


NIIT TECHNOLOGIES LTD


Industry	IT
Bloomberg	NITEC IN
BSE CODE	532541

Deal win remains strong; Investment plan to hold margin within 18% band

RATING ACCUMULATE

CMP	1227
Price Target	1369
Potential Upside	12%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	1425/683
Mkt Capital (Rs Cr)	7563
Free float (%)	69%
Avg. Vol 1M (,000)	726
No. of Shares (Cr)	6
Promoters Pledged (Cr)	0

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3Q FY19 Result Update

- ❑ Company posted a mixed set of numbers in 3QFY19 where revenue stood at Rs972 (vs. our estimates of 967 crore), a growth of 7.1%QoQ led by broad based growth across all segments. However PAT declined 10.7% sequentially on account of lower other income and increased effective tax rate during the quarter.
- ❑ EBITDA for the quarter stood at Rs181 crore, a growth of 10.5%QoQ. Margin expanded 60 bps to 18.6 % (vs. our estimates of 34 bps) driven by growth across almost all verticals, continued and intense focus on operations and SG&A cost containment.
- ❑ 3QFY19 witnessed a growth across segment barring BFS which declined (-0.8%QoQ) due to furlough, all the other segments grew 6% to 11%QoQ. Geographically, North America grew 5.7%QoQ and EMEA grew 4.7%QoQ.
- ❑ Fresh order intake during the quarter came at USD 165 million, out of which USD 96 million came from US and USD42 million came from EMEA and USD 27 million came from Row.
- ❑ For 4QFY19, the management expects growth to continue and margins to be maintained (18% new threshold) given the strong deal pipeline.

View and Valuation

Going forward, we expect NIITTECH to deliver broad based growth across verticals in FY20 led by strong leadership team, sustained deal inflows, the large deals velocity & pipeline. 3QFY19 again witnessed the hiring of two new lateral on digital and Europe space, thus reflecting continued working to strengthen the leadership team. Also the company's fresh order intake continues to be robust and grew 26.9%YoY to USD 165 mn in 3QFY19, thus showing management strategy is resonating well and demand environment is favoring the company. We expect the fresh order intake to continue and also \$375mn order intake of firm business executable over next 12 months to deliver strong revenue growth going forward. BFS which declined in 3QFY19 due to furlough, we expect it to improve and also travel to post growth going forward.

However on margin front, continued investment to meet the supply constraint and onsite visa issue is expected to impact the margins in FY20. Even the management has also stated that over and above 18% margin will be re invested back in the business.

Thus, we expect NIITTECH to post revenue growth of 21%CAGR over FY18 to FY20E. **We value the stock at target price of Rs1369 (16x FY20EPS) and recommend Accumulate.**

Key Risks to our rating and target

- ❑ Slow growth in travel and transport vertical.
- ❑ Delay in order execution .

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2688	2802	2991	3717	4391
EBITDA	473	480	501	665	796
EBIT	352	352	374	538	659
PAT	287	272	280	421	527
EPS (Rs)	47	44	46	68	86
EPS growth (%)	151%	-5%	3%	50%	25%
ROE (%)	8	18	16	14	18
ROCE (%)	21	18	18	24	25
BV	260	275	289	341	409
P/B (X)	2	2	3	4	3
P/E (x)	11	10	19	18	14

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3QFY19 Results
Mixed performance

<i>Financials</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales /	757	789	825	907	972	28.4%	7.1%	2,802	2,991	6.7%
Other Income	7	15	22	23	2	-76%	-93%	27	39	45.4%
COGS	6	4	2	4	6	-6.5%	38.1%	14	32	126.4%
Employee	445	457	484	535	559	25.6%	4.5%	1,651	1,760	6.6%
Other Expenses	180	183	207	205	226	25.2%	10.5%	657	698	6.2%
EBITDA	125	145	132	164	181	44.8%	10.5%	480	501	4.5%
Depreciation	31	31	31	32	31	0.6%	-1.6%	128	127	-0.2%
EBIT	94	115	100	132	150	59.4%	13.5%	352	374	6.2%
Interest	2	3	2	2	2	0.0%	11.1%	6	9	56.7%
PBT	99	126	120	153	150	51.3%	-2.2%	373	403	8.2%
Tax	16	29	30	36	45	173.0%	22.6%	79	95	20.9%
Exceptional	-	-	-	-	-			22	-	-100.0%
PAT	76	86	86	112	100	32.5%	-10.7%	272	280	2.8%

