

ADD

TP: Rs 1,330 | ▲ 12%

NIIT TECHNOLOGIES

| IT Services

| 06 May 2020

Good quarter with confident commentary – upgrade to ADD

NIIT Tech (NITEC) reported a strong Q4FY20 with 3% QoQ CC revenue growth and resilient operating margins. It secured three large deals and has a healthy executable order book (+20% YoY). Contrary to peers, NITEC expects FY21 to be a growth year but sees 80bps of margin headwinds. We trim FY21/FY22 EPS by 11%/6% on Covid-led demand and profit compression, and lower our Mar'21 TP to Rs 1,330 (from Rs 1,800). Valuation comfort (40% correction in three months), a strong Q4 and confident commentary drive our upgrade from SELL to ADD.

Ruchi Burde | Seema Nayak

research@bobcaps.in

Strong quarter: Revenue grew by 3% QoQ CC despite strong headwinds in the travel sector (-3.1% QoQ in INR terms). Growth was aided by ramp-up of deals won in Q3FY20. Insurance and Other verticals grew 6.8% QoQ and 11.6% QoQ respectively (in INR terms). Efficient and timely cost control rescued profitability, with reported EBITDA margins at 17.8% (-30bps QoQ, +20bps YoY).

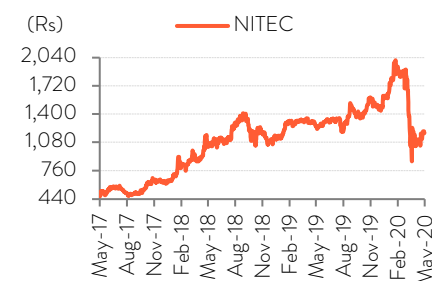
Healthy deal wins: NITEC bagged three large deals (two from BFSI and one from APAC business outside India), exiting Q4 with a healthy order intake of US\$ 180mn. Management indicated that the deal pipeline going into Q1FY21 looks robust with a changing deal mix – more consolidation, captive unit takeover and employee rebranding deals.

Bold outlook in challenging times: Bucking industry trends, NITEC expects FY21 to be a growth year even as Q1FY21 is likely to witness a sequential revenue decline. Management's FY21 outlook counts on (1) ramp-up of recent large deal wins (three in Q4 and four in Q3), (2) a large executable order book (+20% YoY), and (3) continued momentum outside the travel vertical.

Ticker/Price	NITEC IN/Rs 1,190
Market cap	US\$ 970.2mn
Shares o/s	62mn
3M ADV	US\$ 11.0mn
52wk high/low	Rs 2,060/Rs 735
Promoter/FPI/DII	70%/13%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	29,914	36,762	41,839	44,997	49,754
EBITDA (Rs mn)	5,012	6,453	7,431	7,765	9,104
Adj. net profit (Rs mn)	2,802	4,089	4,724	4,994	6,096
Adj. EPS (Rs)	45.4	66.2	76.5	80.8	98.7
Adj. EPS growth (%)	3.5	45.9	15.5	5.7	22.1
Adj. ROAE (%)	15.3	20.3	19.4	17.7	19.1
Adj. P/E (x)	26.2	18.0	15.6	14.7	12.1
EV/EBITDA (x)	14.0	10.8	9.1	8.1	6.4

Source: Company, BOBCAPS Research

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Earnings call highlights

- Travel vertical (27% of revenue):** Management expects the travel vertical to be adversely affected by Covid-19 as the slowdown in the airlines segment (47% of NITEC's travel revenues) will translate to lower long-term IT spends. The segment will see volume compression and vendor consolidation. Airlines are willing to trade wallet share in exchange for a decrease in pricing. NITEC has secured one consolidation deal due to its proactive proposals to airlines and is in the advanced stages of closing another. Management has built in the contraction from these aspects in its outlook.

Within travel, travel technology seems to be resilient. IT services spend is steady in rail/surface transportation and airports. As per management, airports might increase investment in automation and AI. Management does not see any systematic risk to business continuity for its top 20 clients which include a few names in the travel and transportation vertical.

