

October 22, 2017

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Rating	Accumulate
Price	Rs614
Target Price	Rs670
Implied Upside	9.1%
Sensex	32,584
Nifty	10,211

(Prices as on October 18, 2017)

Trading data

Market Cap. (Rs bn)	37.0
Shares o/s (m)	60.2
3M Avg. Daily value (Rs m)	250.9

Major shareholders

Promoters	30.68%
Foreign	36.08%
Domestic Inst.	19.40%
Public & Other	13.84%

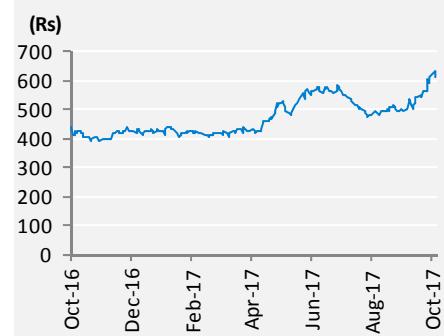
Stock Performance

(%)	1M	6M	12M
Absolute	22.3	43.5	47.5
Relative	21.9	32.3	31.3

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	43.4	44.4	-2.3
2019	50.2	51.3	-2.1

Price Performance (RIC: NITT.BO, BB: NITEC IN)



Source: Bloomberg

NIIT Tech's Q2FY18 results were steady with revenue and PAT ahead of our estimates. EBIDTA margin was modestly below our estimates. Revenues at USD112.8mn were up 5.3% QoQ above our estimates (USD111mn). Organic revenue growth for the quarter was 4.4% and rest owing to full impact of RuleTek acquisition. We note that 2QFY18 is the second consecutive quarter of revenue beat which is key positive. EBIDTA margin at 16.2% was up 60bps QoQ was marginally below our estimate (16.6%). Adjusted EBIDTA Margin (excluding Forex hedge gains) stood at 14.7% for 2QFY18 up 120bps QoQ. Management guided for further margin expansion in 3QFY18. In May 2017, NIIT Tech has appointed Mr Sudhir Singh as the CEO designate of the company. Mr Sudir has cited that NIIT Tech aims to focus on winning at-least one large deal per quarter to drive revenue momentum. The CEO designate has also strengthened leadership team with new hires (Mr Gautam Samanta has been recently recruited as Head of Europe Geography). Improved revenue growth over the past two quarters and steady new deal wins has raised optimism. However, NIIT Tech could face some headwinds from uncertainty in Morris JV (Morris newspaper business was acquired by GateHouse in Oct 2017). Despite this headwind, NIIT Tech guided that 3QFY18 revenues would grow modestly on sequential basis.

NIIT Tech's organic USD revenue growth was tepid for the past four consecutive years (FY13-FY17). However, steady execution in 1QFY18/ 2QFY18 raises optimism and we model USD revenues to grow by 9/8.5% for FY18/FY19E (vs 7.5/7.7% modelled earlier). Organic USD revenue growth for FY18 would be at 7.5% and rest owing to RuleTek acquisition. We build EBIDTA margins at 16.5/16.0% for FY18/FY19E (vs 16.7/16% modelled earlier). Our FY18 EPS estimates are trimmed by 1.4% (led by EBIDTA margin downgrade) but we retain our FY19 earnings estimates. Our EPS estimates are at Rs43.4/49.5/sh for FY18/FY19E. Net cash on balance sheet stands at Rs6.2bn (Rs101/sh which represents 16% of Mcap). Despite strong 44% rally in past six months, NIIT Tech trades at 12.4x FY19E EPS which is cheaper than midcap peers (Mindtree/Hexaware trading at 13.9/15.4x FY19E EPS respectively). We see room for further upsides in the stock considering improved execution. However, quantum of return from hereon could be moderate and hence we Downgrade to Accumulate (vs. earlier rating of BUY). TP raised by 11% to Rs670/sh (13.5x FY19E EPS vs 12x FY19E EPS earlier).

