




Industry	TECHNOLOGY
Bloomberg	NITEC IN
BSE CODE	532541

## Order intake remained impressive, Top 5 clients' revenue to pressurize growth in near term

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>1354</b>
<b>Price Target</b>	<b>1450</b>
<b>Potential Upside</b>	<b>7%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	1425/1031
Mkt Capital (Rs Cr)	8371
Free float (%)	69%
Avg. Vol 1M (,000)	459
No. of Shares (Cr)	6
Promoters Pledged %	0%

### Research Analyst

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### 1QFY20 Result update

- NITEC reported a mixed set of the numbers in its 1QFY20 result. Revenue came in Rs962.7 crore million, a growth of 3% QoQ excl GIS business while PAT for the quarter stood at Rs 87 crore, de growth of 17.5%QoQ led by margin miss.
- EBITDA for the quarter stood at Rs139 crore, a decline of 19.2%QoQ. The EBITDA margin adjusted for onetime non recurring expenses and GIS business stood at 17.1%. The margin shrank primary due to 240bps impact of annual wage revision; 90bps impact from on account of higher visa filling cost. However, some portion was mitigated with upside of 90bps from adoption of INDAS116 accounting standard. The onetime non recurring expenses (professional expenses related to which work and GIS transaction, also includes onetime ex gratia payment) during the quarter of Rs23.5crore resulted in negative impact of 240bps during the quarter.
- Order intake remained healthy for the company. The company acquired 175 mn fresh order during the quarter. Out of this 170 mn order intake, US contribution stood at USD100million, EMEA for USD58 million and USD17 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 started the year with moderate revenue growth of 3%QoQ (excl GIS business) while margin contracted by 313bpsQoQ on onetime non recurring expenses (professional expenses related to Whish work and GIS transaction, also includes onetime ex gratia payment), wage hike and higher visa filling cost.

Going forward, continued growth in fresh orders intake which grew 13.8%YoY in 1Q (continued uptake in consecutive 9 quarters) and strong traction from insurance and travel to drive growth in FY20. Even we believe new acquisition Whish work (contributed half a month revenue of 10.8crore in 1QFY20) to make up for the GIS disinvestment. However we expect to continue to see softness in top 5 client's revenue as BFS capital market to continue to remain under pressure due to macro concern. On margin front, we 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. Factoring in macro challenges hanging around top client revenue in near term, we have reduced our target from Rs1497 to Rs1450 and recommend Neutral.

### Key Risks to our rating and target

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

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	2802	2991	3676	4047	4538
EBITDA	480	501	649	687	803
EBIT	352	374	524	554	659
PAT	272	280	403	446	522
EPS (Rs)	44	46	65	72	85
EPS growth (%)	-5%	3%	44%	11%	17%
ROE (%)	18	16	15	18	17
ROCE (%)	18	18	24	23	23
BV	275	289	336	390	457
P/B (X)	1.6	3.0	3.9	3.5	3.0
P/E (x)	9.8	19.0	20.2	18.7	16.0

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**1QFY20 Results**
**Mixed quarter**

<i>Financials</i>	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	825	907	972	972	963	16.7%	-1.0%	2,991	3,676	22.9%
Other Income	22	23	2	7	21	-6.4%	182.2%	39	54	36.8%
COGS	2	4	6	17	16	550.0%	-6.6%	32	29	-8.2%
Employee Exp	484	535	559	576	606	25.2%	5.1%	1,760	2,153	22.3%
Other Expenses	207	205	226	208	203	-2.1%	-2.3%	698	845	21.1%
EBITDA	132	164	181	172	139	5.3%	-19.2%	501	649	29.5%
Depreciation	31	32	31	30	40	28.5%	32.3%	127	125	-2.0%
EBIT	100	132	150	141	98	-2%	-30%	374	524	40.2%
Interest	2	2	2	3	3	55.0%	-8.8%	9	9	-2.1%
PBT	120	153	150	145	116	-3.7%	-20.1%	403	568	40.9%
Tax	30	36	45	30	32	8.4%	9.5%	95	140	47.8%
Exceptional	-	-	-	6	(6)		-201.8%	-	6	#DIV/0!
PAT	86	112	100	106	87	1.4%	-17.5%	280	403	44.1%

