

Industry
Bloomberg
BSE CODE

TECHNOLOGY
NITEC IN
532541

Impressive order intake, Margins remained at 18% band

RATING	NEUTRAL
CMP	1938
Price Target	1608
Potential Upside	-17%

Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	2057/1179
Mkt Capital (Rs Cr)	12113
Free float (%)	30%
Avg. Vol 1M (,000)	37
No. of Shares (Crs)	6
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	3,676	4,178	4,789
EBITDA	649	735	866
EBIT	524	560	682
PAT	403	462	550
EPS (Rs)	65	75	89
EPS growth (%)	44%	14%	19%
ROE (%)	15	18	17
ROCE (%)	24	23	24
BV	336	393	464
P/B (X)	4	5	4
P/E (x)	20	26	22

RESEARCH ANALYST

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3QFY20 Result Update

- NIITTECH reported mixed set of numbers in 3QFY20 result. Revenue for the quarter stood at Rs 1073crore, a growth of 3.4%QoQ in cc terms (in line). Organic revenue grew 2.0% QoQ cc While PAT for the quarter came above estimates to Rs122crore (vs. our estimates of Rs115crore) led by higher other income.
- EBITDA during the quarter stood at Rs195crore, a growth of 2.2%QoQ. Margin came at 18.1% vs. 18.4% last quarter. The 20bps QoQ decline was driven by furloughs and transition cost during the quarter.
- The total headcount for the quarter was 10849, reflecting an increase in headcount of 49 employees.
- Utilization during the quarter declined to 79.3% Vs 80.7% impacted by furloughs While Attrition for the company improved further QoQ to 11.9 % (best among the industry).
- Top 5 clients declined 5.3%QoQ and now contribute 27% of overall revenue. Top 10 & top 20 also declined 6.1%, contributing 36.4% and 50.3% of total revenue. The decline in top clients was due to furloughs and softness in one of the top 10 BFS client.

BFS remained soft while travel drove growth

After two consecutive quarter of strong growth in most of the verticals, the company reported a soft quarter in 3Q in BFS space and insurance. BFS contracted 2.9%QoQ cc mainly impacted by one of top 10 client While Travel and Hospitality posted a strong growth of 4.6%QoQ. Insurance remained weak and declined 2.2%QoQ whereas other portfolio grew 5.2%QoQ in cc terms. Management expects to see turnaround in BFS and Insurance in 4Q with large deal ramps up. Travel and hospitality will continue to grow strongly.

Impressive order intake, margin to see improvement in 4Q

- Deal flow during the quarter remained impressive for the company. Fresh order intake during the quarter was TCV USD218million. Out of this USD218million order intake, US contributed USD90million, and EMEA contributed USD62 million and Row contributed USD66million during the quarter.
- The uptick in order intake was driven by close of 4(out of which 3 are new deals) large deal won during the quarter (Insurance, Travel, BFS and APAC contributed to 1 large each).
- Margin came at 18.1%, a 20 bps decline however the management expects to continue to target 18% range in EBITDA margin for FY20. 4Q will see margin improvement led by absence of transition cost & furloughs.

View and Valuation

NIIT Tech has reported moderate quarter .Revenue from travel and hospital remained robust while BFS was impacted by client specific issue. Large deal and order intake was healthy with 4 large deal and USD218 fresh intake happened during the quarter. Thus taking the total executive order book to USD424million(up 13.1%YoY). Margin remained bit impacted and declined 30 bps to 18.1% primarily affected by furloughs and transition cost .Going forward, we expect NIIT Tech to continue reported robust revenue growth on the back of strong order book and continued traction from travel verticals while insurance segment will post laggard growth due to geo political risk impacting specialty insurance sub segment. Margin are also expected to improve in 4Q with absences of furlough and other cost

Post result, we revised our pat estimates marginally by 1.5%/0.6% for FY20/21E.However, the recent price runs up in the stock factors in most positives. Hence, we maintain Neutral stance on the stock with the target price of Rs 1608.

Key Risks to our rating and target

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

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3QFY20 Results

Mixed performance

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY%	QoQ%	FY18	FY19	YoY%
Net Sales	972	972	963	1,039	1,073	10.5%	3.4%	2,991	3,676	22.9%
Other Income	2	7	21	10	15	825.0%	45.1%	39	54	36.8%
COGS	6	17	16	10	33	475.9%	240.8%	32	29	-8.2%
Employee Exp	559	576	606	628	652	16.8%	4.0%	1,760	2,153	22.3%
Other Expenses	226	208	203	210	193	-14.7%	-8.0%	698	845	21.1%
EBITDA	181	172	139	192	195	7.4%	1.7%	501	649	29.5%
Deprication	31	30	40	45	45	43.0%	0.4%	127	125	-2.0%
EBIT	150	141	98	147	150	-0.1%	2.0%	374	524	40.2%
Interest	2	3	3	4	3	30.0%	-40.9%	9	9	-2.1%
PBT	150	145	116	153	162	8.4%	6.2%	403	568	40.9%
Tax	45	30	32	28	34	-24.5%	21.7%	95	140	47.8%
PAT	100	106	87	120	123	23.1%	3.2%	280	403	44.1%

