

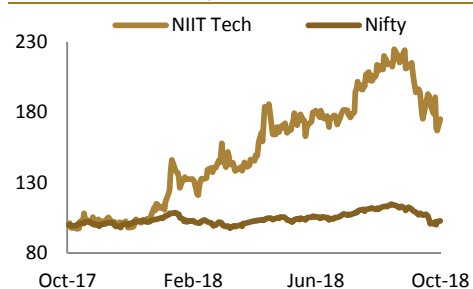
Market statistics

Current stock price (₹)	1,199
Shares O/S (cr.)	6.1
Mcap (₹ cr)	7,381
52W H/L (₹)	1425/605
6m avg. volume	1,579,495
Bloomberg	NITEC.IN

Shareholding pattern

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

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	17.4	20.8	20.2
EPS (₹)	45.0	65.2	73.1
CEPS (₹)	65.5	85.7	95.3
P/E (x)	19.2	18.4	16.4
P/BV (x)	3.0	3.6	3.2
EV/EBITDA (x)	8.8	9.7	8.2
Income growth (%)	6.8	21.4	13.2
EBITDA growth (%)	3.4	27.6	14.2
PAT growth (%)	4.9	38.5	11.6

The revenues of NIIT Technologies (NITEC) increased 5.3% QoQ to US\$130.9mn (7.6% in cc terms QoQ) in Q2FY19. The Company's operating margin increased 216bps QoQ in the quarter on account of strong revenue trajectory, wage hike normalization, INR depreciation. PAT was higher account of higher OI. In 2Q, it signed deals worth US\$160mn, with 12-month executable order book at US\$363mn (up 4.6% 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 4.6% QoQ: The Company's order book - executable over the next 12 months - was up 4.6% QoQ at US\$363mn. 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\$551mn (~1.5xQ2FY19 order book). During the quarter, the company added 10 clients, 5 in USA, 2 in RoW and the rest in EMEA. NIIT Tech had a fresh order intake of US\$160mn (US: US\$86mn, EMEA: US\$39mn and RoW: US\$35mn) this quarter (vs US\$151mn in the last quarter).

Quarter details: NIIT Tech reported a revenue increase of 5.3% in US\$ terms to US\$130.9mn (BFSI up 6.2% QoQ - Growth in top accounts in US and Europe. Signed US\$23mn deal with existing customer in US. 2 New accounts added. Insurance was up 11.2% QoQ - Growth in key accounts in US. Signed US\$24mn deal with existing customer in US. 4 New account added. Travel & Transport up 9.2% QoQ - Increase in top accounts in Europe and US, Signed two US\$10 mn+ deals. Other Verticals up 11.9% QoQ - Increase in GIS, 4 new accounts added. NITEC won two large deals in the quarter (US\$20mn+), closed 3 deals (US\$10m+) in the quarter. NITEC has hired senior leaders for facing clients ensuring better client mining.

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 had guided to double digit revenue growth for FY19, but would do far better than its guidance and margin expansion as well. NIIT Tech is trading at 18.4/16.4x of FY19E/20E EPS with dividend yield of 1.5% and Cash/share of ₹121/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

ANALYST

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Exhibit 1: Quarterly details

` mn	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	113	124	131	5.3	15.9	Revenue growth of 7.6% in cc terms. Morris business not to decline any further. Strong traction across verticals.
Revenues	7,372	8,249	9,074	10.0	23.1	
- Operating costs	6,182	6,942	7,440	7.2	20.3	
EBITDA	1,190	1,307	1,634	25.0	37.3	
EBITDA margin (%)	16.1	15.8	18.0	216bps	187bps	Margin increased due to strong revenue trajectory, INR Depreciation and wage hike normalisation
- Interest expense	-	-	-			
- Depreciation	341	312	319	2.2	(6.5)	
+ Other income, net (incl forex)	87	209	215	NA	NA	
PBT	936	1,204	1,530	27.1	63.5	
- Taxes	204	300	363	21.0	77.9	
Effective tax rate (%)	21.8	24.9	23.7	(119)bps	193bps	Effective tax rate for FY19 to be between ~23-24%
PAT	732	904	1,167	29.1	59.4	
Minority interest	61	46	49	NA	NA	
Consolidated profits	671	858	1,118	30.3	66.6	
Net Margin	9.1	10.4	12.3	192bps	322bps	
Reported profits	671	858	1,118	30.3	66.6	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	522	527	1.0	583	587	0.7
Revenue	34,863	36,308	4.1	39,038	41,110	5.3
EBITDA margin (%)	16.7	17.6	90bps	17.0	17.8	80bps
EPS (₹)	56.6	65.2	15.2	66.9	73.1	9.3

