

ADD

TP: Rs 1,880 | ▲ 6%

NIIT TECHNOLOGIES

| IT Services

| 29 July 2020

Strong guidance despite weak quarterly performance

NIIT Tech (NITEC) reported a poor Q1FY21 performance marked by a 9.8% QoQ USD revenue decline due to weakness in the travel and transportation vertical. Operating margins at 11.5% contracted 230bps QoQ. Nonetheless, management's FY21 outlook was positive backed by strong deal wins. We revise FY21/FY22 EPS by -8%/+1% and roll over to a Jun'21 TP of Rs 1,880 (from Rs 1,430). We reset our target P/E from 13.6x to 17x (unwinding the 20% Covid discount), backed by a robust deal pipeline and diversified revenue mix.

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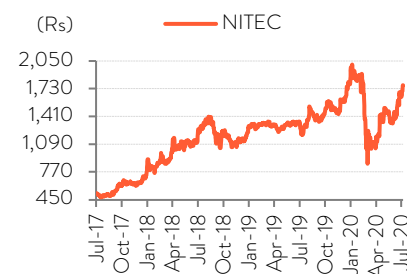
Revenue and margin below estimates: USD revenue declined 9.8% QoQ vs. a 5.7% drop estimated. Most of the weakness in the travel vertical was due to demand contraction, especially in the airline segment. Revenues from NITL and Wishworks slowed as well. Excluding travel, NITEC's revenue grew 3.2% QoQ. EBITDA margin post-RSU stood at 15.9%, down 180bps QoQ owing to gross margin contraction. EBIT margin at 11.5% slipped 230bps QoQ.

Ticker/Price	NITEC IN/Rs 1,767
Market cap	US\$ 1.5bn
Shares o/s	62mn
3M ADV	US\$ 16.1mn
52wk high/low	Rs 2,060/Rs 735
Promoter/FPI/DII	70%/13%/17%

Source: NSE

Strong deal pipeline: NITEC reported healthy order intake worth US\$ 186mn in Q1FY21 vs. US\$ 180mn in Q4FY20 and US\$ 175mn in Q1FY20. The company won three large deals – one US\$ 30mn BFSI contract and two in the travel technology space. In addition, it closed two large deals in July in healthcare and the government sector (outside India).

STOCK PERFORMANCE



Source: NSE

Outlook upbeat despite slowdown: Despite the pandemic-led downturn, management expects strong sequential recovery in Q2FY21 and has guided for mid-single-digit CC growth in FY21. This outlook comes on the back of a strong deal pipeline, reduced share of airlines in the revenue mix and traction outside the travel, transportation and hospitality vertical. Operating margin for the year is guided to remain steady (excluding ~100bps RSU impact).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	46,578	54,465	61,334
EBITDA (Rs mn)	6,453	7,431	7,914	9,837	10,871
Adj. net profit (Rs mn)	4,089	4,539	4,683	6,629	7,216
Adj. EPS (Rs)	66.2	73.5	75.8	107.3	116.8
Adj. EPS growth (%)	45.9	11.0	3.2	41.5	8.9
Adj. ROAE (%)	20.3	18.7	16.8	21.0	20.0
Adj. P/E (x)	26.7	24.1	23.3	16.5	15.1
EV/EBITDA (x)	16.4	13.9	12.4	9.6	8.2

Source: Company, BOBCAPS Research

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Travel and transportation de-growth has hit bottom

- Due to significant exposure to the travel and transportation vertical (19% in Q1FY21 and 27% in Q4FY20), revenue declined sharply in Q1. Within travel vertical, airline revenue contracted by 62% QoQ in dollar terms and accounted for 5.5% of the mix vs. 13% in Q4FY20. Management has not baked in any recovery in airlines in its FY21 guidance. Besides travel, transportation and hospitality, all other verticals grew sequentially in Q1 (BFS/insurance/others grew 8%/1.4%/5.9%, USD).

NITEC has made a Rs 180mn provision for bad debt in Q1 (in addition to Rs 128mn provided in Q4FY20), pertaining to receivables from a pandemic-hit travel/transportation client. Management doesn't expect to add more to this provisioning in the near term.

