

**ADD**

TP: Rs 1,600 | ▲ 9%

**NIIT TECHNOLOGIES**

| IT Services

| 24 October 2019

## Solid Q2; cut to ADD on full valuations

NIIT Tech (NITEC) reported organic revenue growth of 4.1% QoQ CC and EBITDA margins of 18.3% in Q2FY20, marking a better-than-expected operating performance. Deal wins and executable order book were healthy. Optimistic BFSI commentary and expectations of normal furloughs make for a stark contrast to the outlook put out by peers. We tweak FY21/FY22 EPS and roll forward to a revised Sep'20 TP of Rs 1,600 (vs. Rs 1,550). Current valuations look full at 16.8x/14.4x FY21E/FY22E P/E – cut from BUY to ADD.

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**Operating beat:** NITEC reported an above-expected operating performance as both revenues as well as margins came in a tad ahead of estimates. Revenues at US\$ 148.7mn increased 7.3% QoQ, backed by healthy organic growth (+4.1% QoQ CC). EBITDA margins at 18.3% expanded by 380bps QoQ on reported basis and by 140bps QoQ adjusted for one-off expenses in the previous quarter.

**Deal wins and executable orders continue to trend up:** Fresh order intake at US\$ 176mn rose for the ninth straight quarter, supported by strong deal wins in RoW at US\$ 70mn. The 12-month executable order book stood at US\$ 405mn (+11.6% YoY), rising for the eighth quarter in a row.

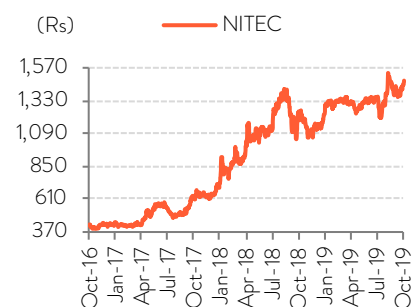
**Optimistic BFSI commentary:** Unlike peers, NITEC did not allude to secular weakness in the BFSI vertical, though management does expect growth to moderate in the Dec'19 quarter on seasonal weakness.

**Valuations full:** Current valuations at 16.8x/14.4x FY21E/FY22E P/E leave little upside, leading us to downgrade the stock to ADD from BUY. On rolling valuations forward, we have a revised Sep'20 TP of Rs 1,600 (vs. Rs 1,550).

Ticker/Price	NITEC IN/Rs 1,469
Market cap	US\$ 1.3bn
Shares o/s	62mn
3M ADV	US\$ 7.5mn
52wk high/low	Rs 1,545/Rs 1,031
Promoter/FPI/DII	31%/42%/27%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	29,914	36,762	41,264	46,377	52,154
EBITDA (Rs mn)	5,012	6,453	7,273	8,486	9,543
Adj. net profit (Rs mn)	2,802	4,089	4,469	5,395	6,295
Adj. EPS (Rs)	45.4	66.2	72.3	87.3	101.9
Adj. EPS growth (%)	3.5	45.9	9.3	20.7	16.7
Adj. ROAE (%)	15.3	21.2	20.2	21.3	21.5
Adj. P/E (x)	32.4	22.2	20.3	16.8	14.4
EV/EBITDA (x)	17.4	13.5	11.5	9.5	8.0

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – SEP'19 QUARTER PERFORMANCE**