Despite seasonality, Broad based growth seen across segment

NIITTECH's revenue for the quarter stood at Rs 972 crores a growth of 7.1% QoQ. In USD term revenue grew USD 136 million (vs. our estimates of USD 135 million). On a constant currency basis, revenue growth of 4.2% QoQ was strong despite seasonality.

Strength growth across vertical barring BFS

<i>Segments (in mn\$)</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>QoQ%</i>	<i>YoY%</i>
BFS	121	124	129	126	139	147	146	-1%	15%
Insurance	177	183	197	221	235	261	292	12%	32%
Transport	206	198	204	205	224	244	253	4%	23%
Manufacturing & Media	206	227	227	237	228	254	282	11%	19%

Healthy rise in order intake

<i>Order intake (in mn\$)</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>QoQ%</i>	<i>YoY%</i>
Order Intake (\$ Mn)	110	122	130	145	151	160	165	3%	27%
Executable Order Book	320	320	329	339	347	363	375	3%	14%

Company continues to manage to increase its order intake every quarter (increasing from last seven consecutive quarters). Fresh order intake during the quarter came at USD 165 million, out of which USD 96 million came from US and USD 42 million came from EMEA and USD 27 million came from Row. The order book intake that is executed from next 12 month continued to expand every quarter and now stands at USD 375 million

Continued growth seen in Americas and EMEA

<i>Geography (in crore)</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>QoQ%</i>	<i>YoY%</i>
EMEA	227	216	232	253	268	309	324	4.7%	28.2%
APAC	70	80	79	82	85	84	89	5.5%	8.9%
India	62	72	71	76	63	71	90	26.8%	17.9%
America	350	369	375	379	409	443	470	5.9%	24.0%

Americas which contributes to 49% of the global revenues grew by 5.9%QoQ on the back of growth in the travel and insurance verticals. EMEA from revenue expanded 4.7% sequentially and now contributes 33% of the renewal mix. The expansion in revenues in EMEA was on account of the growth in travel, insurance, digital, new generation infrastructure services including cloud services. APAC, which contributed 9%, continues to grow at 5.5% in 3QFY19. India contributed 9% of revenue and expanded by 26.8% on the back of improved GIS business.

Uptick in margins due to strong revenue growth and SGA optimization

EBITDA for the quarter stood at Rs181 crore, a growth of 10.5%QoQ. Margin expanded 60 bps to 18.6 % (vs. our estimates of 34 bps) driven by growth across almost all verticals, continued and intense focus on operations and SG&A cost containment. Attrition came at 11.7% which is one of the lowest across the industry

PAT decline 10.7% QoQ. The decline was on account of lower other income and higher tax . Other income was lower than anticipated and came at Rs 2 crore. Also the tax rate increased due to one off related dividend to foreign subsidiary.

