

Market statistics

Current stock price (₹)	1,227
Shares O/S (cr.)	6.1
Mcap (₹ cr)	7,563
52W H/L (₹)	1425/682
6m avg. volume	1,039,839
Bloomberg	NITEC.IN

The revenues of NIIT Technologies (NITEC) increased 3% QoQ to US\$134.8mn (4.2% in cc terms) in Q3FY19. The Company's operating margin increased 57bps QoQ in the quarter on account of strong revenue trajectory, wage hike normalization, INR depreciation. PAT was lower on account of lower OI and higher tax expense. In 3Q, it signed deals worth US\$165mn, with 12-month executable order book at US\$375mn (up 3.3% 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.

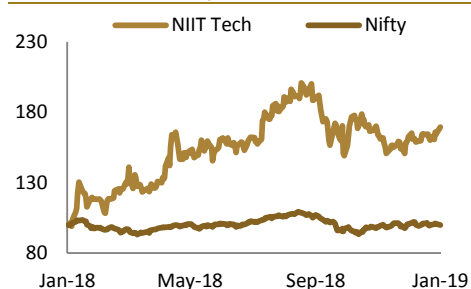
Shareholding pattern

Promoters	30.58
Domestic Institution	18.36
Foreign Institution	37.77
Non-institution	13.29
of which more than 1%	

Healthy Order Book - up 3.3% QoQ: The Company's order book - executable over the next 12 months - was up 3.3% QoQ at US\$375mn. 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\$578mn (~1.5xQ3FY19 order book). During the quarter, the company added 10 clients, 8 in USA and 2 in RoW. NIIT Tech had a fresh order intake of US\$165mn (US: US\$96mn, EMEA: US\$42mn and RoW: US\$27mn) this quarter (vs US\$160mn in the last quarter).

Quarter details: NIIT Tech reported a revenue increase of 3% in US\$ terms to US\$134.8mn (Travel & Transportation was up 5.4% QoQ, Growth in Top accounts in Europe and US, 2 new clients added. Insurance was up 9.8% QoQ, Growth in large customers in US, and NITL, Signed a large US\$20mn+ deal in US, 3 new clients added. BFS was up 1.7% QoQ, 1 Large Deal of US\$20mn+ signed with large BFS client in US, 1 new client added. Others up 8.9% QoQ, Scale up in GIS business, 4 new clients added. Tax expense increased to 29.7% due to tax on dividend income from the foreign subsidiary. The normalized tax rate stood at 24.2%. Other income reflects loss on account of revaluation of current assets and liabilities at the qtr end.

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 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 18.9/16.3x of FY19E/20E EPS with dividend yield of 1.5% and Cash/share of ₹132/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

Capital efficiency & valuations

Particulars	FY19E	FY20E	FY21E
RoE (%)	20.9	20.9	20.6
EPS (₹)	64.9	75.2	85.9
CEPS (₹)	85.1	97.0	109.4
P/E (x)	18.9	16.3	14.3
P/BV (x)	3.8	3.3	2.8
EV/EBITDA (x)	9.7	8.2	6.9
Income growth (%)	22.7	13.3	11.4
EBITDA growth (%)	29.8	13.3	13.4
PAT growth (%)	37.9	15.2	13.7

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**Exhibit 1: Quarterly details**

` mn	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	117	131	135	3.0	15.6	Revenue growth of 4.2% in cc terms. Strong traction across verticals.
Revenues	7,565	9,074	9,717	7.1	28.4	
- Operating costs	6,269	7,440	7,912	6.3	26.2	
EBITDA	1,296	1,634	1,805	10.5	39.3	
EBITDA margin (%)	17.1	18.0	18.6	57bps	144bps	Margin increased due to strong revenue trajectory, INR Depreciation and wage hike normalisation
- Interest expense	-	-	-			
- Depreciation	311	319	314	(1.6)	1.0	
+ Other income, net (incl forex)	5	215	5	NA	NA	
PBT	990	1,530	1,496	(2.2)	51.1	
- Taxes	163	363	445	22.6	173.0	
Effective tax rate (%)	16.5	23.7	29.7	602bps	1,328bps	Effective tax rate for FY19 to be between ~23-24%
PAT	827	1,167	1,051	(9.9)	27.1	
Minority interest	70	49	49	NA	NA	
Consolidated profits	757	1,118	1,002	(10.4)	32.4	
Net Margin	10.0	12.3	10.3	(201)bps	31bps	
Reported profits	757	1,118	1,002	(10.4)	32.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	527	529	0.4	587	594	1.2
Revenue	36,308	36,717	1.1	41,110	41,612	1.2
EBITDA margin (%)	17.6	17.7	5bps	17.8	17.7	(5)bps
EPS (₹)	65.2	64.9	(0.5)	73.1	75.2	2.9