Concall Highlights

- **Vertical performance :**

- The company reported revenue growth 2%QoQ in cc terms and grew 3.4%QoQ in reported terms in 3Q.
- BFS contracted 2.9%QoQ cc mainly impacted by one of top 10 clients, Travel and Hospitality grew by 4.6%QoQ, Insurance contracted 2.2%QoQ and other portfolio grew 5.2%QoQ in cc terms.
- Going forward, travel to continue to grow as management feel no material headwinds for the vertical as airline and airport does not depend on discretionary spending .The management also expects BFS and insurance to turnaround after a soft quarter.

- **Flat margin:** The Company reported a flat margin at 18.1% vs. 18.4% last quarter .The flat QoQ was driven by 1) furloughs and 2) transition cost involved in two out of 4 large deal won in 3Q.The Company will continue to target 18% range in EBITDA margin for FY20. 4Q will see margin improvement led by absence of transition cost & furloughs.

- **Stable onsite revenue:** The onsite revenue for quarter blipped 200bps to 64% of total revenue mainly impacted by furloughs. Going ahead, The Company will like to keep it at 65%- 66% mark.

- **Top client account:** Top 5 clients now contribute 27% of overall revenue. Top 10 & top 20 contribute 36.4% and 50.3% of total revenue .The decline in top clients was due to furloughs and softness in one of the top 10 BFS client. Management expects to rebound in 4Q with 1 of the large deal won 3Q was in BFS space with the same Top 10 client. The million dollar client now has risen to 100 vs. 95 last quarters

- **Demand environment**

- For travel, the company mostly works in airline and airport .Management is majorly seeing digital investment expanding.
- For BFS, the company work is centered around capital market (buy side) & wealth and asset management, Innovation dollars are coming back into this segment largely because most of the major have challenged by new fintech in wealth management space. Management is hopeful in participating in the new investment.
- For insurance, company is basically into property casualty & specialty insurance play. Specialty insurance is seeing geo political risk .The management expects investment spend to remain robust .

- **Positives order intake:** Deal flow during the quarter remained impressive for the company.

- Fresh order intake during the quarter was TCv USD218million .Out of this USD218million order intake, US contributed USD90million, and EMEA contributed USD62 million and Row contributed USD66million during the quarter.

- The uptick in order intake was driven by close of 4(out of which 3 are new deals) large deal won during the quarter (Insurance, Travel, BFS and APAC contributed to 1 large each) .

- 10 new customers were added during the quarter.

- Order Book Executive over the firm next 12 months have expanded and stands at USD424 million. The large deal pipeline for 4Q continues to robust for the company.

- **Appointment:** Under the broader leadership talent augmentation program, the company appointed 3 new executive vice presidents during the quarter. Mr. Ajay Kalra appointed as CFO and AVP .Additionally the company also onboard a new head in Digital business Mr. Arun a joining from cognizant and to further accentuate the sales and marketing team , the company appointed Mr. Pundit Sharma as global sale leader joining from Infosys .

Exhibit: Revenue trend

BFS remained soft while travel drove growth .

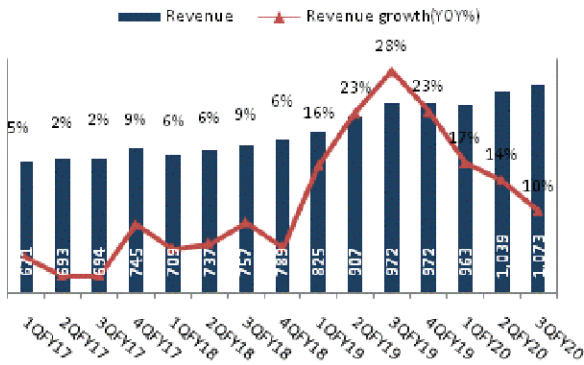


Exhibit: Order Intake

Impressive order intake continued during the quarter.

