

Industry **TECHNOLOGY**  
Bloomberg **NITEC IN**  
BSE CODE **532541**

## Continued investments to drag margins in FY20

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>1472</b>
<b>Price Target</b>	<b>1407</b>
<b>Potential Upside</b>	<b>-4%</b>

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

### Stock Info

52wk Range H/L	1540/1031
Mkt Capital (Rs Cr)	9200
Free float (%)	69%
Avg. Vol 1M (000)	21
No. of Shares (Crs)	6
Promoters Pledged (Crs)	0

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	3,676	4,186	4,824
EBITDA	649	740	871
EBIT	524	579	701
PAT	403	462	551
EPS (Rs)	65	75	89
EPS	44%	15%	19%
ROE (%)	15	18	17
ROCE (%)	24	24	25
BV	336	393	464
P/B (X)	4	4	3
P/E (x)	20	20	16

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### 2QFY20 Result update

- ❑ NIITTECH reported mixed set of numbers in 2QFY20 result .Revenue for the quarter stood at Rs 1038.5crore , a growth of 8%QoQ in cc terms (above our estimates ), out of which Organic revenue grew 4.1%QoQ while PAT for the quarter came in line to Rs119.5crore(vs. our estimates of Rs115crore) led by lower tax rate and strong revenue growth .
- ❑ EBITDA during the quarter stood at Rs191.6crore, a growth of 38.3%QoQ. Margin came at 18.4% which was in line with our estimates of 18%.The margin expansion was primarily attributable to margin improvement across all business units.
- ❑ Digital revenue grew 18%QoQ for the quarter and now accounts for 38% of the overall revenue.

### Broad based growth across segment

The company reported a broad based growth across its focus verticals (BFS, travel and insurance). BFS which contributes 27.8% of revenue, expanded 8.3%QoQ cc during the quarter mainly aided by spend in the capital market segment despite issue with one of its client. Insurance (~31.1% overall revenue) posted robust growth of 14.8%QoQ led material deal signed with one of largest client. Travel& hospitality was up by 5%QoQ and other segment grew 1.5%QoQ, represent 22.8%/4.4% of the revenue.

### Continued uptick in fresh order

The company has been posting steady growth in fresh order intake for last 11 quarters. Fresh order intake during the quarter was TCV USD176million .Out of this USD176million order intake, US contributed USD65million, and EMEA contributed USD41 million and RoW contributed USD70million during the quarter .Row showed strong growth because of material win in Row in BFS vertical. Order Book Executive over the next 12 months have expanded to USD405 million however no major large deal(excess of 20million) were signed during the quarter.

### Moderate 3Q, Margins to remain invested

The company sees strong fundamentalsfor the business however expects moderate 3QFY20 given the seasonality and lower billing dates .Also on margins, the company plan to continue to reinvest gains back into the business. Thus will continue to try to achieve 18%Ebitda Margin .

### View and Valuation

NIITTECH reported strong growth in revenue front while margin remained in its stated 18% range in 2QFY20 result .Fresh order intake remained impressive with 11 quarter of steady growth in TCV ( won USD176millionduring the quarter).Even Order Book Execution over the next 12 has crossed USD400million for the first time . Going forward healthy order intake and strong traction from insurance will drive growth in FY20.However challenges in top client in BFS vertical (contributes 27.8%)will continue remain overhang on the revenue for next few quarters.

Also on margin front , as the company is consistent in reinvesting the margins gains back into building capabilities , better sales incentives and deal advisory initiatives , Thus we expect margins to remain below 18% aspiration in FY20.

Post result, we have raised our revenue and PAT estimates by 2/3% for FY20. However, we believe most of the positives factors are already baked in our estimates, Thus maintain Neutral stance on the stock with target price of Rs1407

### Key Risks to our rating and target

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

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**2QFY20 Results**  
**Mixed performance**