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (%)	QoQ (%)	H1FY19	H1FY20	YoY (%)
<b>Revenue (US\$ mn)</b>	<b>124.3</b>	<b>130.9</b>	<b>134.8</b>	<b>138.0</b>	<b>138.5</b>	<b>148.7</b>	<b>13.6</b>	<b>7.3</b>	<b>255.2</b>	<b>287.2</b>	<b>12.5</b>
<b>Revenue (Rs mn)</b>	<b>8,249</b>	<b>9,074</b>	<b>9,717</b>	<b>9,722</b>	<b>9,627</b>	<b>10,385</b>	<b>14.4</b>	<b>7.9</b>	<b>17,323</b>	<b>20,012</b>	<b>15.5</b>
Operating Expenditure	6,942	7,440	7,912	8,015	8,238	8,487	14.1	3.0	14,382	16,725	16.3
Cost of revenues	5,437	5,897	6,280	6,293	6,374	6,796	15.2	6.6	11,334	13,170	16.2
as % of sales	65.9	65.0	64.6	64.7	66.2	65.4	-	-	65.4	65.8	-
SG&A expenses	1,505	1,543	1,632	1,722	1,864	1,691	9.6	(9.3)	3,048	3,555	16.6
as % of sales	18.2	17.0	16.8	17.7	19.4	16.3	-	-	17.6	17.8	-
<b>EBITDA</b>	<b>1,307</b>	<b>1,634</b>	<b>1,805</b>	<b>1,707</b>	<b>1,389</b>	<b>1,898</b>	<b>16.2</b>	<b>36.6</b>	<b>2,941</b>	<b>3,287</b>	<b>11.8</b>
Depreciation	312	319	314	303	401	447	40.1	11.5	631	848	34.4
<b>EBIT</b>	<b>995</b>	<b>1,315</b>	<b>1,491</b>	<b>1,404</b>	<b>988</b>	<b>1,451</b>	<b>10.3</b>	<b>46.9</b>	<b>2,310</b>	<b>2,439</b>	<b>5.6</b>
Other Income	210	215	4	47	172	76	-	-	425	248	-
<b>PBT</b>	<b>1,205</b>	<b>1,530</b>	<b>1,495</b>	<b>1,451</b>	<b>1,160</b>	<b>1,527</b>	<b>(0.2)</b>	<b>31.6</b>	<b>2,735</b>	<b>2,687</b>	<b>(1.8)</b>
Total Tax	300	363	445	296	318	276	(24.0)	(13.2)	663	594	(10.4)
<b>Adjusted PAT</b>	<b>905</b>	<b>1,167</b>	<b>1,050</b>	<b>1,155</b>	<b>842</b>	<b>1,251</b>	<b>7.2</b>	<b>48.6</b>	<b>2,072</b>	<b>2,093</b>	<b>1.0</b>
(Profit)/loss from JV's/Ass/MI	46.0	49.0	49.0	44.0	22.0	56.0	-	-	95	78	-
APAT after MI	859	1,118	1,001	1,111	820	1,195	6.9	45.7	1,977	2,015	1.9
Extraordinary items	0	0	0	0	57	0	-	-	0	57	-
<b>Reported PAT</b>	<b>859</b>	<b>1,118.00</b>	<b>1,001</b>	<b>1,111</b>	<b>877</b>	<b>1,195</b>	<b>6.9</b>	<b>36.3</b>	<b>1,977</b>	<b>2,072</b>	<b>4.8</b>
Reported EPS	13.9	18.1	16.2	18.0	13.3	19.3	6.9	45.7	32	33	1.9
<b>Margins (%)</b>							<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBITDA	15.8	18.0	18.6	17.6	14.4	18.3	27	385	17.0	16.4	(55)
EBIT	12.1	14.5	15.3	14.4	10.3	14.0	(52)	371	13.3	12.2	(115)
EBT	14.6	16.9	15.4	14.9	12.0	14.7	(216)	265	15.8	13.4	(236)
PAT	10.4	12.3	10.3	11.4	9.1	11.5	(81)	240	11.4	10.1	(134)
Effective Tax rate	24.9	23.7	29.8	20.4	27.4	18.1	(565)	(934)	24.2	22.1	(213)

Source: Company, BOBCAPS Research

**FIG 2 – SEP'19 QUARTER OPERATING METRICS**

Particulars	Q2FY20 (% Contr. to Revenue)	QoQ (%)	YoY (%)
<b>Revenue by Geography</b>			
North America	49	7.9	14.4
Europe	37	14.0	24.5
RoW	37	(5.6)	(5.7)
<b>Revenue by Vertical</b>			
Banking and Financial Services	17	14.6	21.6
Insurance	31	15.3	22.3
Transportation	28	7.9	18.7
Manufacturing & Retail	24	(4.1)	(1.9)
<b>Revenue Mix</b>			
Offshore	34	7.9	8.1
Onsite	66	7.9	18.0
<b>Client Concentration</b>			
Top 5	29	15.9	18.5
Non-Top 5	71	4.9	12.9

Particulars	Q2FY20 (% Contr. to Revenue)	QoQ (%)	YoY (%)
Top 10	39	7.9	11.6
Top 20	52	5.8	10.2
Non-Top 20	48	10.2	19.4
Digital Revenues	38	20.0	54.1
Number of Employees	10,800	503	775
Attrition (%)	12.3	(60bps)	150bps
DSO	73 days	6 days	0 days

	Q2FY20	Q1FY20	Q2FY19
<b>Significant New Customer Addition</b>			
USA	7	5	5
Europe	1	3	3
ROW	2	3	2
<b>Total</b>	<b>10</b>	<b>11</b>	<b>10</b>
<b>Fresh Order Intake (US\$ mn)</b>			
USA	65	100	86
Europe	41	58	39
ROW	70	17	35
<b>Total</b>	<b>176</b>	<b>175</b>	<b>160</b>
Executable orders over next 12M (US\$ mn)	405	395	363

