

NIIT Technologies Limited

Industry	IT
Bloomberg	NITEC IN
BSE CODE	532541

Healthy order to drive growth in FY20, margin expected to be below 18% band

RATING **NEUTRAL**

CMP	1255
Price Target	1340
Potential Upside	7%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	1425/971
Mkt Capital (Rs Cr)	7755
Free float (%)	69%
Avg. Vol 1M (,000)	532
No. of Shares (Cr)	6
Promoters Pledged (Cr)	0

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4QFY19 Result Update

- ❑ NITEC's reported a weak performance in its 4QFY19 result. Revenue came in USD138 million, a growth of 1.3%QoQ(below our estimate of 3.5%QoQ) mainly impacted by deferral in a contract in the Insurance segment .PAT for the quarter stood at Rs 110 crore (vs our estimates of 115crore) led by lower tax rate.
- ❑ EBITDA for the quarter stood at Rs 172 , a decline of 5.5%QoQ mainly due to non recurring expenses related to French benefit tax and increase in legal and professional expenses due to M&A activity. Margin (including one off) contracted 90bps mainly driven by decline in GIS business and higher SGA.
- ❑ The company continued its large deal momentum and signed two deals during the quarter, one each in the Travel and BFS verticals. Also 11 new customers were added during the quarter.
- ❑ Order intake remained healthy for the company. The company acquired 170 mn fresh order during the quarter .Out of this 170 mn order intake , US contribution stood at USD94million ,EMEA for USD45 million and USD31 million came from rest of the world.
- ❑ For FY20,the management continues to plan for robust predictable and profitable growth seeing the healthy order book and absence of client specific issue. On margins, Management has mentioned that 18% is the new normal, excluding GIS.

View and Valuation

NITEC reported a healthy growth in FY19. Revenue grew 17.6%QoQ in cc terms on back of large deal wins (12 wins in FY19) and broad based growth across segments. Margin expanded 90bps driven by lower SG&A and benefit from INR depreciation. Going forward, revamped leadership team (appointment of two new members in leadership team), sustained deal flow (2large deal wins per quarter) and healthy pipeline will drive broad based growth in FY20. The total order intake which now stands at USD 646 million and 12 month executive which grew 15%YoY to USD390 million will lead to continue revenue growth in FY20. We expect verticals like BFS and transportation to continue its growth momentum as the large deal won in last two quarter will start to ramp up. Even insurance vertical which saw a de growth in 4QFY19 due to deferral in contract, is expected to revive as the delayed deal is expected to be signed soon.

On margin front, we have reduced our margin estimates by 50 bps and expects it to be below the 18% threshold for FY20 considering continued investment plan by the management and some impact from disinvestment of GIS business which was higher margin business.

Factoring in margin issue in near term, we largely maintain our Neutral rating on the stock with the target price of Rs1340.

Key Risks to our rating and target

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

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	2688	2802	2991	3676	4280
EBITDA	473	480	501	649	762
EBIT	352	352	374	524	629
PAT	287	272	280	403	507
EPS (Rs)	47	44	46	65	82
EPS growth (%)	151%	-5%	3%	44%	26%
ROE (%)	8	18	16	15	18
ROCE (%)	21	18	18	24	25
BV	260	275	289	336	400
P/B (X)	1.9	1.6	3.0	3.7	3.1
P/E (x)	10.6	9.8	19.0	19.2	15.2

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4QFY19 Results
Muted revenue performance

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	789	825	907	972	972	23.3%	0.1%	2,991	3,676	22.9%
Other Income	15	22	23	2	7	-51%	356%	39	54	36.8%
COGS	4	2	4	6	17	339.5%	187.9%	32	29	-8.2%
Employee Exp	457	484	535	559	576	26.1%	3.2%	1,760	2,153	22.3%
Other Expenses	183	207	205	226	208	13.6%	-8.1%	698	845	21.1%
EBITDA	145	132	164	181	172	18.3%	-5.5%	501	649	29.5%
Depreciation	31	31	32	31	30	-0.7%	-3.5%	127	125	-2.0%
EBIT	115	100	132	150	141	23.3%	-5.9%	374	524	40.2%
Interest	3	2	2	2	3	6.3%	70.0%	9	9	-2.1%
PBT	126	120	153	150	145	15.1%	-3.0%	403	568	40.9%
Tax	29	30	36	45	30	2.8%	-33.5%	95	140	47.8%
Exceptional	-	-	-	-	6			-	6	
PAT	86	86	112	100	106	22.5%	5.3%	280	403	44.1%

4QFY19:Revenue misses estimates

- NITEC 4QFY19 revenue came in at USD 1338 million , a growth of 2.2% QoQ (below our estimates of USD140million) mainly impacted by deferral in a contract in the Insurance segment and 13%QoQ decline in GIS business because of the code of conduct before the General Elections which came into effect impacting government procurement. On constant currency terms revenue grew 1.3%QoQ during the quarter.