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	26,824	28,021	29,489	32,089
Growth (%)	13.1	4.5	5.2	8.8
EBITDA (Rs m)	4,733	4,846	4,861	5,137
PAT (Rs m)	2,801	2,281	2,666	3,082
EPS (Rs)	45.8	37.1	43.4	49.5
Growth (%)	145.1	(18.8)	16.9	15.6
Net DPS (Rs)	9.8	12.5	10.4	12.0

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	17.6	17.3	16.5	16.0
RoE (%)	18.6	14.0	14.6	14.6
RoCE (%)	18.4	14.3	14.8	14.5
EV / sales (x)	1.3	1.2	1.1	0.9
EV / EBITDA (x)	7.2	7.0	6.4	5.6
PE (x)	13.4	16.5	14.1	12.4
P / BV (x)	2.4	2.2	1.9	1.7
Net dividend yield (%)	1.6	2.0	1.7	2.0

Source: Company Data; PL Research

Exhibit 1: Q2FY18: Consolidated P&L

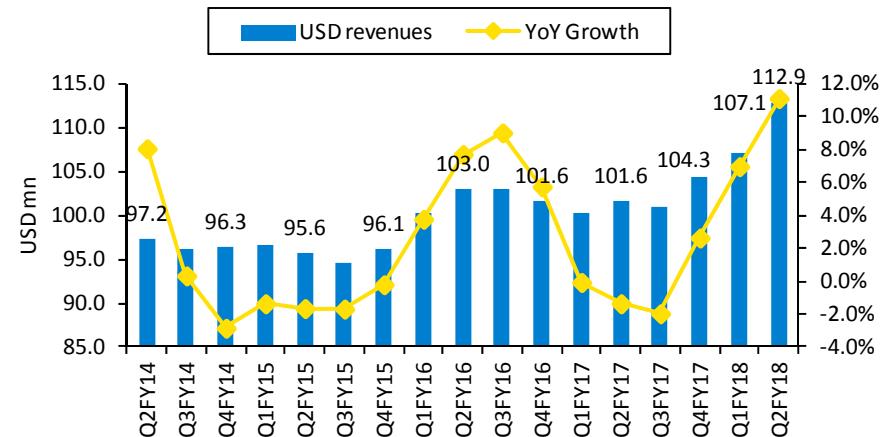
(Rs m)	Q2FY18	Q1FY18	QoQ	Q2FY17	YoY	PLe	Var (PL VS ACTUAL)
Revenue (USDmn)	112.9	107.1	5.3%	101.6	11.1%	111	1.7%
Revenue	7373	7089	4.0%	6929	6.4%	7102	3.8%
EBITDA	1191	1108	7.5%	1145	4.0%	1179	1.0%
EBITDA Margin	16.2%	15.6%	52 bps	16.5%	-37 bps	16.6%	-45 bps
Adj. PAT	672	513	31.0%	590	13.9%	657	2.3%
EPS (Rs)	10.9	8.3	31.0%	9.6	13.9%	10.7	2.2%

Source: Company Data, PL Research

*Please note to compare financials on QoQ basis we have taken adjusted figures of Q4FY17 (ex govt settlement figures)

- **Revenues above our estimates:** Revenues for the quarter came at USD112.8mn up 5.3% QoQ and 11.1% YoY and above our estimates.(PLe: USD111mn). Organic growth for the quarter would be 4.4% QoQ and rest owing to full impact of RuleTek acquisition. This is the second consecutive quarter of strong revenue growth which is positive. Robust growth in BFSI vertical (up 5.3% QoQ) and Manufacturing, Media and others (up 12.7% QoQ) aided growth for the quarter.
- NIIT Tech management guided that GateHouse media has acquired the Publishing business of Morris on October 2017. This would lead to some uncertainty in the revenues from this JV over medium term. We note that Morris JV has annualized revenues of ~USD23mn (5.3% of NIIT Tech total revenues). However, management indicated that this JV has also been providing services to other Media clients as well which is included in the JV's revenues. Hence the quantum of actual impact which could be exposed to potential risk of leakage could be lower than the reported JV revenues. While management indicated that it is closely engaging with Gateway, it expects a negative impact of ~USD1mn on revenues from this development in 3QFY18. Despite this headwind, NIIT Tech expects 3QFY18 revenues to show modest revenue growth sequentially or remain flat QoQ. As Gateway Media is not engaging with any major Tier 1 IT vendor, we do not see any significant impact from this development.