Source: Company, BOBCAPS Research

### Valuation methodology

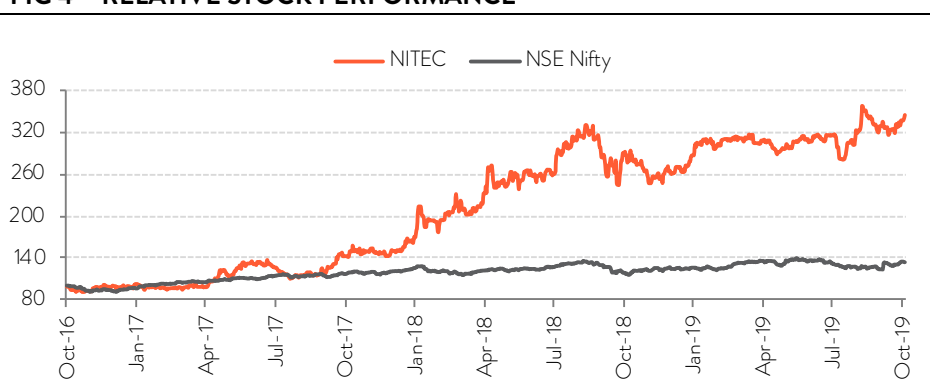
Post the Sep'19 quarter results, we marginally lower FY21/FY22 EPS estimates by 1% each. Rolling valuations forward, we have a revised Sep'20 target price of Rs 1,600(vs. Rs 1,550 earlier), based on an unchanged one-year forward P/E multiple of 17x. Even as we acknowledge the company's efforts toward predictable and profitable growth, we believe current valuations at 16.8x/14.4x FY21E/FY22E P/E leave limited upside potential – cut from BUY to ADD.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	597	591	(1.1)	669	663	(1.0)	753	745	(1.0)
YoY growth (%)	13.1	11.9	-	12.1	12.1	-	12.4	12.5	-
Revenues	41,275	41,264	0.0	46,864	46,377	(1.0)	52,679	52,154	(1.0)
EBITDA	7,311	7,273	(0.5)	8,574	8,486	(1.0)	9,639	9,543	(1.0)
EBITDA margins (%)	17.7	17.6	-	18.3	18.3	-	18.3	18.3	-
Net Profits	4,472	4,469	(0.1)	5,462	5,395	(1.2)	6,369	6,295	(1.2)
EPS (Rs)	72.4	72.3	(0.1)	88.4	87.3	(1.2)	103.1	101.9	(1.2)

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)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>29,914</b>	<b>36,762</b>	<b>41,264</b>	<b>46,377</b>	<b>52,154</b>
EBITDA	5,012	6,453	7,273	8,486	9,543
Depreciation	1,273	1,248	1,697	1,798	1,944
EBIT	3,739	5,205	5,576	6,687	7,599
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	298	476	600	936	1,216
Exceptional items	0	0	0	0	0
EBT	4,037	5,681	6,176	7,623	8,815
Income taxes	950	1,404	1,449	1,868	2,160
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	285	188	258	360	360
<b>Reported net profit</b>	<b>2,802</b>	<b>4,089</b>	<b>4,469</b>	<b>5,395</b>	<b>6,295</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,802</b>	<b>4,089</b>	<b>4,469</b>	<b>5,395</b>	<b>6,295</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	5,115	6,345	7,122	8,005	9,002
Provisions	2,943	3,626	4,070	4,574	5,144
Debt funds	224	224	224	224	224
Other liabilities	455	455	455	455	455
Equity capital	615	615	615	615	615
Reserves & surplus	17,348	20,001	22,953	26,566	30,721
Shareholders' fund	17,963	20,616	23,568	27,181	31,336
<b>Total liabilities and equities</b>	<b>26,700</b>	<b>31,266</b>	<b>35,440</b>	<b>40,439</b>	<b>46,161</b>
Cash and cash eq.	4,102	7,102	10,665	14,977	19,966
Accounts receivables	5,911	7,352	8,253	9,275	10,431
Inventories	0	0	0	0	0
Other current assets	2,701	3,324	3,731	4,193	4,715
Investments	3,955	3,955	3,955	3,955	3,955
Net fixed assets	8,800	8,302	7,605	6,807	5,863
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
<b>Total assets</b>	<b>26,700</b>	<b>31,266</b>	<b>35,440</b>	<b>40,439</b>	<b>46,161</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	4,199	5,525	6,424	7,554	8,599
Interest expenses	(34)	(476)	(600)	(936)	(1,216)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(128)	(151)	(86)	(98)	(111)
Other operating cash flows	(213)	0	0	0	0
<b>Cash flow from operations</b>	<b>3,824</b>	<b>4,898</b>	<b>5,737</b>	<b>6,520</b>	<b>7,272</b>
Capital expenditures	(879)	(750)	(1,000)	(1,000)	(1,000)
Change in investments	(290)	0	0	0	0
Other investing cash flows	(1,311)	476	600	936	1,216
<b>Cash flow from investing</b>	<b>(2,480)</b>	<b>(274)</b>	<b>(400)</b>	<b>(64)</b>	<b>216</b>
Equities issued/Others	66	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(810)	(1,624)	(1,775)	(2,143)	(2,500)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(744)</b>	<b>(1,624)</b>	<b>(1,775)</b>	<b>(2,143)</b>	<b>(2,500)</b>
<b>Changes in cash and cash eq.</b>	<b>600</b>	<b>3,000</b>	<b>3,563</b>	<b>4,313</b>	<b>4,988</b>
<b>Closing cash and cash eq.</b>	<b>4,102</b>	<b>7,102</b>	<b>10,665</b>	<b>14,977</b>	<b>19,966</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	45.4	66.2	72.3	87.3	101.9
Adjusted EPS	45.4	66.2	72.3	87.3	101.9
Dividend per share	15.0	21.8	23.9	28.8	33.6
Book value per share	290.8	333.7	381.5	440.0	507.2