**1QFY20 performance: Moderate revenue growth**

- ❑ NITEC reported a mixed set of numbers, revenue came in Rs963 crore , a decline of 1%QoQ.Excluding GIS business revenue came in at Rs659.7crore, a growth of 3%QoQ in cc terms. On constant currency terms ex GIS revenue grew 4%QoQ during the quarter.
- ❑ Vertical wise, BFS expanded 2.8%QoQ in cc terms and now contribute 16.5% of the revenue. Travel, Transportation & Hospitality(TTH) up 5.9% QoQ in cc and now contributing 28.3%.Insurance and Other grew 6.6%/1.5 QoQ in cc terms and now contributing 29.1%/26.6% of overall revenue.

**Impressive order intake**

<i>Order intake(usd mn)</i>	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY%
Order Intake (\$ Mn)	130	145	151	160	165	170	175	2.9%	15.9%
Executable	329	339	347	363	375	390	395	1.3%	13.8%

- ❑ Order intake remained healthy for the company. The company acquired 175 mn fresh order during the quarter which is 9 consecutive quarter of continued uptick in order intake .Out of this USD175 mn order intake , US contribution stood at USD100million ,EMEA for USD58million and USD17 million came from rest of the world. 11 new customers were signed during the quarter.
- ❑ However there was no large deal signed during the quarter.
- ❑ Order book executable in next 12 months expanded again to USD395 mn (13.8%YoY).

**Softness seen in Amercia &Row due to visa cost and disinvestment from GIS**

<i>Geography (in crore)</i>	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY%
America	378	379	412	445	476	476	472	-1.0%	14.4%
EMEA	227	252	264	309	321	321	337	5.0%	27.6%
RoW	151	158	148	154	175	175	154	-12.0%	3.7%

**Onetime ex gratia washed away the overall margin**

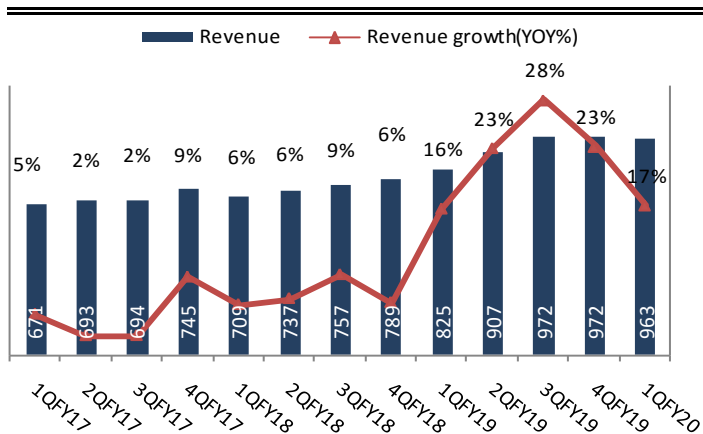
- ❑ EBITDA for the quarter stood at Rs139 crore, a decline of 19.2%QoQ. The EBITDA margin adjusted for onetime non recurring expenses and GIS business stood at 17.1%.
- ❑ The margin shrank primary due to 240bps impact of annual wage revision; 90bps impact from on account of higher visa filling cost. However, some portion was mitigated with upside of 90bps from adoption of INDAS116 accounting standard.
- ❑ The onetime non recurring expenses (professional expenses related to which work and GIS transaction, also includes onetime ex gratia payment) during the quarter of Rs23.5crore resulted in negative impact of 240bps during the quarter.