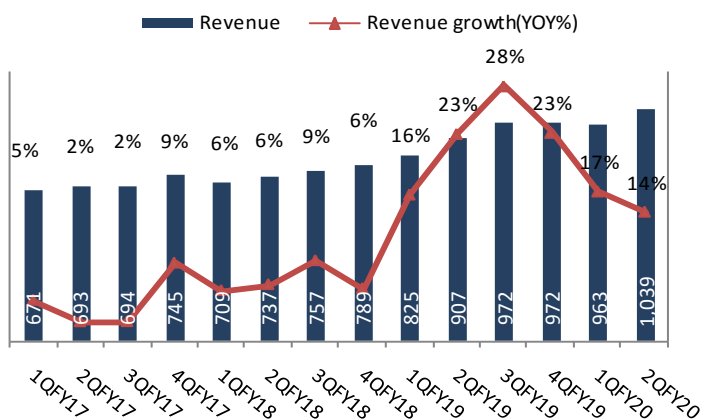
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	907	972	972	963	1,039	14.4%	7.9%	2991	3676.2	22.9%
Other Income	23	2	7	21	10	-54.9%	-50.5%	39	54	36.8%
COGS	4	6	17	16	10	133.3%	-37.2%	32	29	-8.2%
Employee Exp	535	559	576	606	628	17.4%	3.6%	1,760	2,153	22.3%
Other Expenses	205	226	208	203	210	2.4%	3.3%	698	845	21.1%
EBITDA	164	181	172	139	192	16.8%	38.3%	501	649	29.5%
Depreciation	32	31	30	40	45	40.1%	11.5%	127	125	-2.0%
EBIT	132	150	141	98	147	11.1%	49.3%	374	524	40.2%
Interest	2	2	3	3	4	144.4%	41.9%	9	9	-2.1%
PBT	153	150	145	116	153	-0.2%	31.8%	403	568	40.9%
Tax	36	45	30	32	28	-24.0%	-14.8%	95	140	47.8%
EXP items	-	-	6	(6)	-			-	6	
PAT	112	100	106	87	120	6.5%	37.4%	280	403	44.1%

**Concall Highlights**

- **Broad based growth across Vertical:** BFS expand 8.3%QoQ in cc terms, now contributing to 16.7%. Travel&hospitality was up by 5%QoQ, contributing 27.8% of revenue. Insurance grew by 14.8% QoQ, contributing 31.1% of overall revenue led by deal signed with largest client. Other segment effectively grew 2.2%QoQ, Its now represent 24.4% of the revenue.
- **Stable onsite revenue:** The onsite revenue for quarter remained stable with 66%of total revenue. Going ahead , The company will like to keep it at max 66%, one or two plus or minus may vary during quarters.
- **Update on client change:** In the last quarter the company had called up challenges in one of its client in BFS space .The management is seeing something getting stabilized but some challenges still continued in 2Q and will continue to see in coming quarters too.
- **Macro issue:** the company has not seen softening of demand now and also does anticipate any softness in short to medium terms.
- **Margin performance:** EBITDA margin for the quarter increased to 18.3% reflecting a positive impact of 118bps on account of margin improvement across all business units. Going forward, the company continues to maintain 18% EBITDA margin on annualized basis
- **ETR:** Effective tax rate was 18.15 which is reduction of 810bps from 1QFY20 on account of reversal of deferred tax liability on intangibles a acquired subsidiary after moving to new tax regime .Normalize tax rate for the quarter stood at 22.7% after adjusting for reversal of intangible .
- **Positives order intake:** Fresh order intake during the quarter was TCV USD176million .Out of this USD176million order intake, US contributed USD65million, and EMEA contributed USD41 million and RoW contributed USD70million during the quarter .Row showed strong growth because one of the client awarded large contract in this geography and also there was material win in Row in BFS vertical.10 new customers were added during the quarter. Order Book Executive over the firm next 12 months have expanded and stands at USD405 million. The deal pipeline and conversion are going up for the company.
- **Outlook for FY20:** The fundamentals of business are strong though expects softer 3QFY20 given the seasonality.