Barring Insurance, continued growth seen in major verticals

Segments(usd mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ	YOY
BFS	19	20	19	21	21	21	22	7.6%	15.4%
Insurance	28	31	34	35	38	40	38	-4.3%	12.8%
Transport	30	32	31	34	35	36	37	4.6%	18.9%
Manufacturing & Media	35	35	36	34	37	38	40	4.1%	10.2%

- Vertical wise, BFS continued its growth momentum in 4QFY19 by growing 5.5%QoQ , followed by which grew 2.5%QoQ while insurance declined 6.5%QoQ due to lower product revenues in NITL as contracting of licensing got delayed. The company is seeing broad based growth in FY20

Pick-up in deal wins continues

Order intake(usd mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ	YOY
Order Intake (\$ Mn)	122	130	145	151	160	165	170	3.0%	17.2%
Executable Order Book	320	329	339	347	363	375	390	4.0%	15.0%

- 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 170 million, Out of this 170 mn order intake , US contribution stood at USD94million ,EMEA for USD45 million and USD31 million came from rest of the world.
- The order book intake that is executed from next 12 month continued to expand every quarter and now stands at USD 390 million, a growth of 15%YoY.
- Cumulative order intake for FY19 came in at USD 646mn, a growth of 27% over previous year.

Broad based growth across regions

Geography (in crore)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ	YOY
America	57	59	58	62	64	66	68	2.2%	16.3%
EMEA	33	35	39	40	45	45	46	2.2%	17.5%
RoW	24	24	24	22	22	24	25	2.2%	2.5%

Margins decline due to decline in GIS

- ❑ EBITDA for the quarter stood at Rs 172 , a decline of 5.5%QoQ mainly due to non recurring expenses related to French benefit tax and increase in legal and professional expenses due to M&A activity.
- ❑ Margin (including one off) contracted 90bps mainly driven by decline in GIS business and higher SGA.
- ❑ PAT for the quarter stood at Rs 110 crore (vs our estimates of 115crore) led by lower tax rate.

Concall highlights

➤ Recent development on business

- The company has signed a definite agreement to acquire 53%stake in which Works IT consulting .Which work is specialist in big data space and this transaction will help the digital capabilities , complement its existing competencies and create a power offering with combination in digital integration space. The agreement signed in April will acquire 53%stake and later in next two year the company will acquire remaining stake through payout. The procedure is under regulatory and is expected to close by 2QFY20.
- The company also signed agreement to sale its 88.9%stake of its GIS business in Esri India technology limited.

- **Margin performance:** Operational profit declined 5.5%QoQ mainly due to non recurring expenses related to French benefit tax and increase in legal and professional expenses due to M&A activity. The decline in margins is due to decline in GIS business. The company expects to maintain G&NA to 17.4% despite material injection of investment in domain centre, front end.

- **Decline in GIS business:** 4Q historically being a strong quarter for GIS business however GIS declined 14% during the quarter due to code of conduct of general elections held for government procurement. The company is disinvesting from this business.

- **Client metrics:** Top 5 contributes 29% of the overall revenue .Top 10 and top 20 contributes 41% and 54% respectively. Million dollar+ client stood 90 during the quarter.11 new customer were signed during the quarter.

- **Order intake:** Order intake remains healthy for the company. The company acquired 170 mn fresh order during the quarter .Out of this 170 mn order intake , US contribution stood at USD94million ,EMEA for USD45 million and USD31 million came from rest of the world. Cumulative order intake for FY19 is USD 646 million which is 27%up as compared to FY18.Large deal signing momentum continued during the quarter, the company signed two large deals in 4QFY19 in travel domain and BFS. Order book executable in next 12 months expanded again to USD390 mn (15%YoY).

- **Strengthen the leadership:** the company in line with the strategy to add senior lateral talent from Tier-1 providers has on boarded two EVPs to manage two key businesses of the firm. Vamsi Rupa kula, who was an MD at Accenture, joined the company as the Global Head of Infrastructure & Cloud Services Business. The company also inducted Sreekanth Lapalla, earlier Global Delivery Head at Virtusa, to head its incessant business.