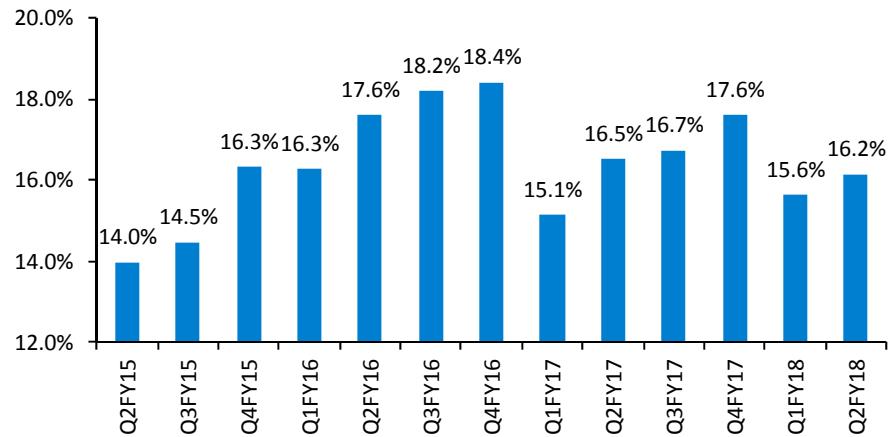
Exhibit 2: Revenue (USD mn) and revenue growth YoY



Source: Company Data, PL Research *Q4FY17 revenues is excluding settlement amount

- **Margins below estimates:** EBIDTA margin came at 16.2% were up 60bps QoQ and marginally below our estimates (PLe: 16.6%). NIIT Tech management indicated that EBIDTA margin would continue to expand in 3QFY18.

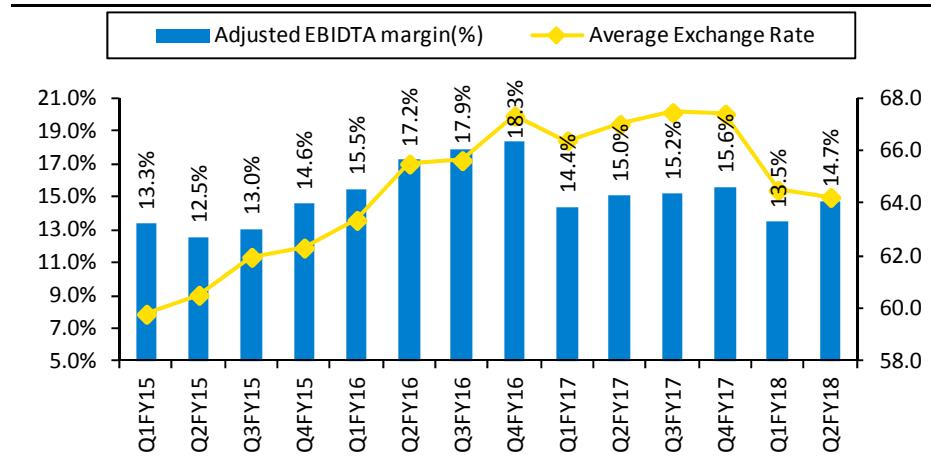
Exhibit 3: EBITDA Margin trend



Source: Company Data, PL Research

We note that NIIT Tech reports hedge gains in revenues. Excluding the same, Adjusted EBIDTA margin came at 14.7% up 120bps QoQ and down 30bps YoY. We see scope for further improvement in Adjusted EBIDTA margins over coming quarters.

