

## IT SERVICES

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## Coronavirus crisis hits global travel industry – likely risk for NITEC

The coronavirus outbreak in China is expected to exact a heavy toll on the global travel, transport and hospitality (TTH) industry. Revenue losses are likely to be higher than the 2003 SARS epidemic considering the tremendous rise in China's global economic significance. Despite the transient impact on business, we believe Indian IT vendors with significant exposure to the TTH industry could be at risk of client budget cuts – NIIT Tech looks the most vulnerable as nearly a third of its revenue comes from the travel & transportation vertical.

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**Coronavirus outbreak triggers suspension of flights:** In response to the current virus epidemic that originated in China, airlines across the globe have moved to ground flights to and from the country. Between 23 and 29 January, over 6,600 flights or 9% of total flights in and out of China were cancelled. As many as 16 airlines have already suspended China operations and 2 have announced operational ramp-down (Fig 2). This portends sizeable revenue losses for the global TTH industry.

**Global aviation industry lost 3% of business to SARS in 2003:** In 2003, when China was at the epicenter of the SARS outbreak, Asia Pacific carriers had to cut back more than a third of capacity and the global aviation industry lost ~3% of business (~US\$ 10bn), as per IATA (International Air Transport Association).

**Risk of higher losses this time round:** As per IATA, international traffic in and out of China has leapfrogged ten-fold between 2003 and 2019. At present, China accounts for sizeable business share of large global airlines and hospitality players. The country represents 6% of rooms for Hilton Worldwide and 8.5% for Marriott International, besides 7% and 6% of revenues for US-based United Airlines and Air Canada respectively.

**IT budgets at risk – NITEC most vulnerable:** Despite the transient nature of such business losses, we believe technology budget allocations could come under pressure. Among our coverage, NIIT Tech (NITEC) has the highest exposure to the travel and transportation vertical, predominately airlines and airports (29% of revenues in Q3FY20), followed by Mindtree (MTCL) (Fig 1). In our view, NITEC has an unenviable combination of expensive valuations (21.4x/ 18.4x FY21E/ FY22E P/E) and likely growth risk due to its vertical exposure –reiterate SELL with an unchanged Mar'21 TP of Rs 1,800, set at 17x FY22E P/E.

### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,155	2,390	ADD
INFO IN	790	840	ADD
WPRO IN	247	240	SELL
HCLT IN	609	690	BUY
TECHM IN	803	740	REDUCE
LTI IN	1,958	2,230	BUY
MPHL IN	932	1,020	ADD
MTCL IN	887	780	SELL
HEXW IN	355	410	ADD
PSYS IN	698	650	REDUCE
NITEC IN	1,941	1,800	SELL
ECLX IN	662	450	REDUCE

Price & Target in Rupees



**FIG 1 – NITEC HAS HIGHEST EXPOSURE TO TTH VERTICAL FOLLOWED BY MTCL**

Company	% of Revenue from Travel/Transport/Hospitality vertical	Remark
<b>Tier I companies</b>		
TCS	NA	3.4% revenue share in Mar'17 quarter (company subsequently discontinued the disclosure)
INFO	NA	2.5% in Mar'18 quarter (company subsequently discontinued the disclosure)
WPRO	NA	16% in Dec'19 quarter (retail, travel and transport combined; no separate disclosure on travel and transportation exposure)
HCLT	NA	No separate disclosure on travel and transportation exposure
TECHM	NA	6.4% in Dec'19 quarter (retail, travel and logistics combined; no separate disclosure on travel and transportation exposure)
<b>Tier II companies</b>		
NITEC	29.0	29% in Dec'19 quarter
MTCL	16.6	16.6% in Dec'19 quarter (travel, media and services combined)
HEXW	10.1	10.1% in Sep'19 quarter
LTI	NA	No separate disclosure on travel and transportation exposure
MPHL	NA	6% in Oct'10 quarter (company subsequently discontinued the disclosure). Its recent commentary shows travel and logistics as one of the larger segments in its 'Emerging' vertical which accounted for 27% share in Sep'19 quarter
PSYS	NA	No separate disclosure on travel and transportation exposure

Source: Company, BOBCAPS Research

**FIG 2 – AIRLINES THAT HAVE SUSPENDED CHINA FLIGHTS**

<b>Airlines who suspended/cancelled flights to China</b>							
1	Air Canada	5	American Airlines	9	Cathay Pacific	13	Lion Air
2	Air India	6	Asiana Airlines	10	Finnair	14	Lufthansa
3	Air Seoul	7	Australian Airlines	11	IndiGo	15	Swiss International Air Lines
4	Air Tanzania	8	British Airways	12	JetStar	16	United Airlines
<b>Airlines who have cut back operations</b>							
17	Cathay Pacific						
18	Delta						

Source: Company, Bloomberg, BOBCAPS Research

**FIG 3 – VALUATION SUMMARY – WE PREFER TCS, HCLT AND LTI**

Company	CMP (Rs)	Mkt Cap (US\$ bn)	Rating	Target Price (Rs)	US\$ revenue CAGR (%)		EBIT CAGR (%)	EPS (Rs)		P/E (x)		ROE (%)	
					FY17-FY19	FY19-FY21E		FY19-FY21E	FY20E	FY21E	FY20E	FY21E	FY20E
TCS	2,155	113.5	ADD	2,390	9.1	7.1	5.7	86.8	94.3	24.8	22.9	33.1	30.5
INFO	790	47.1	ADD	840	7.5	9.1	8.5	38.9	42.7	20.3	18.5	25.8	25.6
WPRO	247	20.6	SELL	240	3.4	4.2	4.3	15.8	16.5	15.6	14.9	16.8	16.6
HCLT	609	23.2	BUY	690	11.2	12.4	11.5	39.3	42.8	15.5	14.2	24.0	23.1
TECHM	803	9.9	REDUCE	740	7.0	7.1	3.6	48.9	54.8	16.4	14.6	19.6	19.6
LTI	1,958	4.8	BUY	2,230	17.9	13.7	8.7	85.4	101.8	22.9	19.2	28.1	28.4
MPHL	932	2.4	ADD	1,020	10.7	12.3	14.8	58.7	67.7	15.9	13.8	19.9	20.9
MTCL	887	2.0	SELL	780	13.3	10.0	5.9	36.8	46.7	24.1	19.0	17.4	19.8
HEXW*	355	1.5	ADD	410	13.6	16.2	11.2	22.3	23.6	15.9	15.0	25.7	22.9
PSYS	698	0.8	REDUCE	650	5.7	9.2	6.0	45.6	50.3	15.3	13.9	15.0	15.3
NITEC	1,941	1.7	SELL	1,800	13.0	12.6	14.1	73.0	90.6	26.6	21.4	18.6	19.9
ECLX	662	0.3	REDUCE	450	8.9	6.2	2.1	46.4	59.5	14.3	11.1	16.1	19.2

Source: Bloomberg, BOBCAPS Research | Prices as on 29 Jan 2020 | \*FY20 refers to CY19 for Hexaware and so on

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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