Other highlights

- The executable order book for the next 12 months stands at US\$ 465mn, remaining flat QoQ despite pandemic headwinds. Of three new large deals signed in Q1, one was from the BFS vertical (US\$ 30mn) and two from travel and transportation (in the travel tech space – a result of vendor consolidation at large clients).
- The high-margin digital business now constitutes 34% of overall revenues. NITEC's investment in cloud and blockchain technology continues.
- Cash and bank balance declined by Rs 3.9bn QoQ due to the buyback worth Rs 3.4bn starting in May 2020.
- Headcount decreased by 558 QoQ, with the reduction taking place at the end of Q1FY21. Hence, its impact on Q1 margin was not realised.
- DSOs at 71 days declined by 3 days QoQ.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue (US\$ mn)	139.6	138.5	0.8	154.8	(9.8)
Revenue (Rs mn)	10,570	9,627	9.8	11,093	(4.7)
Operating Expenditure	8,884	8,238	7.8	9,122	(2.6)
Cost of revenues	7,240	6,374	13.6	7,289	(0.7)
as % of sales	68.5	66.2	-	65.7	-
SG&A expenses	1,644	1,864	(11.8)	1,833	(10.3)
as % of sales	15.6	19.4	-	16.5	-
EBITDA	1,686	1,389	21.3	1,971	(14.5)
Depreciation	465	401	16.0	433	7.4
EBIT	1,221	988	23.5	1,538	(20.6)
Other Income	(132)	172	-	180	-
PBT	1,089	1,160	(6.2)	1,718	(36.6)
Total Tax	260	318	(18.2)	348	(25.3)
Adjusted PAT	829	842	(1.6)	1,370	(39.5)
(Profit)/loss from JV's/Ass/MI	30.0	22	-	106.0	-
APAT after MI	799	820	(2.6)	1,264	(36.8)
Extraordinary items	180	57	-	128	-
Reported PAT	979	877	11.6	1,392	(29.7)
Reported EPS	12.8	13.3	(3.4)	18.2	(29.7)
Margins (%)			(bps)		(bps)
EBITDA	15.9	14.4	152	17.8	(182)
EBIT	11.5	10.3	128	13.9	(232)
EBT	10.3	12.0	(175)	15.5	(519)
PAT	9.3	9.1	15	12.5	(329)
Effective Tax rate	23.9	27.4	(353)	20.3	363

Source: BOBCAPS Research

FIG 2 – OPERATING METRICS

(In US\$ terms)	Q1FY21 (% Contr. to Revenue)	QoQ (%)	YoY (%)
Revenue by geography			
North America	47	(2.6)	5.3
Europe	40	(4.7)	25.5
RoW	17	15.7	16.7
Revenue by vertical			
Banking and Financial Services	17	8.0	16.7
Insurance	33	1.4	24.9
Transportation	19	(32.9)	(25.5)
Other	30	5.9	22.0
Revenue mix onsite/offshore			
Offshore	38	0.6	22.7
Onsite	62	(7.7)	3.1
Client concentration			
Top 5	26	(8.2)	5.7
Non-Top 5 client	74	(3.4)	11.3

(In US\$ terms)	Q1FY21 (% Contr. to Revenue)	QoQ (%)	YoY (%)
Top 10	38	(2.1)	7.0
Number of employees	10,598	(558)	301
Attrition (%)	11.84	4bps	(106bps)
Utilisation	77	(110bps)	(350bps)
DSO (Days)	71	(3Days)	4Days

Significant new customer addition	Q1FY21	Q4FY20	Q1FY20
USA	5	3	5
Europe	5	6	3
ROW	0	1	3
Total	10	10	11

Fresh order intake (US\$ mn)	Q1FY21	Q4FY20	Q1FY20
USA	85	81	100
Europe	70	52	58
ROW	31	47	17
Total	186	180	175

Executable orders over next 12 months (US\$ mn)	Q1FY21	Q4FY20	Q1FY20
	465	468	395