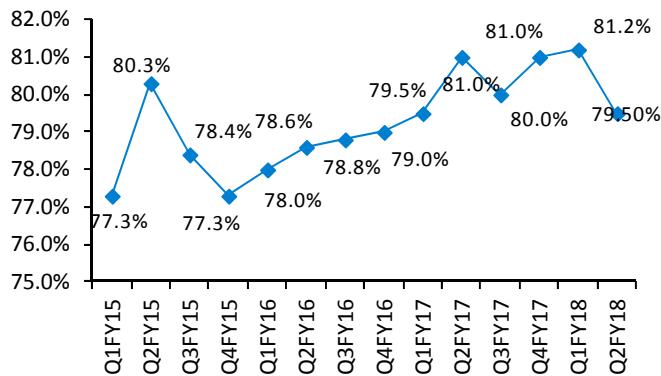
Exhibit 4: Adjusted EBITDA Margins vs. Average Rupee dollar rate



Source: Company Data, PL Research

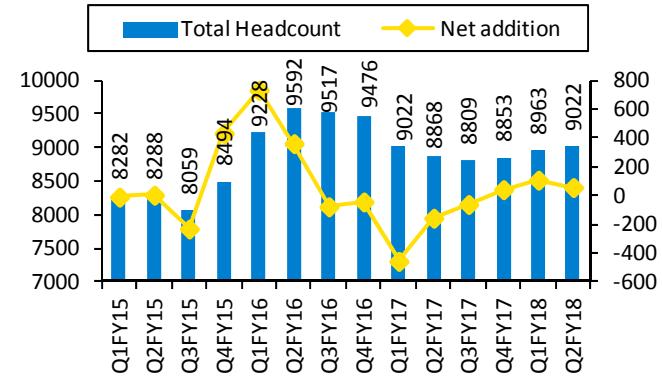
Headcount at the end of the quarter stood at 9022 employees which represents a net addition of 69 employees. NIIT Tech's utilisation rate came at 79.5% down 180bps QoQ. Management indicated that it is focusing on automation initiatives through its "Tron Platform"

Exhibit 5: Utilization rates (%)



Source: Company Data, PL Research

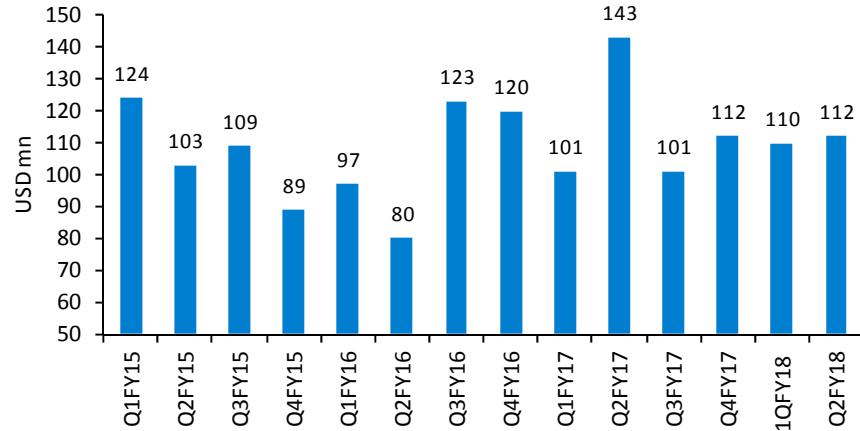
Exhibit 6: Total Headcount vs. net addition/deletion in employees



Source: Company Data, PL Research

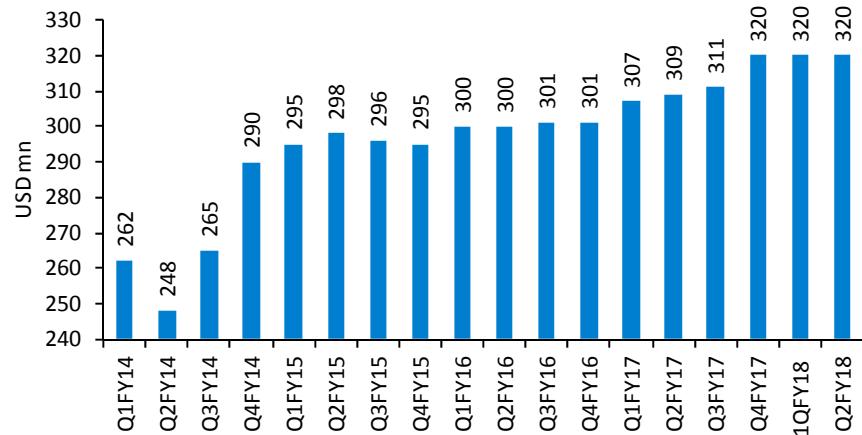
- **Order booking:** Order book executable over next 12 months came at USD320mn flat QoQ and up 3.5% YoY. Fresh order intake for the quarter came at USD112mn (vs. USD143mn in 2QFY17).