## Concall Highlights

- **1QFY20 performance:** The Company started the year with better revenue growth of 4%QoQ in cc terms (excluding the GIS business which got divestment as announced previously). Revenue growth was further aided by new acquisition Whish work which added half a month revenue (10.8crore) performance .Revenue from NITL was 52.9crore for the quarter.
- **Softness in Client metrics:** Top 5 contributes 27.2% of the overall revenue which declined from 29% .Top 10 and top 20 contributes 38.8% and 53% respectively. The company is seeing softness in top 5 client revenue from BFS space as the company has witness softness from capital markets due to compression in the IT spend by the client. Million dollar+ client stood 91 during the quarter after excluding 2 of GIS client.
- **Margin performance in 1QFY20:** Ebitda margin for the quarter under review adjusted for onetime non recurring expenses stood at 17.1%. The margin movement reflects the negative impact of 240bps on account of annual wage revision; 90bps impact from on account of higher visa filling cost. However, some portion was mitigated with upside of 90bps from adoption of INDAS116 accounting standard. The onetime non recurring expenses (professional expenses related to whish work and GIS transaction, also includes onetime ex gratia payment) during the quarter of Rs23.5crore resulted in negative impact of 240bps during the quarter.
- **Vertical performance:** BFS expanded 2.8%QoQ in cc terms and now contribute 16.5% of the revenue. Travel, Transportation & Hospitality(TTH) up 5.9% QoQ and now contributing 28.3%.Insurance and Other grew 6.6%/1.5 QoQ in cc terms and now contributing 29.1% /26.6% of overall revenue.
- **Geography margins :** America margin declined due to higher visa filled, India business margin also posted de growth due to divestment of GIS which was higher margin business. However for midterm, as the old government projects are in last stage, as these businesses to close shortly and management expects to see improvement in profitability from India business.
- **Order intake:** Order intake remained healthy for the company. The company acquired 175 mn fresh order during the quarter which is 9 consecutive quarter of continued uptick in order intake .Out of this USD175 mn order intake , US contribution stood at USD100million ,EMEA for USD58million and USD17 million came from rest of the world. 11 new customers were signed during the quarter. However there was no large deal signed during the quarter. Order book executable in next 12 months expanded again to USD395 mn (13.8%YoY).
- **Acquisition payout:** The company paid Rs90 crore during for the quarter for incessant. All the tranche of this acquisition is now complete and it has fully now integrated in the NIIT Technologies business.
- **Headcount:** Total people at the end of the quarter stood at 10297which includes an addition of 275 people from Whish work and a reduction of 363 people on account of disinvestment of GIS business.Net increase in headcount 122 for the quarter. Utilization rose during the quarter to 80.5%.also attrition raised during the quarter to 12.9%.
- **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.

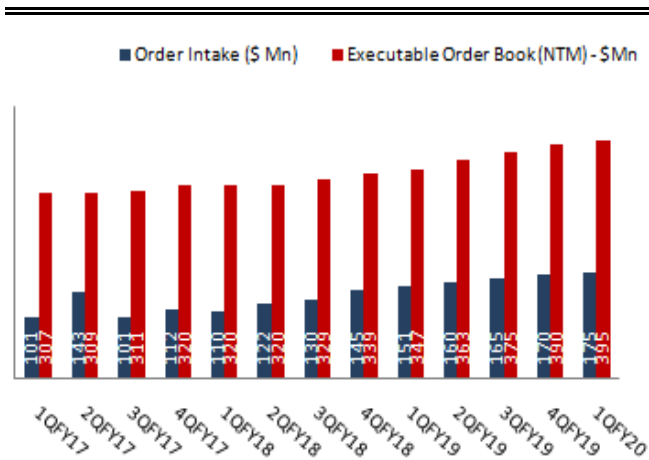
## Exhibit: Revenue trend

Revenue impacted due to disinvestment of GIS. Ex GIS moderate growth seen in 1Q result.



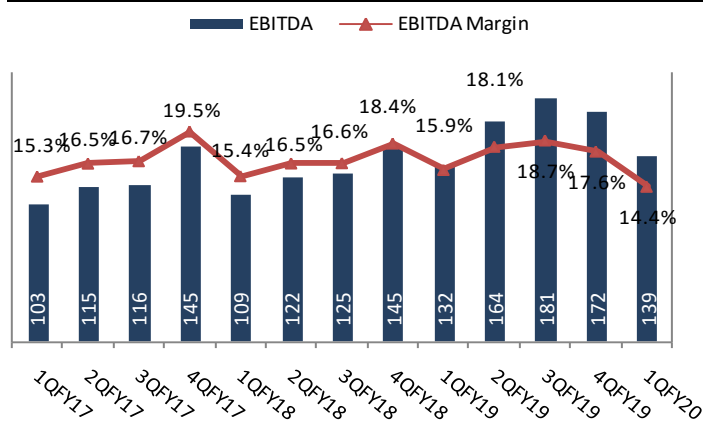
## Exhibit: Order Intake

Impressive order intake continued during the quarter.



