

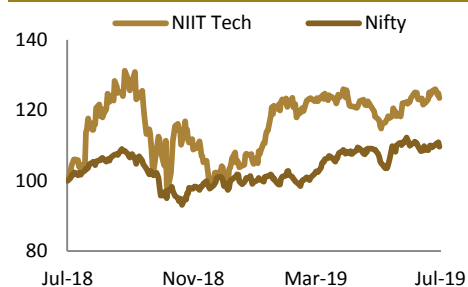
Market statistics

Current stock price (₹)	1,344
Shares O/S (cr.)	6.2
Mcap (₹ cr)	8,306
52W H/L (₹)	1425/1031
6m avg. volume	610,795
Bloomberg	NITEC.IN

Shareholding pattern

Promoters	33.91
Domestic Institution	17.52
Foreign Institution	35.26
Non-institution	13.32
of which more than 1%	
Arvind Thakur	1.06
AKM Systems Pvt. Ltd.	1.23

NIIT Tech vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	19.6	17.1	16.9
EPS (₹)	66.2	71.1	84.7
CEPS (₹)	86.4	97.7	112.9
P/E (x)	20.0	18.6	15.6
P/BV (x)	4.0	3.3	2.7
EV/EBITDA (x)	10.7	9.7	7.7
Income growth (%)	22.9	11.9	11.8
EBITDA growth (%)	28.8	9.8	17.0
PAT growth (%)	38.5	4.8	18.7

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in

The revenues of NIIT Technologies (NITEC) increased to US\$138.5mn (4% in cc terms) in Q1FY20, adjusted to GIS disinvestment. The Company's EBIT margin decreased 420bps QoQ in the quarter due to wage hikes, visa costs and one-time expenses. In 1Q, it signed deals worth US\$175mn, with 12-month executable order book at US\$395mn (up 1.3% 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.

Healthy Order Book - up 1.3% QoQ: The Company's order book - executable over the next 12 months - was up 1.3% QoQ at US\$395mn. 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\$612mn (~1.54xQ1FY20 order book). During the quarter, the company added 11 clients, 5 in USA and 3 each in EMEA/RoW. NIIT Tech had a fresh order intake of US\$175mn (US: US\$100mn, EMEA: US\$58mn and RoW: US\$17mn) this quarter (vs US\$171mn in the last quarter).

Quarter details: NIIT Tech's adjusted revenues grew 4%/3% QoQ in cc/INR terms. However, reported revenues declined ~1% QoQ in INR terms due to the exit from the GIS business in early Q1FY20. Growth was largely driven by Travel (up 3.3% QoQ in INR terms) and Insurance vertical (up 4.3%), while BFS revenues remained flat on a spending cut by a top client, and 'Others' revenues declined on exit from the GIS business (down 11% QoQ). Reported EBIT margins declined 420bps QoQ on wage hikes (-240bps), visa costs (-90bps) and one-time expenses (-240bps). The headwinds were, however, offset in part by operational efficiencies (+100bps) and one-off expense in Q4FY19 (+50bps). For FY20, NIIT Tech indicated stable demand except for the slowness in a top financial services client on a cut in IT spending. Margin outlook turned cautious as NIIT Tech maintained its EBITDA margin outlook of ~18%, despite a 90bps tailwind arising out of IndAS116 implementation at the EBITDA level.

Open offer details: Pursuant to the agreement, Hulst B.V. acquired 18,848,118 shares from existing shareholders (~30% stake) on May'19. Hulst B.V. has triggered an open offer during the period 16-26 July'19 to acquire another ~35%. Upon completion of the offer, the shareholding of Hulst B.V. would be ~65%.

Board changes: 1) Mr. Basab Pradhan has been appointed as additional director in the capacity of Independent Director and Chairperson of the board on June 29, 2019; 2) Mr. Kenneth Tuck Kuen Cheong, Mr. Hari Gopalakrishnan, Mr. Kirti Ram Hariharan and Mr. Patrick John Cordes, being nominees of Hulst B.V., were appointed as additional directors on May 17, 2019; 3) Mr. Rajendra Singh Pawar, ex-chairperson of the company, Mr. Arvind Thakur, ex-Managing Director of the Company, and Mr. Vijay Kumar Thadani, ex-NonExecutive Director, have resigned from the board, effective May 17, 2019.

Outlook & Valuation: We raise revenue estimates after accounting for the higher-than-expected run-rate for the Whishworks acquisition. We cut margin estimates due to one-offs in Q1FY20 and a relatively weak margin commentary. Tier II names in general remain more vulnerable to growth moderation, supply-side challenges and the concomitant risk to margins. NIIT Tech is trading at 18.6/15.6x of FY20E/21E EPS and Cash/share of ₹118/share, which provides it a strong downside cushion. We maintain our Buy recommendation.