Exhibit 7: Fresh Order Intake (USD mn)



Source: Company Data, PL Research

Exhibit 8: Executable order book in the last few quarters (USD mn)



Source: Company Data, PL Research

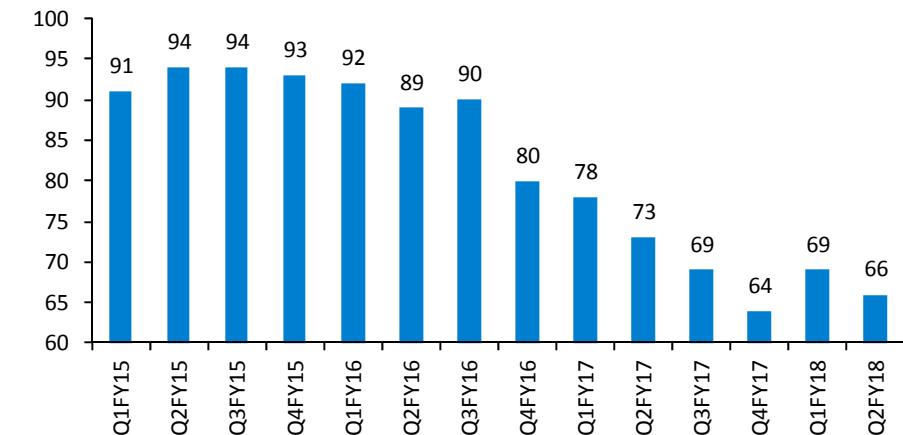
Exhibit 9: Geographical Break up of Fresh Order Intake (USD mn)

Fig in USD mn	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
USA	39	43	29	50	30	42	85	38	40	60	64
Europe	29	31	34	55	61	30	45	51	47	23	32
ROW	21	23	17	18	28	29	13	12	25	27	26
 Fresh Order Intake	 89	 97	 80	 123	 120	 101	 143	 101	 112	 110	 112

Source: Company Data, PL Research

- **DSO's drop modestly:** DSO for 2QFY18 stood at 66 days (vs. 69 days in 1QFY18). Company has shown gradual moderation in DSO over past few quarters which improved FCF trajectory.

Exhibit 10: DSO days improved to 69 days in the quarter



Source: Company Data, PL Research

Operating Metrics

Exhibit 11: Geography-wise revenues (%)

Geography Mix (%)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Americas	44	45	46	46	45	48	49	48	48	49	50
EMEA	35	35	35	34	33	32	34	34	33	32	29
RoW	21	20	19	20	22	20	18	18	19	19	21

Source: Company Data, PL Research

Exhibit 12: Vertical-wise revenues (%)

Vertical Mix (%)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
BFS	16	15	16	16	17	19	19	19	18	18	17	17	17
Insurance	17	18	20	21	21	21	22	23	24	24	25	25	25
Transport	40	38	37	37	36	32	32	33	32	31	29	29	27
Manu, Media, Others	27	29	27	26	26	28	26	25	26	27	29	29	31

Source: Company Data, PL Research

Exhibit 13: Service-wise revenues (%)

Service Mix (%)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
ADM	60	59	63	66	67	65	66	68	67	66	64
IP assets	9	9	8	9	8	8	7	7	7	6	7
Managed services	18	18	16	16	16	18	18	17	17	18	18
SI and PI	7	9	8	4	4	4	3	3	4	5	6
BPO	6	5	5	5	5	5	5	5	5	5	4