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
US	48.0	48.0	49.0	50.0	50.0	48.0	50.0	49.0	49.0
Europe	34.0	33.0	32.0	29.0	30.0	32.0	32.0	34.0	33.0
APAC	18.0	19.0	19.0	21.0	20.0	20.0	18.0	17.0	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	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
BFS	18.0	18.0	17.0	17.0	17.0	16.0	17.0	16.0	15.0
Insurance	24.0	24.0	25.0	25.0	26.0	28.0	28.0	29.0	30.0
Transportation	32.0	31.0	29.0	27.0	27.0	26.0	27.0	27.0	26.0
Manufacturing, Med and Other	26.0	27.0	29.0	31.0	30.0	30.0	28.0	28.0	29.0
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 89 QoQ to 10,114 (up 0.9% 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 decreased 140bps QoQ to 79%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Billable Personnel - onsite	1,857	1,877	1,984	2,040	2,018	2,088	2,217	2,369	2,408
Billable Personnel - offshore	6,180	6,189	6,164	6,156	6,217	6,500	6,684	6,815	6,881
Total billable employees	8,037	8,066	8,148	8,196	8,235	8,588	8,901	9,184	9,289
Sales and Marketing (Excl GIS)	139	133	137	135	147	145	131	123	114
Sales and Marketing (GIS)	82	81	85	85	85	85	90	94	94
Others	551	573	593	606	614	605	642	624	647
Total employees	8,809	8,853	8,963	9,022	9,081	9,423	9,764	10,025	10,114
Utilization (% , excl BPO)	80.0	81.0	81.2	79.5	79.0	79.5	80.1	80.4	79.0
Attrition Rate (% , excl BPO)	12.6	12.7	12.1	11.4	10.6	10.5	10.1	10.8	11.7

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$165mn (US: US\$96mn, EMEA: US\$42mn and RoW: US\$27mn) this quarter (vs US\$160mn in the last quarter).

Exhibit 6: Client details

Client concentration	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Top 5 clients (%)	33.0	34.0	33.0	31.0	30.0	29.0	27.0	28.0	28.0
Top 10 clients (%)	44.0	46.0	45.0	43.0	42.0	40.0	36.0	40.0	40.0
Top 20 clients (%)	59.0	62.0	58.0	57.0	54.0	54.0	49.0	54.0	54.0
US\$1m clients (Nos)	73	73	72	74	78	80	84	88	90

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
USA	1	1	5	2	4	2	5	5	8
EMEA	1	3	1	2	2	4	3	3	-
ROW	1	1	3	3	2	1	1	2	2
Total	3	5	9	7	8	7	9	10	10

Source: Company

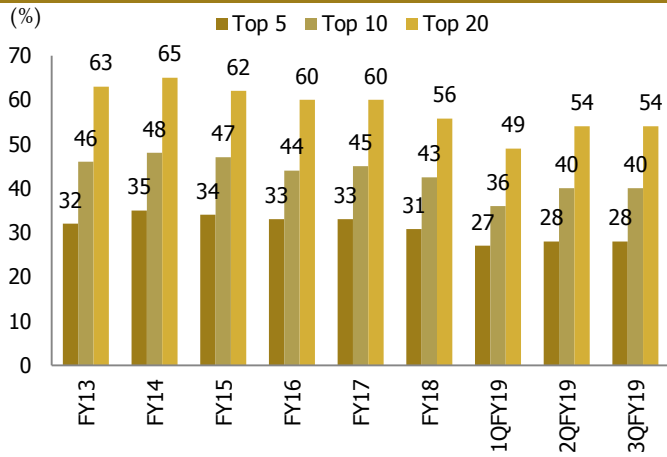
Exhibit 8: Fresh Order Intake

US\$m	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
USA	38	40	60	64	82	43	69	86	96
EMEA	51	47	23	32	25	69	56	39	42
ROW	12	25	27	26	23	33	26	25	27
Total	101	112	110	122	130	145	151	160	165