**Exhibit 1: Quarterly details**

` mn	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	124	138	139	0.4	11.4	Revenue growth of 4% in cc terms. Executable order book up 1.3% QoQ to US\$395mn
Revenues	8,249	9,722	9,627	(1.0)	16.7	
- Operating costs	6,942	8,015	8,238	2.8	18.7	
EBITDA	1,307	1,707	1,389	(18.6)	6.3	
EBITDA margin (%)	15.8	17.6	14.4	(313)bps	(142)bps	Margin decreased due to wage hike, visa costs and one-time expenses
- Interest expense	-	-	-	-	-	
- Depreciation	312	303	401	32.3	28.5	
+ Other income, net (incl forex)	209	47	172	266.0	(17.7)	
PBT	1,204	1,451	1,160	(20.1)	(3.7)	
- Taxes	300	296	318	7.4	6.0	
Effective tax rate (%)	24.9	20.4	27.4	701bps	250bps	Effective tax rate for FY20 to be between ~23-24%
PAT	904	1,155	842	(27.1)	(6.9)	
Minority interest	46	44	22	NA	NA	
Consolidated profits	858	1,111	820	(26.2)	(4.4)	
Net Margin	10.4	11.4	8.5	(291)bps	(188)bps	
Reported profits	858	1,055	877	(16.9)	2.2	

Source: Company

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	564	592	5.0	622	662	6.4
Revenue	39,448	41,133	4.3	43,531	45,981	5.6
EBITDA margin (%)	17.8	17.2	(55)bps	18.1	18.0	(10)bps
EPS (₹)	73.3	71.1	(3.0)	82.8	84.7	2.3

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
US	49.0	50.0	50.0	48.0	50.0	49.0	49.0	49.0	49.0
Europe	32.0	29.0	30.0	32.0	32.0	34.0	33.0	33.0	35.0
APAC	19.0	21.0	20.0	20.0	18.0	17.0	18.0	18.0	16.0
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	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
BFS	17.0	17.0	17.0	16.0	17.0	16.0	15.0	16.0	16.0
Insurance	25.0	25.0	26.0	28.0	28.0	29.0	30.0	28.0	29.0
Transportation	29.0	27.0	27.0	26.0	27.0	27.0	26.0	27.0	28.0
Manufacturing, Med and Other	29.0	31.0	30.0	30.0	28.0	28.0	29.0	29.0	27.0
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 34 QoQ to 10,297 (up 0.3% 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 120bps QoQ to 80.5%, would be used as a margin lever as guided by the management.

Exhibit 5: Employee strength at NITEC

Employee details	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Billable Personnel - onsite	1,984	2,040	2,018	2,088	2,217	2,369	2,408	2,345	2,429
Billable Personnel - offshore	6,164	6,156	6,217	6,500	6,684	6,815	6,881	7,018	7,063
Total billable employees	8,148	8,196	8,235	8,588	8,901	9,184	9,289	9,363	9,492
Sales and Marketing (Excl GIS)	137	135	147	145	131	123	114	122	141
Sales and Marketing (GIS)	85	85	85	85	90	94	94	89	-
Others	593	606	614	605	642	624	647	689	664
Total employees	8,963	9,022	9,081	9,423	9,764	10,025	10,114	10,263	10,297
Utilization (% , excl BPO)	81.2	79.5	79.0	79.5	80.1	80.4	79.0	79.3	80.5
Attrition Rate (% , excl BPO)	12.1	11.4	10.6	10.5	10.1	10.8	11.7	12.2	12.9

Source: Company, Trust Research

Client Concentration and order intake: NIIT Tech had a fresh order intake of US\$175mn (US: US\$100mn, EMEA: US\$58mn and RoW: US\$17mn) this quarter (vs US\$171mn in the last quarter).

Exhibit 6: Client details

Client concentration	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Top 5 clients (%)	33.0	31.0	30.0	29.0	27.0	28.0	28.0	29.0	27.0
Top 10 clients (%)	45.0	43.0	42.0	40.0	36.0	40.0	40.0	41.0	39.0
US\$1m clients (Nos)	72	74	78	80	84	88	90	90	91

Source: Company

Exhibit 7: Significant new customers

Order Analysis	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
USA	5	2	4	2	5	5	8	6	5
EMEA	1	2	2	4	3	3	-	-	3
ROW	3	3	2	1	1	2	2	5	3
Total	9	7	8	7	9	10	10	11	11