Concall Highlights

- ❑ **Macro:** The company works in Europe and UK market mainly in travel and insurance however even due to Brexit and macro changes , the company is still confident of no cut down of spend in technology sector .
- ❑ **Supply challenge:** The challenge persists in the industry however the company has nearly hired 11% headcount over the last four quarters. Thus is strongly positioned to tackle the situation and continues to sustain the margin at 18%.
- ❑ **Vertical performance:**
 - BFS impacted by furlough and strong growth in last two quarter however the robust pipeline and large deal will support the BFS to post strong growth going forward.
 - TRAVEL and Transport: 3QFY19 saw a large deal signed with one of the largest airlines in the world, thus remain positive for FY19.
- ❑ **Margin performance in 3QFY19:** Operating margin has increased by 56 bps QoQ to 18.6% for the quarter. This material and sustainable growth in margins was driven by growth across almost all verticals, continued and intense focus on operations and SG&A cost containment. Attrition came at 11.7% which is one of the lowest across the industry. The company continues to believe 18% threshold is sustainable and will continue in FY20 too. However over and above 18% will be re invest back in the business.
- ❑ **Order intake:** Pipeline continues to improve (seven consecutive quarter of increase) in order intake business. Fresh order intake during the quarter came at USD 165 million, out of which USD 96 million came from US and USD42 million came from EMEA and USD 27 million came from Row. The order book intake that is executed from next 12 month continued to expand every quarter and now stands at USD 375 million
- ❑ **Client bucket:** 10 new customers were added during the quarter, out of 8 came from US and 2 from Row. The company has doubled the ratio of new logo acquisition per quarter.
- ❑ **Employee hiring:** As per the continued strategy of hiring lateral to strengthen the leadership team, the company hired a digital head for America and travel head for Europe. Also Mr. Krishna, who was the Managing Director at Accenture joined as the EVP and Head of our Infrastructure management business.
- ❑ **Hedge book:** Outstanding hedges are in USD66.11 million at an average rate of Rs71.56 rupees to the dollar. In pounds, GBP13.05 million outstanding is at Rs96.13 rupees to the pound, and in Europe, it is EUR4.5 million at Rs86.19 rupees to the euro.
- ❑ **Outlook:** For 4QFY19, the company expects growth to continue and margins to be maintained given the strong deal pipeline. The confidence of strong growth is based on sustaining deal flow, the impact that the transformation engine is creating, the number of large deals in the hopper, the broad-based nature of growth across the portfolio of businesses, the growth in the hunting and mining engines are creating, and traction of newer capability vectors like cloud, core digital, PSV revenues, data services, and cognitive offerings are recording.

Exhibit: Revenue trend

Broad based growth across the vertical and continued order intake led growth in 3QFY19 despite seasonality

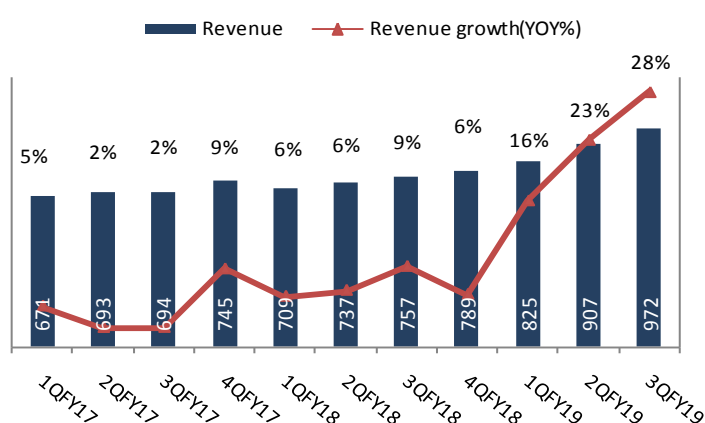


Exhibit: Order Intake

Continued increased in Order book

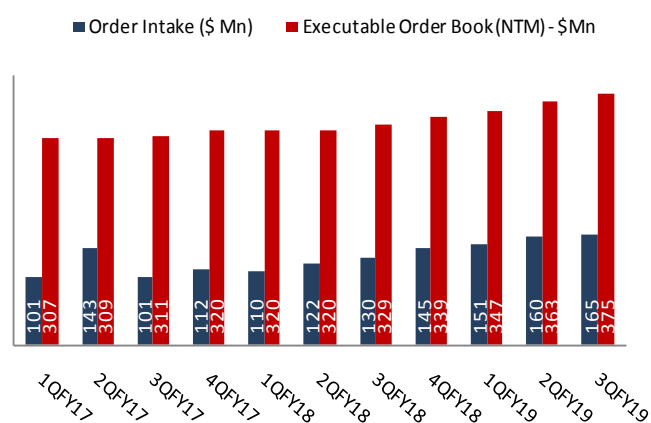


Exhibit: EBITDA and EBITDA margin

Management expects 18% to be margins going forward.