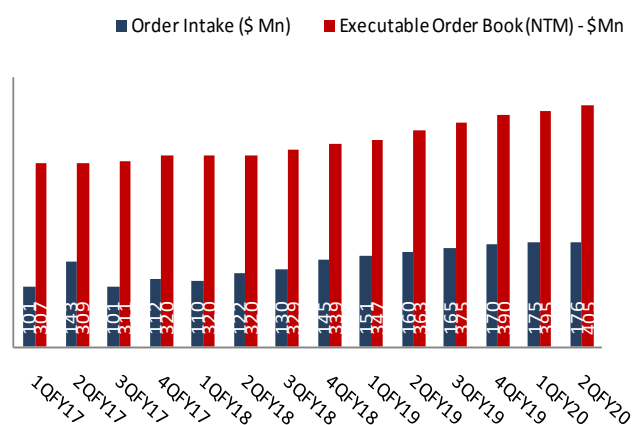
## Exhibit: Revenue trend

Broad based growth across vertical led the overall revenue growth



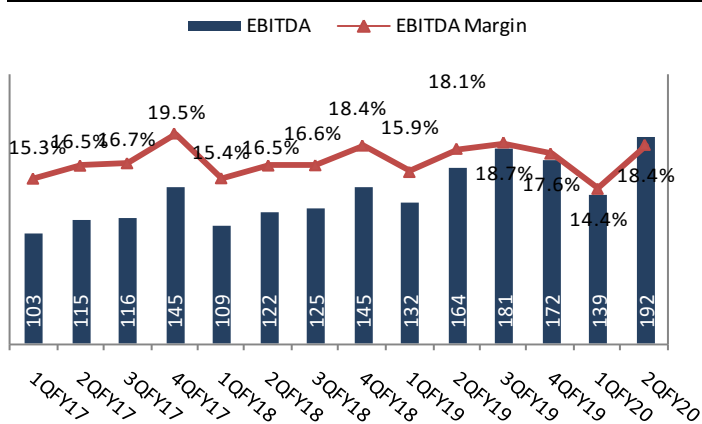
## Exhibit: Order Intake

Impressive order intake continued during the quarter.



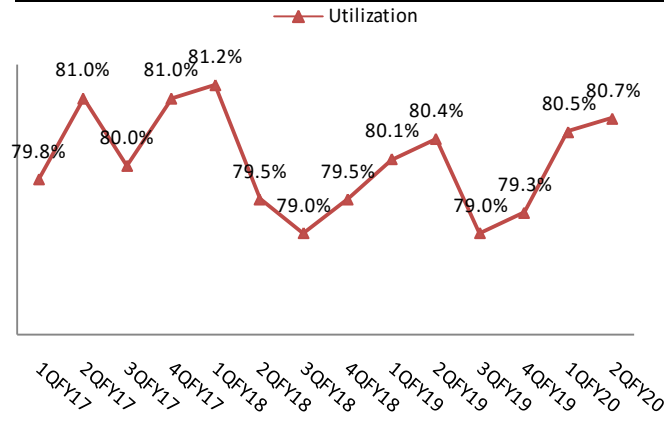
## Exhibit: Margin Trend

Margin remained in 18% range



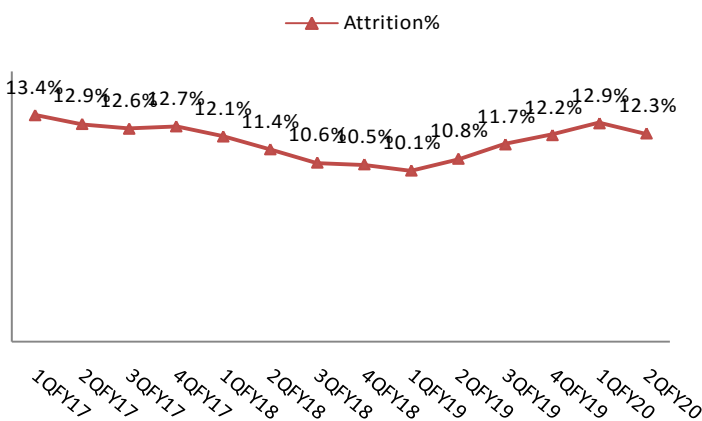
## Exhibit: Utilization trend

Continued Improvement seen in utilization rate.



## Exhibit: Attrition rate:

Attrition rate within control .