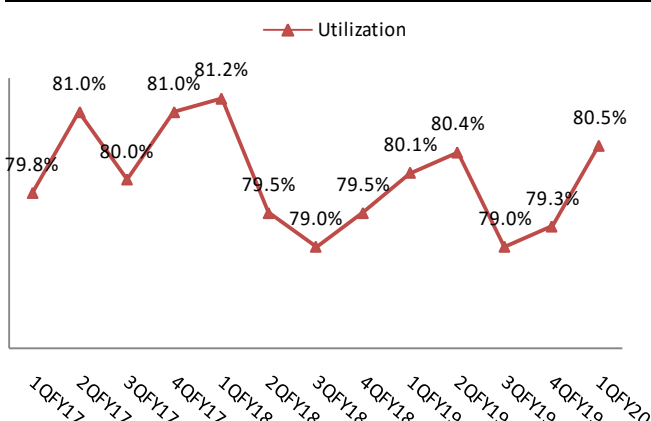
## Exhibit: Margin Trend:

Onetime ex gratia, wage hike and higher visa cost washed away the overall margin.



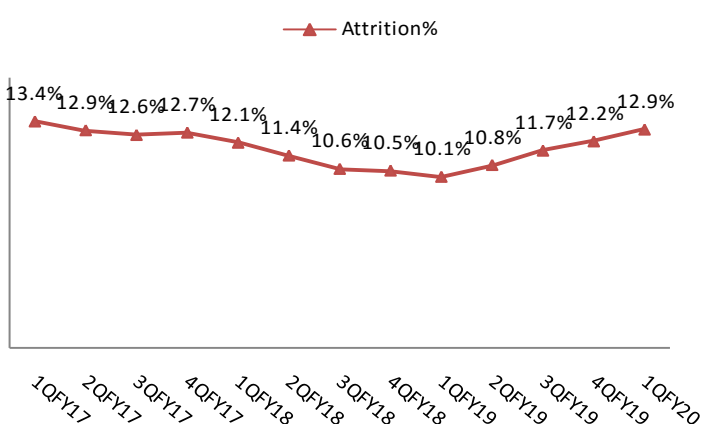
## Exhibit: Utilization trend

Continued Improvement seen in utilization rate.



## Exhibit: Attrition rate:

Inching Attrition rate industry wise concern.



**Operational Details**

<b>By Geography (%)</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
America	50%	50%	48%	50%	49%	49%	49%	49%
EMEA	29%	30%	32%	32%	34%	33%	33%	35%
RoW	21%	20%	20%	18%	17%	18%	18%	16%

<b>Service Mix (%)</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
ADM	64%	65%	66%	68%	68%	68%	70%	72%
SI & PI	6%	5%	4%	3%	4%	4%	4%	1%
BPO	4%	4%	4%	3%	4%	4%	4%	4%
IMS	18%	19%	19%	19%	18%	18%	17%	17%
IP Based	7%	7%	7%	7%	6%	6%	5%	6%

<b>Top Client Mix (%)</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
Top 5	31%	30%	29%	27%	28%	28%	29%	27%
Top 10	43%	42%	40%	36%	40%	40%	41%	39%
Top 20	57%	54%	54%	N/A	54%	54%	N/A	N/A
Others	43%	46%	46%	N/A	46%	46%	N/A	N/A

<b>People Data</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
Net Additions	59	59	342	341	261	119	119	34
Attrition%	11%	11%	10%	10%	11%	12%	12%	13%
Utilization%	80%	79%	80%	80%	80%	79%	79%	81%

<b>Revenue Mix</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
Onsite	61%	61%	61%	64%	64%	65%	66%	66%
Offshore	39%	39%	39%	36%	36%	35%	34%	34%

<b>Intake(\$ Mn)☒</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
Fresh Order Intake	122	130	145	151	160	165	170	175
USA	64	82	43	69	86	96	94	100
EMEA	32	25	69	56	39	42	45	58
ROW	26	23	33	26	35	27	31	17
Executable Order Book over Ne	320	329	339	347	363	375	390	395