- **Outlook for the year:** The fundamental of the business are strong, as noted in past the company continue to plan for robust predictable and profitable growth in FY20.The management continues to believe to clock 18% threshold as the margin in FY20.

➤ Other Highlights

- Digital revenues grew 43% YoY during the quarter contributing to 29% of the total revenues.
- In recent announcement in Australia regarding the royalty tax, The Company re worked on its position pertaining to capability of different taxes in one its acquired entity in Australia. On the basis of re assessment the company has filed voluntary disclosure with Australian authorities and impact of the same as been book as exceptional item of 5.6 crore in P/L account during the quarter.
- 119 people were added during the quarter taking headcount to 10,263 at the end of the period

Exhibit: Revenue trend

Revenue growth decelerated in 4QFY19 due to deferral in a contract in Insurance and weakness in GIS.

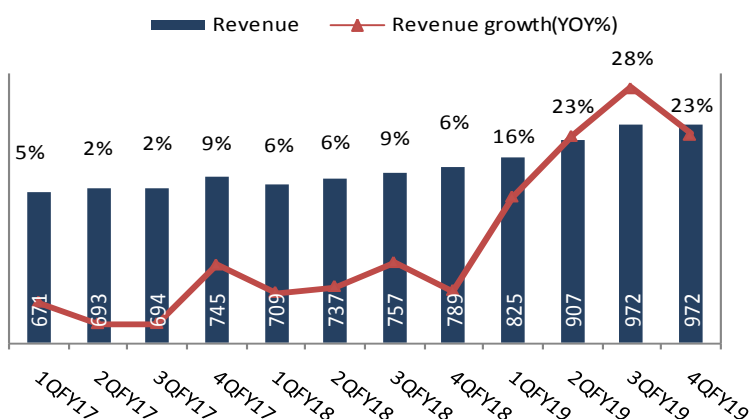


Exhibit: Order Intake

Continued increased in Order book

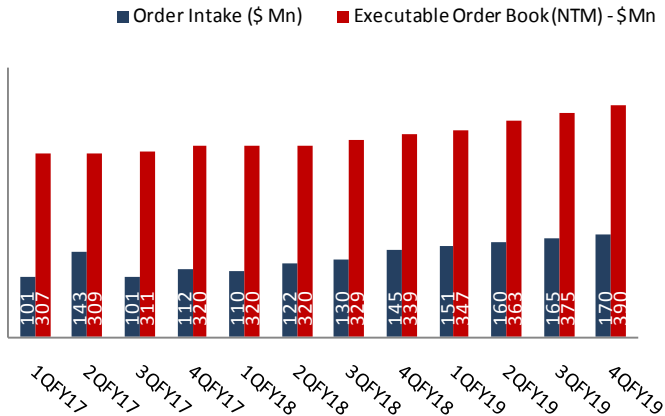


Exhibit: Margin Trend

EBITDA margins declined by higher SGA

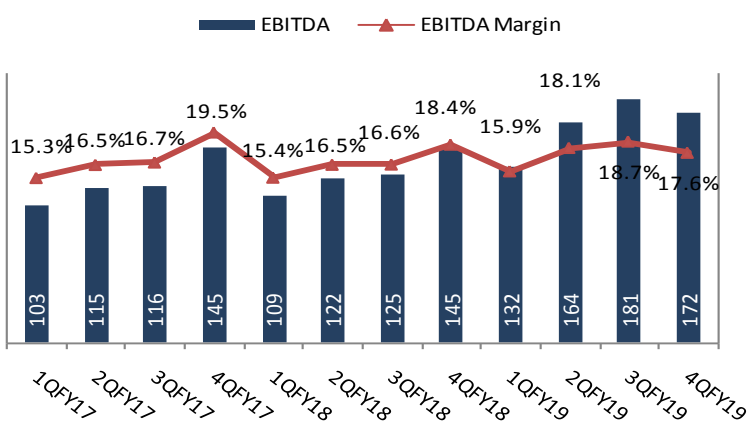


Exhibit: Utilization trend

Utilization lever near optimal levels

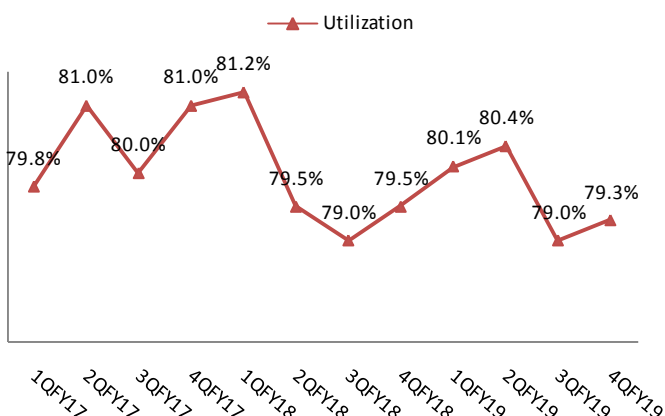