Source: BOBCAPS Research

Valuation methodology

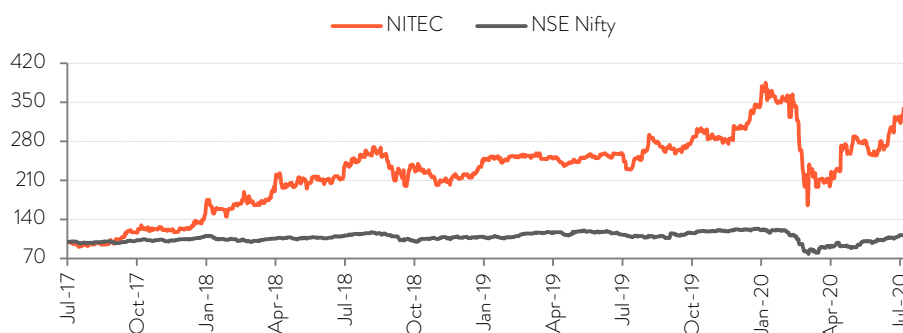
We revise FY21/FY22 EPS estimates by $-8\%/+1\%$ and introduce FY23 forecasts. On rolling valuations forward, we arrive at a revised Jun'21 target price of Rs 1,880 (from Rs 1,430) as we reset our target P/E from 13.6x to 17x to unwind the 20% discount baked in for Covid-19 challenges, based on the company's upbeat outlook. NITEC's mid-single-digit CC revenue growth guidance for FY21 is backed by $\sim 18\%$ YoY growth in the executable order book and large deal wins (three in Q1FY21 and two in Jul'20). Maintain ADD.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	New
Revenues (US\$ mn)	598	610	2.0	663	698	5.3	786
YoY growth (%)	0.9	2.9	-	10.9	14.4	-	12.6
Revenues	45,785	46,578	1.7	51,748	54,465	5.3	61,334
EBITDA	7,901	7,914	0.2	9,720	9,837	1.2	10,871
EBITDA margins (%)	17.3	17.0	-	18.8	18.1	-	17.7
Net profits	5,097	4,683	(8.1)	6,564	6,629	1.0	7,216
EPS (Rs)	82.5	75.8	(8.1)	106.2	107.3	1.0	116.8

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our earnings estimates include:

- challenges at the company's top clients,
- unfavourable US visa and immigration regulation changes,
- a sharp decline in demand, and
- adverse currency movement.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	36,762	41,839	46,578	54,465	61,334
EBITDA	6,453	7,431	7,914	9,837	10,871
Depreciation	1,248	1,730	1,832	1,944	2,090
EBIT	5,205	5,701	6,082	7,893	8,780
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	476	462	690	1,364	1,307
Exceptional items	0	0	0	0	0
EBT	5,681	5,978	6,592	9,257	10,087
Income taxes	1,404	1,203	1,608	2,268	2,471
Extraordinary items	0	185	180	0	0
Min. int./Inc. from associates	188	236	300	360	400
Reported net profit	4,089	4,539	4,683	6,629	7,216
Adjustments	0	0	0	0	0
Adjusted net profit	4,089	4,539	4,683	6,629	7,216

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	6,345	7,222	8,039	9,401	10,586
Provisions	3,626	4,127	4,594	5,372	6,049
Debt funds	224	224	224	224	224
Other liabilities	455	455	455	455	455
Equity capital	615	615	615	615	615
Reserves & surplus	21,625	25,657	28,780	33,136	37,886
Shareholders' fund	22,240	26,272	29,395	33,751	38,501
Total liabilities and equities	32,890	38,299	42,707	49,203	55,816
Cash and cash eq.	8,726	13,390	17,255	22,404	28,112
Accounts receivables	7,352	8,368	9,316	10,893	12,267
Inventories	0	0	0	0	0
Other current assets	3,324	3,783	4,211	4,924	5,545
Investments	3,955	3,955	3,955	3,955	3,955
Net fixed assets	8,302	7,572	6,740	5,796	4,706
CWIP	7	7	7	7	7
Intangible assets	0	0	0	0	0
Deferred tax assets, net	1,231	1,231	1,231	1,231	1,231
Other assets	0	0	0	0	0
Total assets	32,890	38,299	42,707	49,203	55,816