Source: Company Data, PL Research

Exhibit 14: Headcount Metrics

Billable Personnel	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Onsite	1,845	1,874	1,902	1,901	1,906	1,857	1,877	1,984	2,040
Offshore	7,008	6,910	6,841	6,374	6,203	6,180	6,189	6,164	6,156
Total Billable	8,853	8,784	8,743	8,275	8,109	8,037	8,066	8,148	8,196
Sales & Marketing (Excl GIS)	144	136	127	132	141	139	133	137	135
Sales & Marketing (GIS)	68	63	72	72	76	82	81	85	85
Others	527	534	534	543	542	551	573	593	606
Grand Total	9,592	9,517	9,476	9,022	8,868	8,809	8,853	8,963	9,022
Net addition / (Decline)	364	(75)	(41)	(454)	(154)	(59)	44	110	59

Source: Company Data, PL Research

Exhibit 15: Consolidated Financials snapshot of NIIT Tech

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Revenues (USD mn)	270	327	375	388	383	408	411	447	483
<i>Growth (%)</i>	<i>39.2%</i>	<i>21.1%</i>	<i>14.6%</i>	<i>3.4%</i>	<i>-1.2%</i>	<i>6.5%</i>	<i>0.8%</i>	<i>8.8%</i>	<i>8.0%</i>
Average Exchange Rate (USD vs INR)	45.64	48.21	53.93	60.12	61.97	65.77	68.19	65.61	66.00
Consolidated Revenues (Rs mn)	12323	15765	20213	23047	23724	26824	28021	29,323	31,867
<i>Growth (%)</i>	<i>34.9%</i>	<i>27.9%</i>	<i>28.2%</i>	<i>14.0%</i>	<i>2.9%</i>	<i>13.1%</i>	<i>4.5%</i>	<i>4.6%</i>	<i>8.7%</i>
EBIDTA (Rs mn)	2404	2683	3296	3513	3456	4733	4846	4833	5102
EBIT (Rs mn)	2089	2318.7	2729	2894	2540	3632	3570	3537	3796
PAT (Rs mn)	1823	1971	2134	2305	1939	2801	2502	2631	3039
EBIDTA Margins	19.5%	17.0%	16.3%	15.2%	14.6%	17.6%	17.3%	16.5%	16.0%
<i>EBIT Margin (%)</i>	<i>17.0%</i>	<i>14.7%</i>	<i>13.5%</i>	<i>12.6%</i>	<i>10.7%</i>	<i>13.5%</i>	<i>12.7%</i>	<i>12.1%</i>	<i>11.9%</i>
<i>NPM (%)</i>	<i>14.8%</i>	<i>12.5%</i>	<i>10.6%</i>	<i>10.0%</i>	<i>8.2%</i>	<i>10.4%</i>	<i>8.9%</i>	<i>9.0%</i>	<i>9.5%</i>
EPS	30.91	33.21	35.53	38.13	31.90	45.82	40.75	42.85	49.49
<i>Growth (%)</i>	<i>43.6%</i>	<i>7.4%</i>	<i>7.0%</i>	<i>7.3%</i>	<i>-16.3%</i>	<i>43.6%</i>	<i>-11.1%</i>	<i>5.2%</i>	<i>15.5%</i>
P/E	15.0	14.0	13.1	12.2	24.8	10.1	13.2	14.4	12.4
EV/EBIDTA	10.8	9.5	7.6	7.3	7.3	5.2	5.5	6.3	5.7
Consolidated Balance sheet (Rs mn)									
Net cash on Balance sheet (Rs mn)	1474	2226	3089	2710	3198	4038	6526	7521	8850
Net Cash per share	25	37	51	45	52	66	106	122	144
Net cash per share / Stock Price	5.3%	8.0%	11.0%	9.6%	11.3%	14.2%	17.3%	19.9%	23.4%
Consolidated Cash Flow (Rs mn)									
Cash Flow from Operations	660	1644	2352	1452	3379	3602	4723	4150	4005
Capex+ Acquisitions (Includes earnout payouts)	502	1197	969	1399	1876	2959	873	2400	1800
Free Cash flows	158	447	1383	53	1503	643	3850	1750	2205