Source: Company

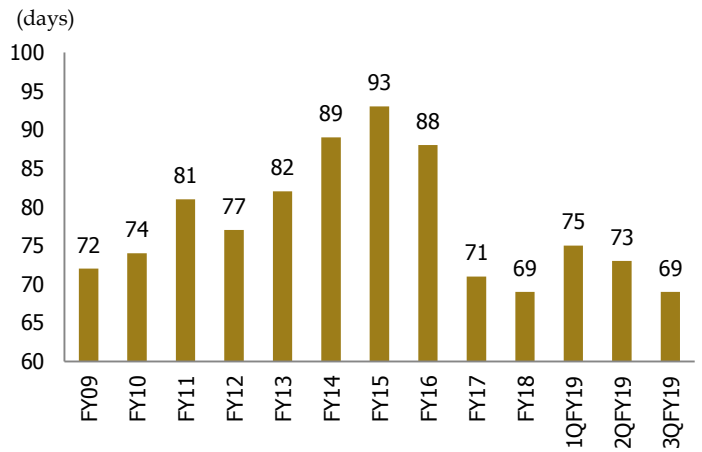


Exhibit 9: Top 5 clients performed this quarter



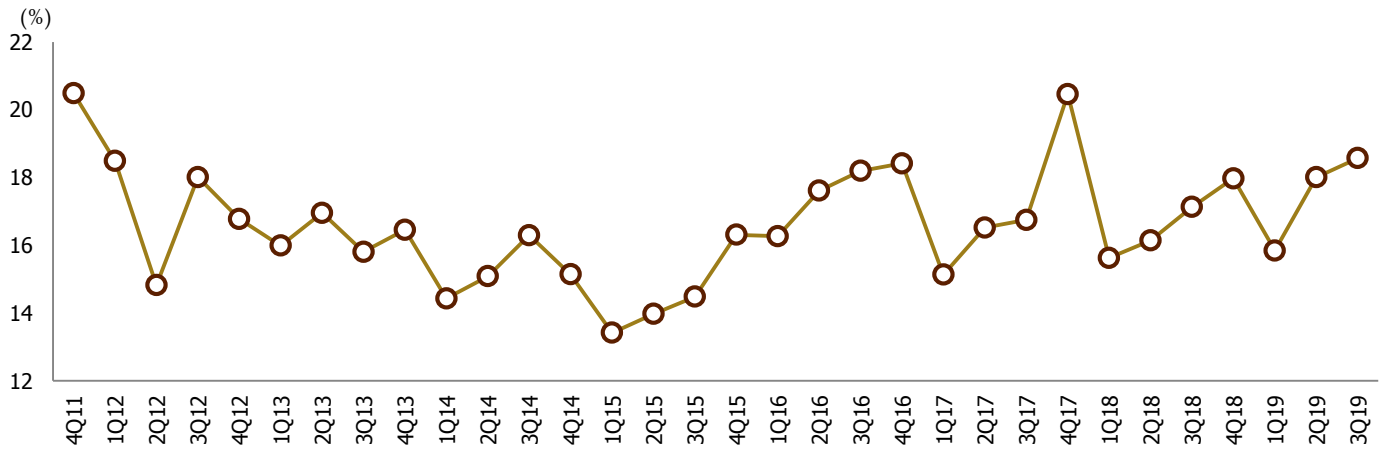
Source: Company, Trust

Exhibit 10: DSO decreased by 4 QoQ



Source: Company, Trust

Exhibit 11: NITEC's margin was higher-than-expectation



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Revenues	28,021	29,914	36,717	41,612	46,369
Op. Expenses	23,175	24,902	30,210	34,241	38,014
EBITDA	4,846	5,012	6,507	7,370	8,354
Other Income	159	298	479	450	550
Depreciation	1,276	1,273	1,264	1,368	1,470
EBIT	3,729	4,037	5,723	6,452	7,434
Interest	-	-	-	-	-
PBT	3,729	4,037	5,723	6,452	7,434
Tax	786	950	1,466	1,548	1,859
PAT	2,943	3,087	4,256	4,903	5,576
Minority	(220)	(285)	(193)	(196)	(196)
Ex. Ordinary	(221)	-	-	-	-
Adj Pat	2,502	2,802	4,063	4,707	5,380