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	5,525	6,505	6,815	8,933	9,706
Interest expenses	(476)	(462)	(690)	(1,364)	(1,307)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(151)	(97)	(91)	(151)	(132)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	4,898	5,946	6,035	7,418	8,268
Capital expenditures	(750)	(1,000)	(1,000)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	476	462	690	1,364	1,307
Cash flow from investing	(274)	(538)	(310)	364	307
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	0	(744)	(1,860)	(2,633)	(2,866)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	0	(744)	(1,860)	(2,633)	(2,866)
Changes in cash and cash eq.	4,624	4,664	3,865	5,149	5,708
Closing cash and cash eq.	8,726	13,390	17,255	22,404	28,112

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	66.2	73.5	75.8	107.3	116.8
Adjusted EPS	66.2	73.5	75.8	107.3	116.8
Dividend per share	0.0	10.0	25.0	35.4	38.5
Book value per share	360.0	425.2	475.8	546.3	623.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.9	2.5	2.1	1.7	1.5
EV/EBITDA	16.4	13.9	12.4	9.6	8.2
Adjusted P/E	26.7	24.1	23.3	16.5	15.1
P/BV	4.9	4.2	3.7	3.2	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	75.9	71.1	71.6	71.5
Interest burden (PBT/EBIT)	109.1	104.9	108.4	117.3	114.9
EBIT margin (EBIT/Revenue)	14.2	13.6	13.1	14.5	14.3
Asset turnover (Revenue/Avg TA)	123.4	117.5	115.0	118.5	116.8
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.3	18.7	16.8	21.0	20.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	22.9	13.8	11.3	16.9	12.6
EBITDA	28.8	15.2	6.5	24.3	10.5
Adjusted EPS	45.9	11.0	3.2	41.5	8.9
Profitability & Return ratios (%)					
EBITDA margin	17.6	17.8	17.0	18.1	17.7
EBIT margin	14.2	13.6	13.1	14.5	14.3
Adjusted profit margin	11.1	10.8	10.1	12.2	11.8
Adjusted ROAE	20.3	18.7	16.8	21.0	20.0
ROCE	18.1	20.5	23.0	31.7	37.9
Working capital days (days)					
Receivables	66	69	69	68	69
Inventory	0	0	0	0	0
Payables	132	128	127	129	128
Ratios (x)					
Gross asset turnover	4.3	5.3	6.5	8.7	11.7
Current ratio	1.9	2.3	2.4	2.6	2.8
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.4)	(0.5)	(0.6)	(0.7)	(0.7)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

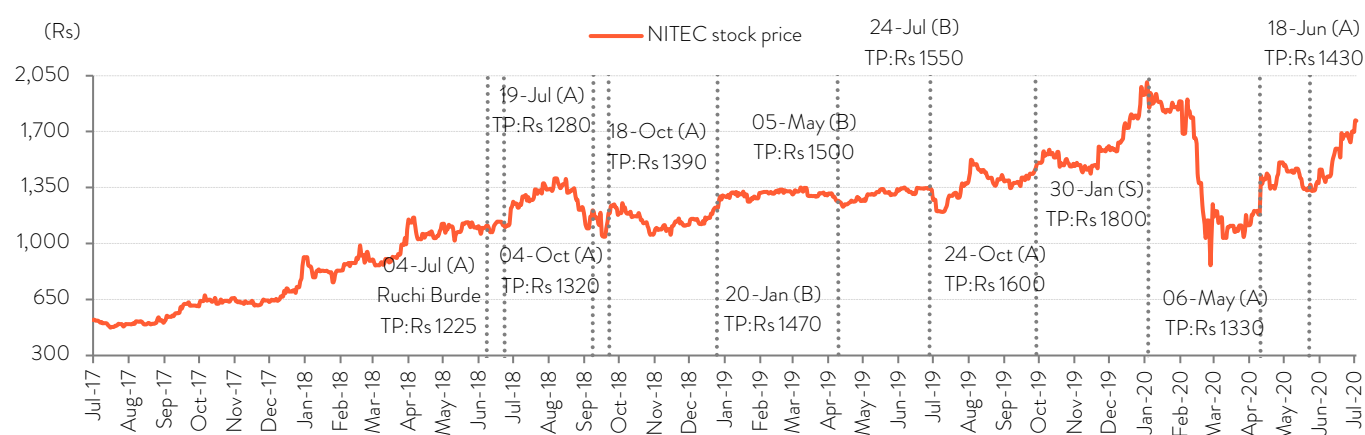
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): NIIT TECHNOLOGIES (NITEC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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