<b>Position</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
USD	65.3	65.3	65.3	60.2	64.2	66.1	68.5	69.0
GBP	13.1	13.1	13.0	13.0	13.1	13.1	13.1	13.1
Euro	4.5	4.5	4.5	4.5	4.2	4.5	4.5	4.5

<b>Vertical Mix</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
Banking & Financial Services	17%	17%	16%	17%	16%	15%	16%	16%
Insurance	25%	26%	28%	29%	29%	30%	28%	29%
Transport	27%	27%	26%	27%	27%	27%	27%	28%
Manufacturing & Media	31%	30%	30%	28%	28%	29%	29%	27%

**Financial Details**
**Balance Sheet**

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
Share Capital	61	61	61	61	62	62	62	62
Reserves	1,263	1,296	1,511	1,625	1,713	2,011	2,347	2,758
<b>Networth</b>	<b>1,324</b>	<b>1,357</b>	<b>1,573</b>	<b>1,687</b>	<b>1,774</b>	<b>2,073</b>	<b>2,408</b>	<b>2,820</b>
Debt	5	5	6	7	18	10	10	10
Other Non Current Liab	31	34	341	288	271	167	167	167
<b>Total Capital Employed</b>	<b>1,379</b>	<b>1,415</b>	<b>1,939</b>	<b>2,006</b>	<b>2,085</b>	<b>2,291</b>	<b>2,593</b>	<b>3,004</b>
Net Fixed Assets (incl CWIP)	582	678	717	663	637	575	542	512
Non Current Investments	0	0	-	-	-	-	-	-
Other Non Cur Asst	660	792	1,055	977	1,052	960	926	897
<b>Non Current Assets</b>	<b>660</b>	<b>792</b>	<b>1,055</b>	<b>977</b>	<b>1,052</b>	<b>960</b>	<b>926</b>	<b>897</b>
Trade receivables	564	606	590	490	586	588	647	726
Cash and bank balances	221	269	336	408	419	558	523	707
Other current assets	143	93	114	96	101	114	125	140
Current investments	55	55	75	316	365	365	837	1,057
current tax asset	-	-	51	62	65	20	20	20
Short-term loans and advances	153	153	-	-	-	-	-	-
Other financial assets	-	-	108	116	83	155	155	155
<b>Current Assets</b>	<b>1,142</b>	<b>1,185</b>	<b>1,274</b>	<b>1,488</b>	<b>1,618</b>	<b>1,799</b>	<b>2,308</b>	<b>2,805</b>
Trade payables	164	216	119	124	145	165	181	203
Short-term provisions	84	147	43	40	71	33	37	41
Other current liabilities	175	199	179	168	195	227	249	280
Other current financial liability:	-	-	25	103	173	159	173	173
Employee benefit obligations	-	-	24	24	-	-	-	-
<b>Curr Liabilities</b>	<b>422</b>	<b>562</b>	<b>389</b>	<b>459</b>	<b>585</b>	<b>583</b>	<b>641</b>	<b>697</b>
<b>Net Current Assets</b>	<b>719</b>	<b>623</b>	<b>884</b>	<b>1,029</b>	<b>1,034</b>	<b>1,216</b>	<b>1,667</b>	<b>2,108</b>
<b>Total Assets</b>	<b>1,801</b>	<b>1,977</b>	<b>2,328</b>	<b>2,465</b>	<b>2,670</b>	<b>2,874</b>	<b>3,234</b>	<b>3701.728</b>