Source: Company

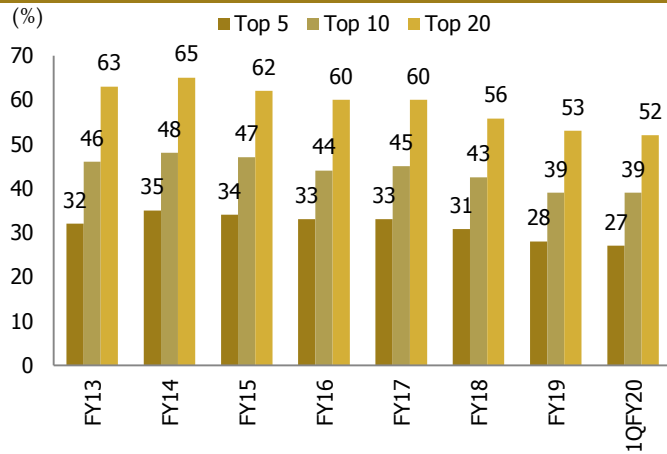
Exhibit 8: Fresh Order Intake

US\$m	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
USA	60	64	82	43	69	86	96	94	100
EMEA	23	32	25	69	56	39	42	45	58
ROW	27	26	23	33	26	25	27	32	17
Total	110	122	130	145	151	160	165	171	175

Source: Company

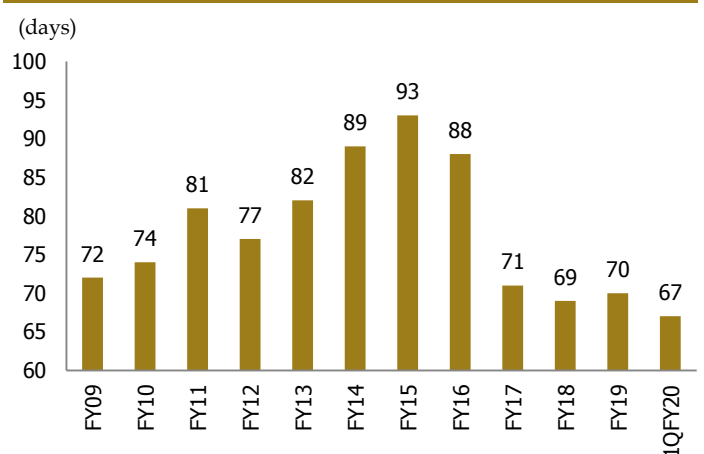


Exhibit 9: Top clients performance weak this quarter



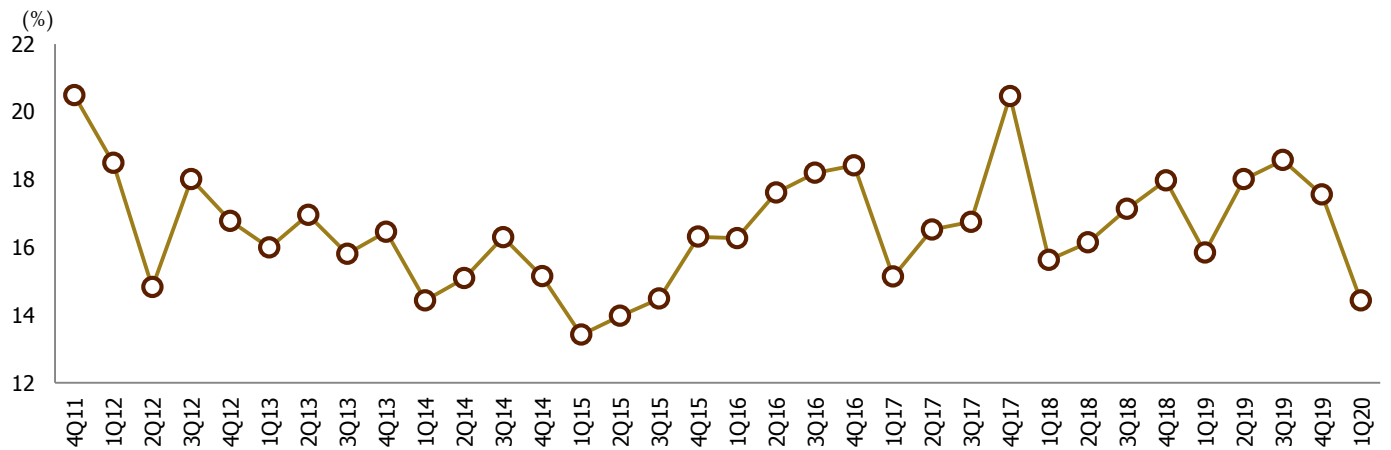
Source: Company, Trust

Exhibit 10: DSO increased by 5 days QoQ



Source: Company, Trust

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



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	28,021	29,914	36,762	41,133	45,981
Op. Expenses	23,175	24,902	30,309	34,045	37,686
EBITDA	4,846	5,012	6,453	7,088	8,294
Other Income	159	298	476	472	542
Depreciation	1,276	1,273	1,248	1,642	1,744
EBIT	3,729	4,037	5,681	5,918	7,093
Interest	-	-	-	-	-
PBT	3,729	4,037	5,681	5,918	7,093
Tax	786	950	1,404	1,436	1,773
PAT	2,943	3,087	4,277	4,482	5,320
Minority	(220)	(285)	(188)	(88)	(88)
Ex. Ordinary	(221)	-	(56)	-	-
Adj Pat	2,502	2,802	4,033	4,394	5,232