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	26,824	28,021	29,489	32,089
Software Expenses	16,896	17,903	19,128	21,019
Gross Profit	9,928	10,118	10,361	11,070
Other Expenses	5,195	5,272	5,500	5,933
EBITDA	4,733	4,846	4,861	5,137
Depr. & Amortization	1,101	1,276	1,303	1,315
Net Interest	—	—	—	—
Other Income	170	(62)	310	390
Profit before Tax	3,802	3,508	3,868	4,213
Total Tax	831	786	1,019	1,011
Profit after Tax	2,971	2,722	2,849	3,202
Ex-Od items / Min. Int.	144	(1)	183	120
Adj. PAT	2,801	2,281	2,666	3,082
Avg. Shares O/S (m)	61.2	61.4	61.4	61.4
EPS (Rs.)	45.8	37.1	43.4	49.5

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	15,726	16,865	19,531	22,612
Total Debt	64	74	84	94
Other Liabilities	1,104	1,050	935	960
Total Liabilities	16,894	17,989	20,550	23,666
Net Fixed Assets	5,237	4,802	4,999	5,184
Goodwill	3,956	3,674	3,874	4,074
Investments	746	3,158	3,258	3,358
Net Current Assets	6,084	5,384	7,398	9,979
<i>Cash & Equivalents</i>	<i>3,362</i>	<i>4,075</i>	<i>6,432</i>	<i>8,803</i>
<i>Other Current Assets</i>	<i>8,628</i>	<i>7,643</i>	<i>7,588</i>	<i>8,015</i>
<i>Current Liabilities</i>	<i>5,906</i>	<i>6,334</i>	<i>6,622</i>	<i>6,839</i>
Other Assets	871	971	1,021	1,071
Total Assets	16,894	17,989	20,550	23,666

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	3,299	5,036	4,185	4,055
C/F from Investing	(3,040)	(3,063)	(2,400)	(1,800)
C/F from Financing	(727)	(669)	(768)	(887)
Inc. / Dec. in Cash	(467)	1,304	1,017	1,367

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	6,938	7,447	7,089	7,373
EBITDA	1,162	1,524	1,108	1,191
<i>% of revenue</i>	<i>16.7</i>	<i>20.5</i>	<i>15.6</i>	<i>16.2</i>
Depr. & Amortization	321	312	316	341
Net Interest	—	—	—	—
Other Income	59	(12)	58	87
Profit before Tax	900	1,200	850	937
Total Tax	228	265	295	204
Profit after Tax	624	863	513	672
Adj. PAT	624	863	513	672

Key Operating Metrics

Y/e March	2016	2017	2018E	2019E
Revenue (\$ mn)	408	411	448	486

Source: Company Data, PL Research.

Key Financial Metrics

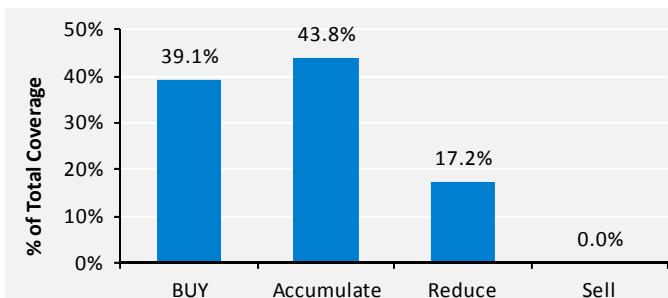
Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	13.1	4.5	5.2	8.8
EBITDA (%)	37.0	2.4	0.3	5.7
PAT (%)	145.9	(18.6)	16.9	15.6
EPS (%)	145.1	(18.8)	16.9	15.6
Profitability				
EBITDA Margin (%)	17.6	17.3	16.5	16.0
PAT Margin (%)	10.4	8.1	9.0	9.6
RoCE (%)	18.4	14.3	14.8	14.5
RoE (%)	18.6	14.0	14.6	14.6
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.3)	(0.4)
Valuation				
PER (x)	13.4	16.5	14.1	12.4
P / B (x)	2.4	2.2	1.9	1.7
EV / EBITDA (x)	7.2	7.0	6.4	5.6
EV / Sales (x)	1.3	1.2	1.1	0.9
Earnings Quality				
Eff. Tax Rate	21.9	22.4	26.4	24.0
Other Inc / PBT	4.8	4.3	8.0	9.3

Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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