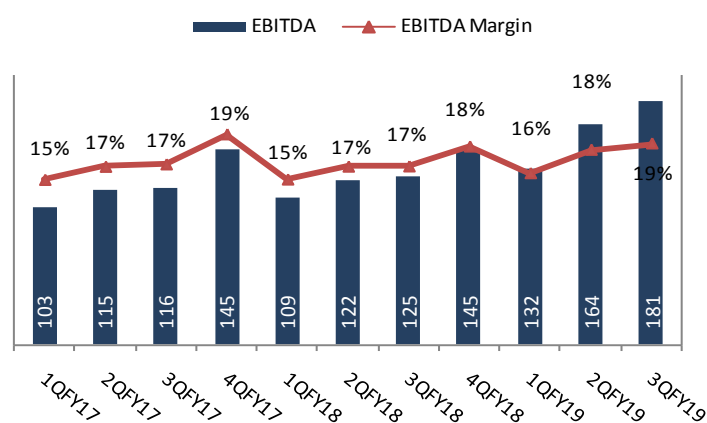


Exhibit: Utilization

Utilization declined to lowest level.

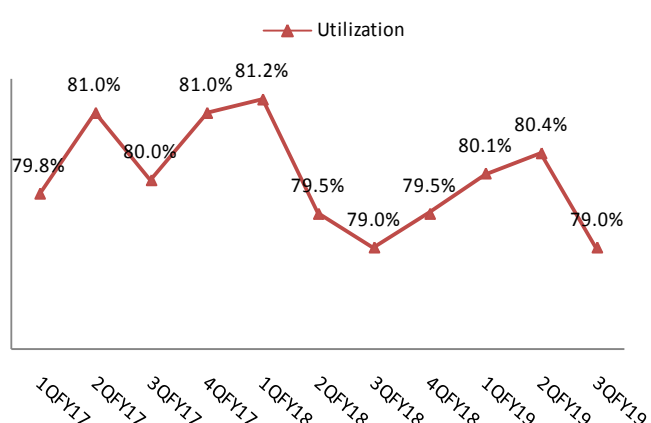


Exhibit: Attrition Rate

Seasonality led the rise in attrition rate, still not a concern for the management

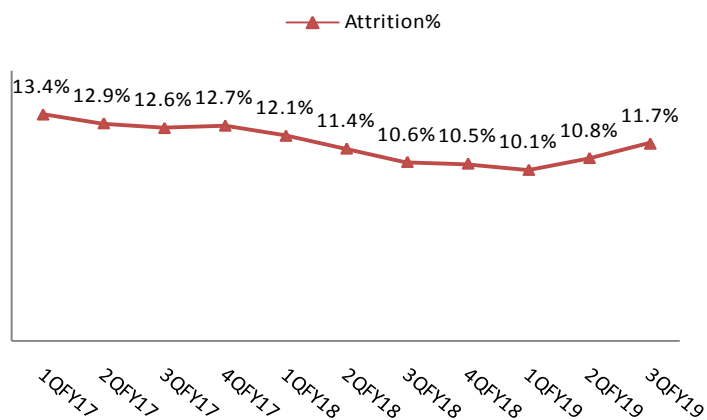
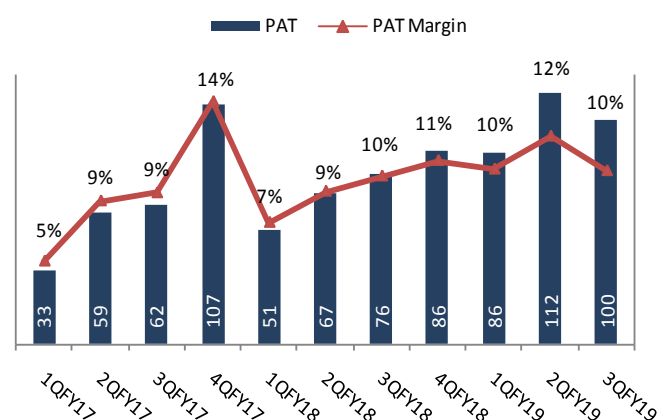