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
US	49.0	48.0	48.0	49.0	50.0	50.0	48.0	50.0	49.0
Europe	34.0	34.0	33.0	32.0	29.0	30.0	32.0	32.0	34.0
APAC	17.0	18.0	19.0	19.0	21.0	20.0	20.0	18.0	17.0
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	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
BFS	19.0	18.0	18.0	17.0	17.0	17.0	16.0	17.0	16.0
Insurance	23.0	24.0	24.0	25.0	25.0	26.0	28.0	28.0	29.0
Transportation	33.0	32.0	31.0	29.0	27.0	27.0	26.0	27.0	27.0
Manufacturing, Med and Other	25.0	26.0	27.0	29.0	31.0	30.0	30.0	28.0	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 261 QoQ to 10,025 (up 2.6% 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 30bps QoQ to 80.4%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Billable Personnel - onsite	1,906	1,857	1,877	1,984	2,040	2,018	2,088	2,217	2,369
Billable Personnel - offshore	6,203	6,180	6,189	6,164	6,156	6,217	6,500	6,684	6,815
Total billable employees	8,109	8,037	8,066	8,148	8,196	8,235	8,588	8,901	9,184
Sales and Marketing (Excl GIS)	141	139	133	137	135	147	145	131	123
Sales and Marketing (GIS)	76	82	81	85	85	85	85	90	94
Others	542	551	573	593	606	614	605	642	624
Total employees	8,868	8,809	8,853	8,963	9,022	9,081	9,423	9,764	10,025
Utilization (% , excl BPO)	81.0	80.0	81.0	81.2	79.5	79.0	79.5	80.1	80.4
Attrition Rate (% , excl BPO)	12.9	12.6	12.7	12.1	11.4	10.6	10.5	10.1	10.8

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$160mn (US: US\$86mn, EMEA: US\$39mn and RoW: US\$35mn) this quarter (vs US\$151mn in the last quarter).

Exhibit 6: Client details

Client concentration	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Top 5 clients (%)	32.0	33.0	34.0	33.0	31.0	30.0	29.0	27.0	28.0
Top 10 clients (%)	46.0	44.0	46.0	45.0	43.0	42.0	40.0	36.0	40.0
Top 20 clients (%)	61.0	59.0	62.0	58.0	57.0	54.0	54.0	49.0	54.0
US\$1m clients (Nos)	74	73	73	72	74	78	80	84	88

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
USA	1	1	1	5	2	4	2	5	5
EMEA	2	1	3	1	2	2	4	3	3
ROW	-	1	1	3	3	2	1	1	2
Total	3	3	5	9	7	8	7	9	10

Source: Company

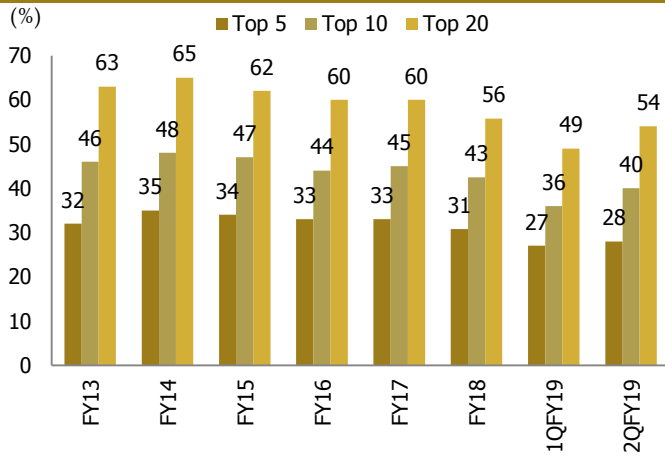
Exhibit 8: Fresh Order Intake

US\$m	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
USA	85	38	40	60	64	82	43	69	86
EMEA	45	51	47	23	32	25	69	56	39
ROW	13	12	25	27	26	23	33	26	25
Total	143	101	112	110	122	130	145	151	160