**Operational Details**

By Geography (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
America	50.0%	48.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
EMEA	30.0%	32.0%	32.0%	34.0%	33.0%	33.0%	35.0%	37.0%
RoW	20.0%	20.0%	18.0%	17.0%	18.0%	18.0%	16.0%	14.0%

Service Mix (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ADM	65.0%	66.0%	68.0%	68.0%	68.0%	70.0%	72.0%	74.0%
SI & PI	5.0%	4.0%	3.0%	4.0%	4.0%	4.0%	1.0%	1.0%
BPO	4.0%	4.0%	3.0%	4.0%	4.0%	4.0%	4.0%	3.0%
IMS	19.0%	19.0%	19.0%	18.0%	18.0%	17.0%	17.0%	17.0%
IP Based	7.0%	7.0%	7.0%	6.0%	6.0%	5.0%	6.0%	5.0%

Top Client Mix (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5	30.0%	29.0%	27.0%	28.0%	28.0%	29.0%	27.0%	29.0%
Top 10	42.0%	40.0%	36.0%	40.0%	40.0%	41.0%	39.0%	39.0%
Top 20	54.0%	54.0%	N/A	54.0%	54.0%	N/A	N/A	N/A
Others	46.0%	46.0%	N/A	46.0%	N/A	N/A	N/A	N/A

People Data	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Net Additions	59	342	341	261	119	119	34	503
Attrition%	10.6%	10.5%	10.1%	10.8%	11.7%	12.2%	12.9%	12.3%
Utilization%	79.0%	79.5%	80.1%	80.4%	79.0%	79.3%	80.5%	80.7%

Revenue Mix	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	61.0%	61.0%	64.0%	64.0%	65.0%	66.0%	66.0%	66.0%
Offshore	39.0%	39.0%	36.0%	36.0%	35.0%	34.0%	34.0%	34.0%

Intake(\$ Mn)☒	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Fresh Order Intake	130	145	151	160	165	170	175	176
USA	82	43	69	86	96	94	100	65
EMEA	25	69	56	39	42	45	58	41
ROW	23	33	26	35	27	31	17	70
Executable Order Book over Ne	329	339	347	363	375	390	395	405

Position	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
USD	65.25	65.25	60.15	64.23	66.11	68.48	69.01	71.79
GBP	13.05	13	13	13.05	13.05	13.05	13.05	17.99
Euro	4.5	4.5	4.5	4.2	4.5	4.5	4.5	6.3

Vertical Mix	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Banking & Financial Services	17.0%	16.0%	16.8%	16.2%	15.4%	16.2%	16.5%	16.7%
Insurance	26.0%	28.0%	28.5%	28.8%	29.6%	27.7%	28.7%	31.1%
Transport	27.0%	26.0%	27.1%	26.9%	26.5%	27.1%	28.3%	27.8%
Manufacturing & Media	30.0%	30.0%	27.6%	28.0%	28.5%	29.0%	26.6%	24.4%

## Financial Details

### Balance Sheet

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	61	61	61	61	62	62	62	62
Reserves	1,263	1,296	1,511	1,625	1,713	2,011	2,363	2,802
<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>2,424</b>	<b>2,864</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>2,086</b>	<b>2,291</b>	<b>2,609</b>	<b>3,049</b>
Net Fixed Assets (incl CWIP)	582	678	717	663	637	575	500	433
Non Current Investments	0	0	-	-	-	-	-	-
Other Non Cur Asst	660	792	1,055	977	1,052	960	884	817
<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>884</b>	<b>817</b>
Trade receivables	564	606	590	490	586	588	669	771
Cash and bank balances	221	269	336	408	419	558	570	810
Other current assets	143	93	114	96	101	114	129	149
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>2,381</b>	<b>2,962</b>
Trade payables	164	216	119	124	145	165	188	216
Short-term provisions	84	147	43	40	71	33	38	44
Other current liabilities	175	199	179	168	195	227	258	297
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>657</b>	<b>730</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>1,724</b>	<b>2,232</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>3,266</b>	<b>3,779</b>

### Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<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>4,186</b>	<b>4,824</b>
Change (%)	14%	3%	13%	4%	7%	23%	14%	15%
<b>EBITDA</b>	<b>354</b>	<b>336</b>	<b>473</b>	<b>480</b>	<b>501</b>	<b>649</b>	<b>740</b>	<b>871</b>
Change (%)	6%	-5%	41%	1%	4%	29%	14%	18%
Margin (%)	15%	14%	18%	17%	17%	18%	18%	18%
Depr & Amor.	62	92	121	128	127	125	161	170
<b>EBIT</b>	<b>292</b>	<b>244</b>	<b>352</b>	<b>352</b>	<b>374</b>	<b>524</b>	<b>579</b>	<b>701</b>
Int. & other fin. Cost	4	6	8	6	9	9	16	18
Other Income	30	17	22	27	39	54	51	61
<b>EBT</b>	<b>318</b>	<b>256</b>	<b>367</b>	<b>373</b>	<b>403</b>	<b>568</b>	<b>613</b>	<b>744</b>
Exp Item	-	80	1	22	-	6	(6)	-
Tax	80	54	78	79	95	140	138	171
Minority Int & P/L share of Ass.	(8)	(8)	-	-	(29)	(19)	(19)	(22)
<b>Reported PAT</b>	<b>238</b>	<b>122</b>	<b>287</b>	<b>272</b>	<b>308</b>	<b>422</b>	<b>481</b>	<b>573</b>
<b>Adjusted PAT</b>	<b>231</b>	<b>114</b>	<b>287</b>	<b>272</b>	<b>280</b>	<b>403</b>	<b>462</b>	<b>551</b>
Change (%)	8%	-51%	152%	-5%	3%	44%	15%	19%
Margin(%)	10%	5%	11%	10%	9%	11%	11%	11%

**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	18	17	8	18	16	15	18	17
ROCE	23	17	21	18	18	24	24	25
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	3	2	3.3	3.2	2.8	3.1	3.6	4.1
Debtor Days	89	93	80	64	71	58	58	58
Book Value Per Share	218	222	260	275	289	336	393	464
Payable Days	26	33	16	16	18	16	16	16
Earnings Per Share	38	19	47	44	46	65	75	89
P/E	11	19	11	10	19	20	20	16
Price / Book Value	2	2	2	2	3	4	4	3
EV/EBITDA	6	6	6	5	10	12	12	10
EV/Sales	1	1	1	1	2	2	2	2

**Cash Flow Statement**

Fig in Rs cr

<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>PBT</b>	<b>318</b>	<b>256</b>	<b>367</b>	<b>373</b>	<b>403</b>	<b>562</b>	<b>613</b>	<b>744</b>
(inc)/Dec in Working Capital	-140	14	-58	94	-13	-71	-24	-48
Non Cash Op Exp	70	159	152	133	106	102	148	148
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-104	-92	-99	-105	-111	-118	-138	-171
others	0	-80	-1	-22	0	0	0	0
<b>CF from Op. Activities</b>	<b>145</b>	<b>258</b>	<b>360</b>	<b>472</b>	<b>382</b>	<b>453</b>	<b>682</b>	<b>674</b>
(inc)/Dec in FA & CWIP	-138	-187	-160	-86	-88	-68	-86	-103
Free Cashflow	7	71	201	387	294	385	596	571
(Pur)/Sale of Inv	0	0	-15	-228	-561	-584	-472	-220
<b>CF from Inv. Activities</b>	<b>-100</b>	<b>-177</b>	<b>-304</b>	<b>-306</b>	<b>-270</b>	<b>-230</b>	<b>-558</b>	<b>-323</b>
inc/(dec) in NW	4	2	2	7	7	9	0	0
inc/(dec) in Debt	0	0	0	0	0	0	0	0
Int. Paid	-1	-3	-3	-1	-1	-1	0	0
Div Paid (inc tax)	-55	-65	-73	-74	-81	-109	-111	-111
others	0	-1	2	1	1	-5	0	0
<b>CF from Fin. Activities</b>	<b>-53</b>	<b>-66</b>	<b>-73</b>	<b>-67</b>	<b>-74</b>	<b>-106</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>117</b>	<b>13</b>	<b>240</b>
Add: Opening Balance	202	217	304	251	355	410	508	521
<b>Closing Balance</b>	<b>217</b>	<b>224</b>	<b>288</b>	<b>350</b>	<b>410</b>	<b>520</b>	<b>521</b>	<b>760</b>

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