Exhibit: PAT and PAT Margin

Lower other income and higher tax impacted PAT margin.



Operational Details

By Geography (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
America	48%	48%	49%	50%	50%	48%	50%	49%	49%
EMEA	34%	33%	32%	29%	30%	32%	32%	34%	33%
RoW	18%	19%	19%	21%	20%	20%	18%	17%	18%

Service Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ADM	67%	66%	66%	64%	65%	66%	68%	68%	68%
SI & PI	4%	6%	5%	6%	5%	4%	3%	4%	4%
BPO	5%	5%	5%	4%	4%	4%	3%	4%	4%
IMS	17%	18%	18%	18%	19%	19%	19%	18%	18%
IP Based	7%	6%	6%	7%	7%	7%	7%	6%	6%

Top Client Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top 5	33%	34%	33%	31%	30%	29%	27%	28%	28%
Top 10	44%	46%	45%	43%	42%	40%	36%	40%	40%
Top 20	59%	62%	58%	57%	54%	54%	n/a	n/a	54%
Others	41%	38%	42%	43%	46%	46%	n/a	n/a	46%

People Data	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Net Additions	(59)	44	110	59	59	342	341	261	119
Attrition%	13%	13%	12%	11%	11%	10%	10%	11%	12%
Utilization	80%	81%	81%	80%	79%	80%	80%	80%	79%

Revenue Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ONSITE	60%	59%	60%	61%	61%	61%	64%	64%	65%
OFFSHORE	40%	31%	40%	39%	39%	39%	36%	36%	35%

Intake(\$ Mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Fresh Order Intake				122	130	145	151	160	165
USA				64	82	43	69	86	96
EMEA				32	25	69	56	39	42
ROW				26	23	33	26	35	27
Executable Order Book over Next 12 Months				320	329	339	347	363	375

Position	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
USD	65.3	61.7	65.2	65.3	65.3	65.3	60.2	64.2	66.1
GBP	13.1	13.1	13.0	13.1	13.1	13.0	13.0	13.1	13.1
Euro	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.2	4.5

Vertical Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Banking and Financial Servic	18%	18%	17%	17%	17%	16%	17%	16%	15%
Insurance	24%	24%	25%	25%	26%	28%	29%	29%	30%
Transport	32%	31%	29%	27%	27%	26%	27%	27%	26%
Manufacturing & Media	26%	27%	29%	31%	30%	30%	28%	28%	29%

Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	60	61	61	61	61	62	62	62
Reserves	1034	1263	1296	1511	1625	1713	2041	2457
Networth	1094	1324	1357	1573	1687	1774	2102	2518
Debt	6	5	5	6	7	18	18	18
Other Non Cur Liab	28	31	34	341	288	271	271	271
Total Capital Employed	1145	1379	1415	1939	2006	2085	2413	2829
Net Fixed Assets (incl CWIP)	466	582	678	717	663	637	686	758
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	515	660	792	1055	977	1052	1101	1173
Non Curr Assets	515	660	792	1055	977	1052	1101	1173
Debtors	454	564	606	590	490	586	728	860
Cash & Bank	233	221	269	336	408	419	631	914
Other Curr Assets	161	143	93	114	96	101	125	148
Current investments	82	55	55	75	316	365	365	365
current tax asset	0	0	0	51	62	65	65	65
Short-term loans and advances	93	153	153	0	0	0	0	0
Other financial assets	0	0	0	108	116	83	83	83
Curr Assets	1024	1142	1185	1274	1488	1618	1997	2434
Creditors	180	164	216	119	124	145	181	213
Provisions	78	84	147	43	40	71	88	104
Other Curr Liab	136	175	199	179	168	195	243	287
Other financial liability	0	0	0	25	103	173	173	173
Employee benefit obligations	0	0	0	24	24	0	0	0
Curr Liabilities	394	422	562	389	459	585	685	777
Net Curr Assets	630	719	623	884	1029	1034	1312	1657
Total Assets	1539	1801	1977	2328	2465	2670	3098	3607

