | (1,836) | (1,282) | (1,466) |
| Net inc/(dec) in cash | 669 | 140 | 600 | 1,413 | 2,090 |
| Op. bal of cash | 2,692 | 3,362 | 3,502 | 4,102 | 5,515 |
| Cl. balance of cash | 3,362 | 3,502 | 4,102 | 5,515 | 7,604 |



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|----------------|--|
| Buy | More than 15% |
| Hold | 15% to -15% |
| Sell | Less than -15% |

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