Exhibit: Attrition Rate

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

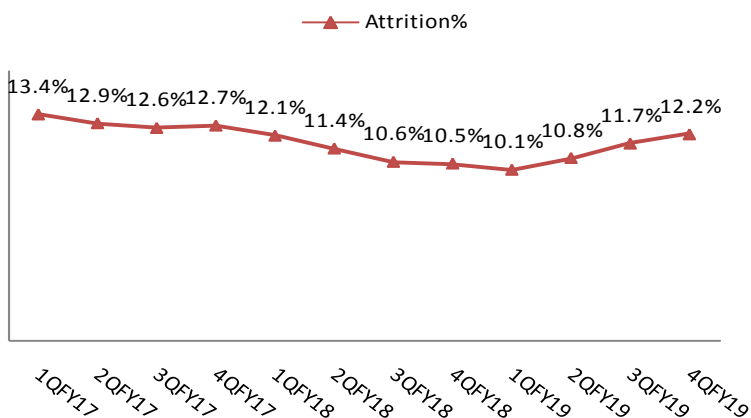
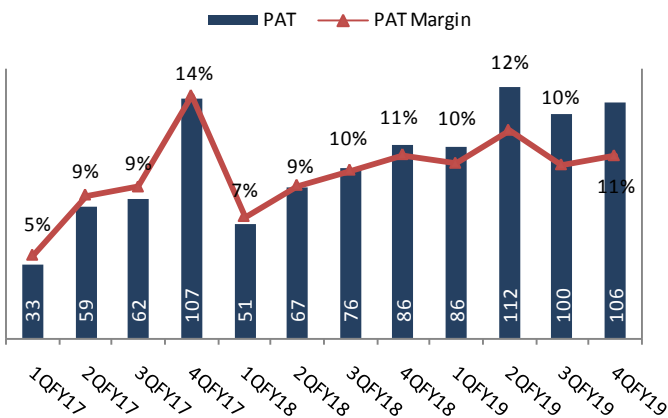


Exhibit: PAT and PAT Margin

Lower tax rate supported the PAT growth.



Operational Details

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

Service Mix	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
ADM	66%	66%	64%	65%	66%	68%	68%	68%	70%
SI & PI	6%	5%	6%	5%	4%	3%	4%	4%	4%
BPO	5%	5%	4%	4%	4%	3%	4%	4%	4%
IMS	18%	18%	18%	19%	19%	19%	18%	18%	17%
IP Based	6%	6%	7%	7%	7%	7%	6%	6%	5%

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

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

Revenue Mix	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
ONSITE	59%	60%	61%	61%	61%	64%	64%	65%	66%
OFFSHORE	31%	40%	39%	39%	39%	36%	36%	35%	34%

Intake(\$ Mn)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Fresh Order Intake		110	122	130	145	151	160	165	170
USA			64	82	43	69	86	96	94
EMEA			32	25	69	56	39	42	45
ROW			26	23	33	26	35	27	31
Executable Order Book over Next 12 Months			320	329	339	347	363	375	390

Position	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
USD	61.7	65.2	65.3	65.3	65.3	60.2	64.2	66.1	68.5
GBP	13.1	13.0	13.1	13.1	13.0	13.0	13.1	13.1	13.1
Euro	4.5	4.5	4.5	4.5	4.5	4.5	4.2	4.5	4.5