Key Parameters

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (₹)					
EPS	41.9	45.0	66.2	71.1	84.7
CEPS	62.6	65.5	86.4	97.7	112.9
BVPS	272.9	285.2	335.4	406.6	491.3
DPS	12.5	15.0	-	-	-
Payout (%)	34.9	39.0	-	-	-
Valuation (x)					
P/E	10.4	19.2	20.0	18.6	15.6
P/BV	1.6	3.0	4.0	3.3	2.7
EV/EBITDA	4.2	8.8	10.7	9.7	7.7
Dividend Yield (%)	2.9	1.7	-	-	-
Return ratio (%)					
EBITDA Margin	16.5	16.8	17.6	17.2	18.0
PAT Margin	10.1	10.3	11.6	10.9	11.6
ROAE	16.7	17.4	19.6	17.1	16.9
ROACE	19.7	20.6	23.6	20.5	20.6
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)	(0.6)	(0.6)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.4	2.8	2.9	3.2	3.6
Growth Ratios (%)					
Income growth	3.5	6.8	22.9	11.9	11.8
EBITDA growth	(3.3)	3.4	28.8	9.8	17.0
PAT growth	(5.8)	4.9	38.5	4.8	18.7
Turnover Ratios					
F.A Turnover x	4.6	4.7	5.4	5.6	5.8
Debtors Days	70	69	68	67	67
Payable days	23	20	21	22	23

Balance Sheet (₹ mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Equity Share Capital	614	615	618	618	618
Reserves & Surplus	16,251	17,125	21,158	25,552	30,784
Total Shareholders Fund	16,864	17,740	21,776	26,170	31,402
Minority Interest	237	222	75	-	-
Non-current liabilities	1,987	1,658	2,188	2,730	3,059
Long term Borrowings	74	179	179	179	179
Deferred tax liabilities	(584)	(776)	(731)	(527)	(527)
Other LT liabilities & prov	2,497	2,255	2,740	3,078	3,407
Current Liabilities	4,588	5,847	7,430	8,336	9,253
Trade payables	1,236	1,453	2,115	2,367	2,645
Other cur liabilities & Prov	3,352	4,394	5,314	5,970	6,608
Total Liabilities	23,677	25,467	31,469	37,236	43,715
Assets					
Non-current Assets	8,803	9,288	9,802	10,326	10,853
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	225	252
Current assets	14,874	16,179	21,666	26,910	32,862
Current investments	3,731	3,733	3,733	3,733	3,733
Trade receivables	4,903	5,858	7,151	8,001	8,944
Inventories	3	3	3	3	3
Cash & bank balances	3,502	4,102	7,053	11,003	15,520
Other current assets	2,735	2,483	3,727	4,170	4,661
Total Assets	23,677	25,467	31,469	37,236	43,715

Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	3,729	4,037	5,681	5,918	7,093
Depreciation	951	1,081	1,293	1,846	1,744
Others	(441)	(285)	(244)	(88)	(88)
CF before W.cap	4,239	4,833	6,730	7,676	8,748
Inc/dec in W.cap	(3,208)	(247)	483	73	214
Op CF after W.cap	7,447	5,080	6,247	7,603	8,534
Less Taxes	786	950	1,404	1,436	1,773
Net CF From Operations	6,661	4,130	4,843	6,167	6,761
Inc/(dec) in F.A + CWIP	1,947	1,013	1,748	2,142	2,244
(Pur)/sale of Investments	2,630	681	-	-	-
CF from Invst Activities	(4,578)	(1,694)	(1,748)	(2,142)	(2,244)
Loan Raised/(repaid)	(398)	90	(147)	(75)	-
Equity Raised	(641)	(835)	3	0	0
Dividend	904	1,092	-	-	-
CF from Fin Activities	(1,943)	(1,836)	(144)	(75)	0
Net inc/(dec) in cash	140	600	2,951	3,950	4,517
Op. bal of cash	3,362	3,502	4,102	7,053	11,003
Cl. balance of cash	3,502	4,102	7,053	11,003	15,520



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1% at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows: - Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/ subsidiary companies to registration or licensing requirements within such jurisdictions.