Key Parameters

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (₹)					
EPS	41.9	45.0	64.9	75.2	85.9
CEPS	62.6	65.5	85.1	97.0	109.4
BVPS	272.9	285.2	326.6	376.0	432.6
DPS	12.5	15.0	19.0	22.0	25.0
Payout (%)	34.9	39.0	34.3	34.2	34.1
Valuation (x)					
P/E	10.4	19.2	18.9	16.3	14.3
P/BV	1.6	3.0	3.8	3.3	2.8
EV/EBITDA	4.2	8.8	9.7	8.2	6.9
Dividend Yield (%)	2.9	1.7	1.5	1.8	2.0
Return ratio (%)					
EBITDA Margin	16.5	16.8	17.7	17.7	18.0
PAT Margin	10.1	10.3	11.6	11.8	12.0
ROAE	16.7	17.4	20.9	20.9	20.6
ROACE	19.7	20.6	25.1	24.6	24.7
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.4	2.8	2.7	2.9	3.1
Growth Ratios (%)					
Income growth	3.5	6.8	22.7	13.3	11.4
EBITDA growth	(3.3)	3.4	29.8	13.3	13.4
PAT growth	(5.8)	4.9	37.9	15.2	13.7
Turnover Ratios					
F.A Turnover x	4.6	4.7	5.3	5.6	5.9
Debtors Days	70	69	68	68	67
Payable days	30	29	28	28	27

Balance Sheet (₹ mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Equity Share Capital	614	615	615	615	615
Reserves & Surplus	16,251	17,125	19,796	22,891	26,439
Total Shareholders Fund	16,864	17,740	20,411	23,506	27,054
Minority Interest	237	222	222	222	222
Non- current liabilities	1,987	1,658	2,134	2,499	2,840
Long term Borrowings	74	179	179	179	179
Deferred tax liabilities	(584)	(776)	(776)	(776)	(776)
Other LT liabilities & prov	2,497	2,255	2,731	3,096	3,437
Current Liabilities	4,588	5,847	7,410	8,398	9,333
Trade payables	1,236	1,453	2,113	2,394	2,668
Other cur liabilities & Prov	3,352	4,394	5,297	6,004	6,665
Total Liabilities	23,677	25,467	30,177	34,625	39,449
Assets					
Non- current Assets	8,803	9,288	9,802	10,329	10,855
Fixed assets	6,630	6,370	6,870	7,370	7,870
Non-current investments	2,053	2,731	2,731	2,731	2,731
Other non-current assets	120	187	201	228	254
Current assets	14,874	16,179	20,375	24,296	28,594
Current investments	3,731	3,733	3,733	3,733	3,733
Trade receivables	4,903	5,858	7,142	8,094	9,020
Inventories	3	3	3	3	3
Cash & bank balances	3,502	4,102	5,774	8,248	11,138
Other current assets	2,735	2,483	3,722	4,218	4,700
Total Assets	23,677	25,467	30,177	34,625	39,449

Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	3,729	4,037	5,723	6,452	7,434
Depreciation	951	1,081	1,264	1,368	1,470
Others	(441)	(285)	(193)	(196)	(196)
CF before W.cap	4,239	4,833	6,793	7,624	8,708
Inc/dec in W.cap	(3,208)	(247)	499	122	157
Op CF after W.cap	7,447	5,080	6,295	7,502	8,551
Less Taxes	786	950	1,466	1,548	1,859
Net CF From Operations	6,661	4,130	4,828	5,954	6,693
Inc/(dec) in F.A + CWIP	1,947	1,013	1,764	1,868	1,970
(Pur)/sale of Investments	2,630	681	-	-	-
CF from Invst Activities	(4,578)	(1,694)	(1,764)	(1,868)	(1,970)
Loan Raised/(repaid)	(398)	90	-	-	-
Equity Raised	(641)	(835)	(0)	0	(0)
Dividend	904	1,092	1,392	1,612	1,832
CF from Fin Activities	(1,943)	(1,836)	(1,392)	(1,612)	(1,832)
Net inc/(dec) in cash	140	600	1,672	2,473	2,890
Op. bal of cash	3,362	3,502	4,102	5,774	8,248
Cl. balance of cash	3,502	4,102	5,774	8,248	11,138



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