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.9	2.4	2.0	1.7	1.5
EV/EBITDA	17.4	13.5	11.5	9.5	8.0
Adjusted P/E	32.4	22.2	20.3	16.8	14.4
P/BV	5.1	4.4	3.8	3.3	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	69.4	72.0	72.4	70.8	71.4
Interest burden (PBT/EBIT)	108.0	109.1	110.8	114.0	116.0
EBIT margin (EBIT/Revenue)	12.5	14.2	13.5	14.4	14.6
Asset turnover (Revenue/Avg TA)	116.5	126.8	123.7	122.2	120.4
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.5
Adjusted ROAE	15.3	21.2	20.2	21.3	21.5

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	7.4	22.9	12.2	12.4	12.5
EBITDA	6.9	28.8	12.7	16.7	12.5
Adjusted EPS	3.5	45.9	9.3	20.7	16.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.8	17.6	17.6	18.3	18.3
EBIT margin	12.5	14.2	13.5	14.4	14.6
Adjusted profit margin	9.4	11.1	10.8	11.6	12.1
Adjusted ROAE	15.3	21.2	20.2	21.3	21.5
ROCE	12.6	18.1	20.0	25.2	30.4
<b>Working capital days (days)</b>					
Receivables	66	66	69	69	69
Inventory	0	0	0	0	0
Payables	107	132	127	128	129
<b>Ratios (x)</b>					
Gross asset turnover	3.5	4.3	5.2	6.4	8.2
Current ratio	1.6	1.8	2.0	2.3	2.5
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.3)	(0.4)	(0.5)	(0.6)

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

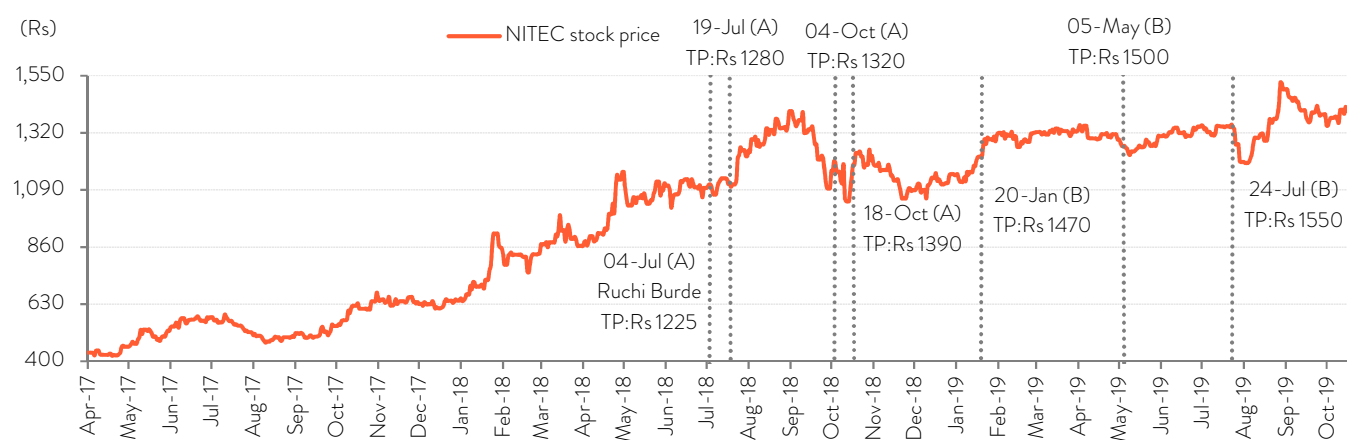
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: NIIT TECHNOLOGIES (NITEC IN)



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

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