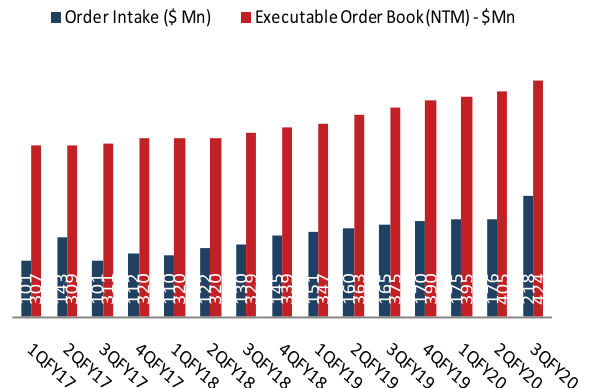


Exhibit: Margin Trend

Margin remained in 18% range

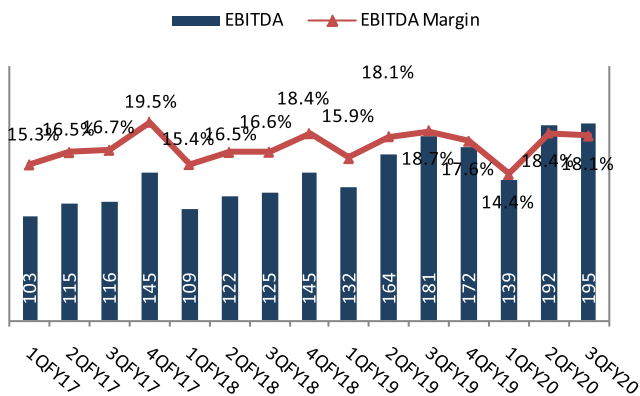


Exhibit: Utilization trend

Furloughs impacted the utilization

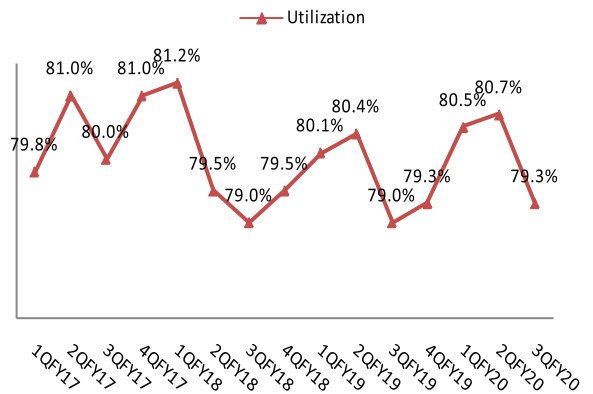
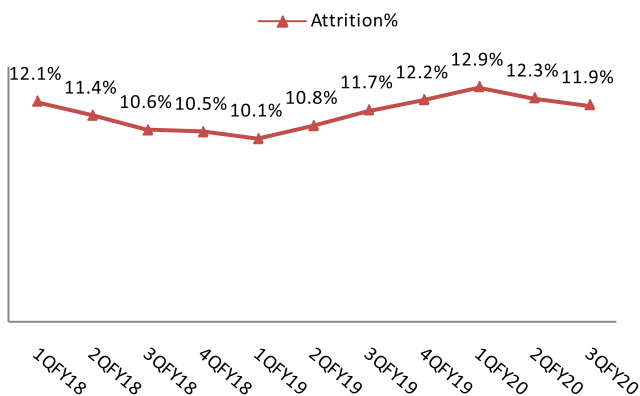


Exhibit: Attrition rate

Attrition rate within control .



Operational Details

GEOGRAPHY %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
America	48.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%	48.0%
EMEA	32.0%	32.0%	34.0%	33.0%	33.0%	35.0%	37.0%	37.0%
RoW	20.0%	18.0%	17.0%	18.0%	18.0%	16.0%	14.0%	15.0%

SERVICE MIX (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
ADM	66.0%	68.0%	68.0%	68.0%	70.0%	72.0%	74.0%	73.0%
SI & PI	4.0%	3.0%	4.0%	4.0%	4.0%	1.0%	1.0%	2.0%
BPO	4.0%	3.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%
IMS	19.0%	19.0%	18.0%	18.0%	17.0%	17.0%	17.0%	16.0%
IP Based	7.0%	7.0%	6.0%	6.0%	5.0%	6.0%	5.0%	6.0%

TOP CLIENT MIX (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 5	29.0%	27.0%	28.0%	28.0%	29.0%	27.0%	29.0%	27.0%
Top 10	40.0%	36.0%	40.0%	40.0%	41.0%	39.0%	39.0%	36.0%
Top 20	54.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Others	46.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

PEOPLE DATA	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Net Additions	342	341	261	261	119	34	503	49
Attrition%	10.5%	10.1%	10.8%	11.7%	12.2%	12.9%	12.3%	11.9%
Utilization%	79.5%	80.1%	80.4%	79.0%	79.3%	80.5%	80.7%	79.3%

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

INTAKE(\$ MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Fresh Order Intake	145	151	160	165	170	175	176	218
USA	43	69	86	96	94	100	65	90
EMEA	69	56	39	42	45	58	41	62
ROW	33	26	35	27	31	17	70	66
Executable Order Book over Next 12 Months	339	347	363	375	390	395	405	424