Source: Company

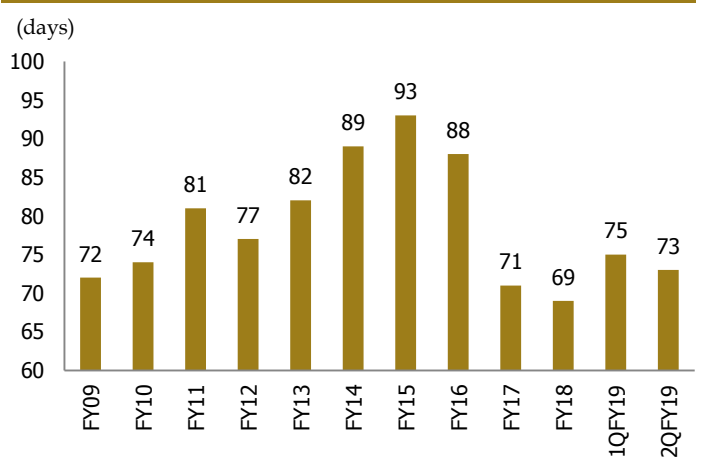


Exhibit 9: Top 5 clients performed this quarter



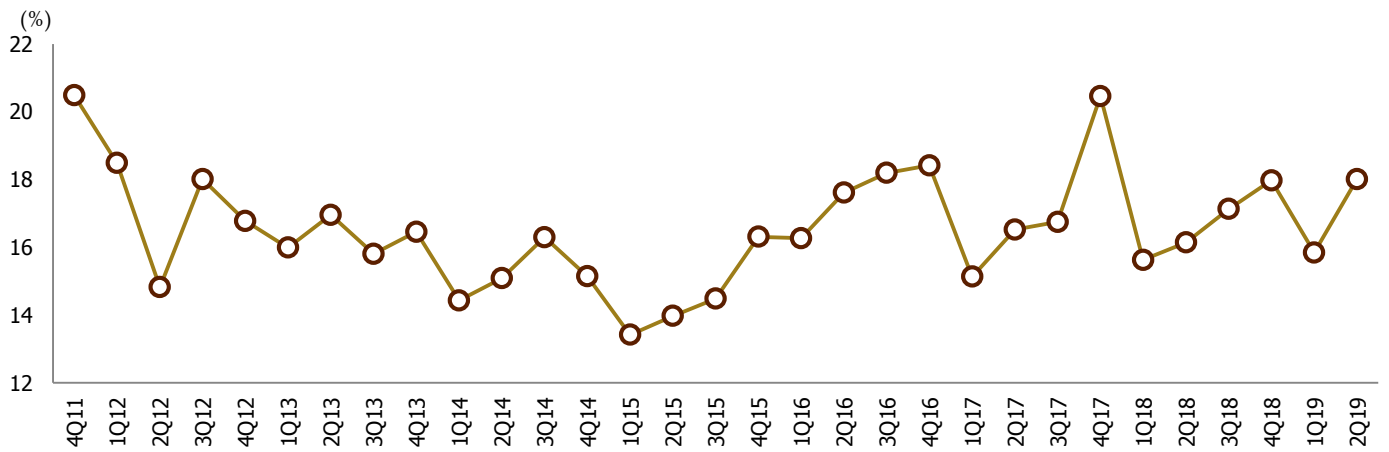
Source: Company, Trust

Exhibit 10: DSO decreased by 2 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	FY18	FY19E	FY20E
Revenues	26,824	28,021	29,914	36,308	41,110
Op. Expenses	22,091	23,175	24,902	29,910	33,807
EBITDA	4,733	4,846	5,012	6,398	7,303
Other Income	183	159	298	524	450
Depreciation	1,101	1,276	1,273	1,287	1,389
EBIT	3,815	3,729	4,037	5,634	6,364
Interest	-	-	-	-	-
PBT	3,815	3,729	4,037	5,634	6,364
Tax	831	786	950	1,359	1,591
PAT	2,984	2,943	3,087	4,275	4,773
Minority	(170)	(220)	(285)	(193)	(193)
Ex. Ordinary	13	(221)	-	-	-
Adj Pat	2,801	2,502	2,802	4,082	4,580

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	45.8	41.9	45.0	65.2	73.1
CEPS	63.8	62.6	65.5	85.7	95.3
BVPS	259.2	272.9	285.2	328.6	378.3
DPS	10.0	12.5	15.0	17.5	20.0
Payout (%)	25.5	34.9	39.0	31.4	32.0
Valuation (x)					
P/E	11.5	10.4	19.2	18.4	16.4
P/BV	2.0	1.6	3.0	3.6	3.2
EV/EBITDA	6.0	4.2	8.8	9.7	8.2
Dividend Yield (%)	2.2	2.9	1.7	1.5	1.7
Return ratio (%)					
EBITDA Margin	17.6	16.5	16.8	17.6	17.8
PAT Margin	11.1	10.1	10.3	11.8	11.6
ROAE	18.8	16.7	17.4	20.8	20.2
ROACE	22.8	19.7	20.6	24.6	24.2
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.3)	(0.4)	(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	21.4	13.2
EBITDA growth	37.0	(3.3)	3.4	27.6	14.2
PAT growth	47.9	(5.8)	4.9	38.5	11.6
Turnover Ratios					
F.A Turnover x	3.8	4.6	4.7	5.3	5.6
Debtors Days	81	70	69	67	66
Payable days	31	30	29	28	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	19,925	23,039