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2021	2305	2372	2688	2802	2991	3717	4391
Change (%)	28%	14%	3%	13%	4%	7%	24%	18%
EBITDA	333	354	336	473	480	501	665	796
Change (%)	23%	6%	-5%	41%	1%	4%	33%	20%
Margin (%)	16%	15%	14%	18%	17%	17%	18%	18%
Depr & Amor.	57	62	92	121	128	127	127	137
EBIT	276	292	244	352	352	374	538	659
Int. & other fin. Cost	5	4	6	8	6	9	8	8
Other Income	23	30	17	22	27	39	61	69
EBT	293	318	256	367	373	403	592	720
Exp Item	0	0	80	1	22	0	0	0
Tax	75	80	54	78	79	95	152	176
Minority Int & P/L share of Ass.	-5	-8	-8	0	0	-29	-19	-17
Reported PAT	218	238	122	287	272	308	440	544
Adjusted PAT	213	231	114	287	272	280	421	527
Change (%)	8%	8%	-51%	152%	-5%	3%	50%	25%
Margin(%)	11%	10%	5%	11%	10%	9%	11%	12%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	20	18	17	8	18	16	14	18
ROCE		23	17	21	18	18	24	25
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	3	3	2	3	3	3	3	3
Debtor Days	82	89	93	80	64	71	71	71
Book Value Per Share	182	218	222	260	275	289	341	409
Payable Days	32	26	33	16	16	18	18	18
Earnings Per Share	35	38	19	47	44	46	68	86
P/E	8	11	19	11	10	19	18	14
Price / Book Value	2	2	2	2	2	3	4	3
EV/EBITDA	4	6	6	6	5	10	10	8
EV/Sales	1	1	1	1	1	2	2	2
Div Payout%	0	0	0	0	0	0	0	0

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	293	318	256	367	373	403	592	720
(inc)/Dec in Working Capital	-48	-140	14	-58	94	-13	-67	-62
Non Cash Op Exp	62	70	159	152	133	106	126	120
Interest Paid	0	0	0	0	0	0	0	0
Tax Paid	-72	-104	-92	-99	-105	-111	-152	-176
others	0	0	-80	-1	-22	0	0	0
CF from Op. Activities	235	145	258	360	472	382	499	602
(inc)/Dec in FA & CWIP	-92	-138	-187	-160	-86	-88	-177	-209
Free Cashflow	143	7	71	201	387	294	323	393
others	-21	0	0	-15	-228	-561	0	0
CF from Inv. Activities	-113	-100	-177	-304	-306	-270	-177	-209
inc/(dec) in NW	9	4	2	2	7	7	0	0
inc/(dec) in Debt	0	0	0	0	0	0	0	0
Int. Paid	-2	-1	-3	-3	-1	-1	0	0
Div Paid (inc tax)	-57	-55	-65	-73	-74	-81	-111	-111
others	-41	0	-1	2	1	1	0	0
CF from Fin. Activities	-91	-53	-66	-73	-67	-74	-111	-111
Inc(Dec) in Cash	30	-7	14	-16	99	37	212	282
Add: Opening Balance	166	202	217	304	251	355	411	623
Closing Balance	202	217	224	288	350	410	623	905

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