**Income Statement**

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
<b>Revenue from Operation</b>	<b>2,305</b>	<b>2,372</b>	<b>2,688</b>	<b>2,802</b>	<b>2,991</b>	<b>3,676</b>	<b>4,047</b>	<b>4,538</b>
Change (%)	14%	3%	13%	4%	7%	23%	10%	12%
<b>EBITDA</b>	<b>354</b>	<b>336</b>	<b>473</b>	<b>480</b>	<b>501</b>	<b>649</b>	<b>687</b>	<b>803</b>
Change (%)	6%	-5%	41%	1%	4%	29%	6%	17%
Margin (%)	15%	14%	18%	17%	17%	18%	17%	18%
Depr & Amor.	62	92	121	128	127	125	133	144
<b>EBIT</b>	<b>292</b>	<b>244</b>	<b>352</b>	<b>352</b>	<b>374</b>	<b>524</b>	<b>554</b>	<b>659</b>
Int. & other fin. Cost	4	6	8	6	9	9	12	12
Other Income	30	17	22	27	39	54	59	56
<b>EBT</b>	<b>318</b>	<b>256</b>	<b>367</b>	<b>373</b>	<b>403</b>	<b>568</b>	<b>601</b>	<b>703</b>
Exp Item	-	80	1	22	-	6	(6)	-
Tax	80	54	78	79	95	140	151	172
Minority Int & P/L share of Ass.	(8)	(8)	-	-	(29)	(19)	(9)	(9)
Reported PAT	238	122	287	272	308	422	455	531
<b>Adjusted PAT</b>	<b>231</b>	<b>114</b>	<b>287</b>	<b>272</b>	<b>280</b>	<b>403</b>	<b>446</b>	<b>522</b>
Change (%)	8%	-51%	152%	-5%	3%	44%	11%	17%
Margin(%)	10%	5%	11%	10%	9%	11%	11%	12%

**Financial Details**
**Key Ratios**

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
ROE	17.6	17.2	7.8	17.6	15.7	14.5	18.0	17.1
ROCE	23.2	17.5	21.0	17.8	18.3	23.9	22.7	23.6
Asset Turnover	1	1	1.2	1.1	1.1	1.3	1.3	1.2
Current Ratio	3	2	3.3	3.2	2.8	3.1	3.6	4.0
Debtor Days	89	93	80	64	71	58	58	58
Book Value Per Share	218	222	260	275	289	336	390	457
Payable Days	26	33	16	16	18	16	16	16
Earnings Per Share	38	19	47	44	46	65	72	85
P/E	11	19	11	10	19	20	19	16
Price / Book Value	2	2	2	2	3	4	3	3
EV/EBITDA	6	6	6	5	10	12	11	10
EV/Sales	1	1	1	1	2	2	2	2

**Cash Flow Statement**

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
PBT	318	256	367	373	403	568	601	703
(inc)/Dec in Working Capital	(140)	14	(58)	94	(13)	(158)	(13)	(37)
Non Cash Op Exp	70	159	152	133	106	(57)	115	126
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	(104)	(92)	(99)	(105)	(111)	(140)	(151)	(172)
others	-	(80)	(1)	(22)	-	(15)	-	-
<b>CF from Op. Activities</b>	<b>145</b>	<b>258</b>	<b>360</b>	<b>472</b>	<b>382</b>	<b>280</b>	<b>633</b>	<b>620</b>
(inc)/Dec in FA & CWIP	(138)	(187)	(160)	(86)	(88)	(63)	(99)	(114)
Free Cashflow	7	71	201	387	294	217	533	506
(Pur)/Sale of Inv	-	-	(15)	(228)	(561)	0	(472)	(220)
<b>CF from Inv. Activities</b>	<b>(100)</b>	<b>(177)</b>	<b>(304)</b>	<b>(306)</b>	<b>(270)</b>	<b>(65)</b>	<b>(571)</b>	<b>(334)</b>
inc/(dec) in NW	4	2	2	7	7	-	-	-
inc/(dec) in Debt	-	-	-	-	-	(8)	-	-
Int. Paid	(1)	(3)	(3)	(1)	(1)	-	-	-
Div Paid (inc tax)	(55)	(65)	(73)	(74)	(81)	(111)	(111)	(111)
others	(0)	(1)	2	1	1	-	-	-
<b>CF from Fin. Activities</b>	<b>(53)</b>	<b>(66)</b>	<b>(73)</b>	<b>(67)</b>	<b>(74)</b>	<b>(119)</b>	<b>(111)</b>	<b>(111)</b>
<b>Inc(Dec) in Cash</b>	<b>(7)</b>	<b>14</b>	<b>(16)</b>	<b>99</b>	<b>37</b>	<b>96</b>	<b>(49)</b>	<b>175</b>
Add: Opening Balance	202	217	304	251	355	411	508	473
<b>Closing Balance</b>	<b>217</b>	<b>224</b>	<b>288</b>	<b>350</b>	<b>410</b>	<b>508</b>	<b>459</b>	<b>648</b>

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