Total Shareholders Fund	15,907	16,864	17,740	20,540	23,654
Minority Interest	645	237	222	222	222
Non- current liabilities	653	1,987	1,658	2,107	2,459
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	2,704	3,056
Current Liabilities	5,027	4,588	5,847	7,333	8,293
Trade payables	1,654	1,236	1,453	2,089	2,365
Other cur liabilities & Prov	3,373	3,352	4,394	5,245	5,928
Total Liabilities	22,233	23,677	25,467	30,203	34,629
Assets					
Non- current Assets	8,542	8,803	9,288	9,800	10,326
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	199	225
Current assets	13,690	14,874	16,179	20,403	24,302
Current investments	740	3,731	3,733	3,733	3,733
Trade receivables	5,901	4,903	5,858	7,063	7,997
Inventories	3	3	3	3	3
Cash & bank balances	3,362	3,502	4,102	5,923	8,402
Other current assets	3,685	2,735	2,483	3,681	4,167
Total Assets	22,233	23,677	25,467	30,203	34,629

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	3,815	3,729	4,037	5,634	6,364
Depreciation	1,229	951	1,081	1,287	1,389
Others	(183)	(441)	(285)	(193)	(193)
CF before W.cap	4,861	4,239	4,833	6,729	7,560
Inc/dec in W.cap	487	(3,208)	(247)	478	135
Op CF after W.cap	4,373	7,447	5,080	6,250	7,425
Less Taxes	831	786	950	1,359	1,591
Net CF From Operations	3,542	6,661	4,130	4,891	5,834
Inc/(dec) in F.A + CWIP	1,660	1,947	1,013	1,787	1,889
(Pur)/sale of Investments	1,218	2,630	681	-	-
CF from Invst Activities	(2,877)	(4,578)	(1,694)	(1,787)	(1,889)
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	1,821	2,479
Op. bal of cash	2,692	3,362	3,502	4,102	5,923
Cl. balance of cash	3,362	3,502	4,102	5,923	8,402



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