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

Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	60	61	61	61	61	62	62	62
Reserves	1,034	1,263	1,296	1,511	1,625	1,713	2,011	2,408
Networth	1,094	1,324	1,357	1,573	1,687	1,774	2,073	2,469
Debt	6	5	5	6	7	18	10	10
Other Non Cur Liab	28	31	34	341	288	271	167	167
Total Capital Employed	1,145	1,379	1,415	1,939	2,006	2,085	2,291	2,654
Net Fixed Assets (incl CWIP)	466	582	678	717	663	637	575	548
Non Cur Investments	0	0	0	-	-	-	-	-
Other Non Cur Asst	515	660	792	1,055	977	1,052	960	932
Non Curr Assets	515	660	792	1,055	977	1,052	960	932
Debtors	454	564	606	590	490	586	588	684
Cash & Bank	233	221	269	336	408	419	558	1,033
Other Curr Assets	161	143	93	114	96	101	114	132
Current investments	82	55	55	75	316	365	365	365
current tax asset	-	-	-	51	62	65	20	20
Short-term loans and advances	93	153	153	-	-	-	-	-
Other financial assets	-	-	-	108	116	83	155	155
Curr Assets	1,024	1,142	1,185	1,274	1,488	1,618	1,799	2,390
Creditors	180	164	216	119	124	145	165	192
Provisions	78	84	147	43	40	71	33	39
Other Curr Liab	136	175	199	179	168	195	227	264
Other financial liability	-	-	-	25	103	173	159	173
Employee benefit obligations	-	-	-	24	24	-	-	-
Curr Liabilities	394	422	562	389	459	585	583	668
Net Curr Assets	630	719	623	884	1,029	1,034	1,216	1,722
Total Assets	1,539	1,801	1,977	2,328	2,465	2,670	2,874	3,322

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	2,021	2,305	2,372	2,688	2,802	2,991	3,676	4,280
Change (%)	28%	14%	3%	13%	4%	7%	23%	16%
	-	-	-	-	-	-	-	-
EBITDA	333	354	336	473	480	501	649	762
Change (%)	23%	6%	-5%	41%	1%	4%	29%	18%
Margin (%)	16%	15%	14%	18%	17%	17%	18%	18%
Depr & Amor.	57	62	92	121	128	127	125	133
EBIT	276	292	244	352	352	374	524	629
Int. & other fin. Cost	5	4	6	8	6	9	9	8
Other Income	23	30	17	22	27	39	54	73
EBT	293	318	256	367	373	403	568	694
Exp Item	-	-	80	1	22	-	6	-
Tax	75	80	54	78	79	95	140	169
Minority Int & P/L share of Ass.	(5)	(8)	(8)	-	-	(29)	(19)	(18)
Reported PAT	218	238	122	287	272	308	422	525
Adjusted PAT	213	231	114	287	272	280	403	507
Change (%)	8%	8%	-51%	152%	-5%	3%	44%	26%
Margin(%)	11%	10%	5%	11%	10%	9%	11%	12%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	19.7	17.6	17.2	7.8	17.6	15.7	14.5	17.8
ROCE	24.1	23.2	17.5	21.0	17.8	18.3	23.9	25.4
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	3	3	2	3	3	3	3	4
Debtor Days	82	89	93	80	64	71	58	58
Book Value Per Share	182	218	222	260	275	289	336	400
Payable Days	32	26	33	16	16	18	16	16
Earnings Per Share	35	38	19	47	44	46	65	82
P/E	8	11	19	11	10	19	19	15
Price / Book Value	2	2	2	2	2	3	4	3
EV/EBITDA	4	6	6	6	5	10	11	9
EV/Sales	1	1	1	1	1	2	2	2
Dividend Payout%	23%	22%	48%	20%	23%	27%	23%	18%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	293	318	256	367	373	403	568	694
(inc)/Dec in Working Capital	(48)	(140)	14	-58	94	-13	-158	-31
Non Cash Op Exp	62	70	159	152	133	106	-57	115
Int Paid (+)	-	-	0	0	0	0	0	0
Tax Paid	(72)	(104)	-92	-99	-105	-111	-140	-169
others	-	-	-80	-1	-22	0	-15	0
CF from Op. Activities	235	145	258	360	472	382	280	691
(inc)/Dec in FA & CWIP	(92)	(138)	-187	-160	-86	-88	-63	-105
Free Cashflow	143	7	71	201	387	294	217	585
(Pur)/Sale of Inv	(21)	-	0	-15	-228	-561	0	0
CF from Inv. Activities	(113)	(100)	-177	-304	-306	-270	-65	-105
inc/(dec) in NW	9	4	2	2	7	7	0	0
inc/(dec) in Debt	-	-	0	0	0	0	-8	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	-119	-111
Inc(Dec) in Cash	30	(7)	14	-16	99	37	96	475
Add: Opening Balance	166	202	217	304	251	355	411	508
Closing Balance	202	217	224	288	350	410	508	983

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