POSITION	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
USD	65.3	60.2	64.2	66.1	68.5	69.0	71.8	72.0
GBP	13.0	13.0	13.1	13.1	13.1	13.1	18.0	19.1
Euro	4.5	4.5	4.2	4.5	4.5	4.5	6.3	5.9

VERTICAL MIX	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Banking & Financial Services	16.0%	16.8%	16.2%	15.4%	16.2%	16.5%	16.7%	16.0%
Insurance	28.0%	28.5%	28.8%	29.6%	27.7%	28.7%	31.1%	30.2%
Transport	26.0%	27.1%	26.9%	26.5%	27.1%	28.3%	27.8%	28.5%
Manufacturing & Media	30.0%	27.6%	28.0%	28.5%	29.0%	26.6%	24.4%	25.3%

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	2,362	2,801
Networth	1,324	1,357	1,573	1,687	1,774	2,073	2,424	2,863
Debt	5	5	6	7	18	10	10	10
Other Non Current Liab	31	34	341	288	271	167	167	167
Total Capital Employed	1,379	1,415	1,939	2,006	2,086	2,291	2,608	3,048
Net Fixed Assets (incl CWIP)	582	678	717	663	637	575	487	405
Non Current Investments	0	0	-	-	-	-	-	-
Other Non Cur Asst	660	792	1,055	977	1,052	960	871	789
Non Current Assets	660	792	1,055	977	1,052	960	871	789
Trade receivables	564	606	590	490	586	588	668	766
Cash and bank balances	221	269	336	408	419	558	584	839
Other current assets	143	93	114	96	101	114	129	148
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
Current Assets	1,142	1,185	1,274	1,488	1,618	1,799	2,393	2,985
Trade payables	164	216	119	124	145	165	187	215
Short-term provisions	84	147	43	40	71	33	38	44
Other current liabilities	175	199	179	168	195	227	257	295
Other current financial liabilities	-	-	25	103	173	159	173	173
Employee benefit obligations	-	-	24	24	-	-	-	-
Curr Liabilities	422	562	389	459	585	583	656	726
Net Current Assets	719	623	884	1,029	1,034	1,216	1,737	2,258
Total Assets	1,801	1,977	2,328	2,465	2,670	2,874	3,264	3,774

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	2,305	2,372	2,688	2,802	2,991	3,676	4,178	4,789
Change (%)	14%	3%	13%	4%	7%	23%	14%	15%
EBITDA	354	336	473	480	501	649	735	866
Change (%)	6%	-5%	41%	1%	4%	29%	13%	18%
Margin (%)	15%	14%	18%	17%	17%	18%	18%	18%
Depr & Amor.	62	92	121	128	127	125	174	184
EBIT	292	244	352	352	374	524	560	682
Int. & other fin. Cost	4	6	8	6	9	9	13	10
Other Income	30	17	22	27	39	54	57	61
EBT	318	256	367	373	403	568	604	732
Exp Item	-	80	1	22	-	6	(6)	-
Tax	80	54	78	79	95	140	130	161
Minority Int & P/L share of Ass.	(8)	(8)	-	-	(29)	(19)	(18)	(21)
Reported PAT	238	122	287	272	308	422	480	571
Adjusted PAT	231	114	287	272	280	403	462	550
Change (%)	8%	-51%	152%	-5%	3%	44%	14%	19%
Margin(%)	10%	5%	11%	10%	9%	11%	11%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18	17	8	18	16	15	18	17
ROCE	23	17	21	18	18	24	23	24
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	26	22
Price / Book Value	2	2	2	2	3	4	5	4
EV/EBITDA	6	6	6	5	10	12	16	13
EV/Sales	1	1	1	1	2	2	3	2

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	318	256	367	373	403	562	604	732
(inc)/Dec in Working Capital	-140	14	-58	94	-13	-71	-23	-46
Non Cash Op Exp	70	159	152	133	106	102	162	163
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-104	-92	-99	-105	-111	-118	-130	-161
others	0	-80	-1	-22	0	0	0	0
CF from Op. Activities	145	258	360	472	382	453	695	688
(inc)/Dec in FA & CWIP	-138	-187	-160	-86	-88	-68	-86	-102
Free Cashflow	7	71	201	387	294	385	609	586
(Pur)/Sale of Inv	0	0	-15	-228	-561	-584	-472	-220
CF from Inv. Activities	-100	-177	-304	-306	-270	-230	-557	-322
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
CF from Fin. Activities	-53	-66	-73	-67	-74	-106	-111	-111
Inc(Dec) in Cash	-7	14	-16	99	37	117	27	255
Add: Opening Balance	202	217	304	251	355	410	508	534
Closing Balance	217	224	288	350	410	520	534	789

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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