- Focus on scaling up small verticals:** NITEC's 'other' vertical (27% of revenue) comprises subsegments such as retail, healthcare and media. Management aims to scale up in healthcare and media – the company has appointed new sales heads for these subsegments and plans to increase investments.
- Dividend:** A final dividend of Rs 11/sh has been declared. The buyback procedure was delayed due to the lockdown (buyback worth Rs 3.37bn for up to 3.1% of equity announced in Dec'19). Management intends to complete the process in Q1FY21.

FIG 1 – MAR'20 QUARTER PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue (US\$ mn)	154.8	138.0	12.2	151.2	2.3	593.3	528.0	12.3
Revenue (Rs mn)	11,093	9,722	14.1	10,734	3.3	41,839	36,762	13.8
Operating Expenditure	9,122	8,015	13.8	8,794	3.7	34,408	30,309	13.5
Cost of revenues	7,289	6,293	15.8	7,069	3.1	27,528	23,907	15.1
as % of sales	65.7	64.7	-	65.9	-	65.8	65.0	-
SG&A expenses	1,833	1,722	6.4	1,725	6.3	6,880	6,402	7.5
as % of sales	16.5	17.7	-	16.1	-	16.4	17.4	-
EBITDA	1,971	1,707	15.5	1,940	1.6	7,431	6,453	15.2
Depreciation	433	303	42.9	449	(3.6)	1,730	1,248	38.6
EBIT	1,538	1,404	9.5	1,491	3.2	5,701	5,205	9.5
Other Income	52	47	-	130	-	462	476	-
PBT	1,590	1,451	9.6	1,621	(1.9)	6,163	5,681	8.5
Total Tax	348	296	17.6	336	3.6	1,203	1,404	(14.3)
Adjusted PAT	1,242	1,155	7.5	1,285	(3.3)	4,960	4,277	16.0
(Profit)/loss from JV's/Ass/MI	106.0	44.0	-	52.0	-	236	188	-
APAT after MI	1,136	1,111	2.3	1,233	(7.9)	4,724	4,089	15.5
Extra ordinary items	128	0	-	0	-	0	0	-
Reported PAT	1,264	1,111	13.8	1,233	2.5	4,724	4,089	15.5

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Reported EPS	18.2	18.0	1.4	19.8	(7.9)	76	66	15.5
Margins (%)			(bps)		(bps)			(bps)
EBITDA	17.8	17.6	21	18.1	(31)	17.8	17.6	21
EBIT	13.9	14.4	(58)	13.9	(3)	13.6	14.2	(53)
EBT	14.3	14.9	(59)	15.1	(77)	14.7	15.5	(72)
PAT	11.4	11.4	(3)	11.5	(9)	11.3	11.1	17
Effective Tax rate	21.9	20.4	149	20.7	116	19.5	24.7	(519)

Source: Company, BOBCAPS Research

FIG 2 – MAR'20 QUARTER OPERATING METRICS

(In INR terms)	Q4FY20 (% Contr. to Revenue)	QoQ (%)	YoY (%)
Revenue by Geography			
North America	46	(1.0)	7.1
Europe	40	11.7	38.3
RoW	14	(3.5)	(11.3)
Revenue by Vertical			
Banking and Financial Services	15	(3.1)	7.0
Insurance	31	6.8	26.3
Transportation	27	(3.8)	14.1
Other	27	11.6	6.2
Revenue Mix: Onsite/offshore			
Offshore	36	3.3	20.8
Onsite	64	3.3	10.6
Client Concentration			
Top 5	27	3.3	6.2
Non-Top 5 client	73	3.3	17.3
Top 10	37	6.2	3.0
Top 20	50	3.3	5.7
Non-Top 20 client	50	3.3	24.0
Number of employees	11,156	307	893
Attrition (%)	11.8	(10bps)	(40bps)
Utilisation (%)	78.1	(120bps)	(120bps)
DSO (days)	74	7Days	12Days

	Q4FY20	Q3FY20	Q4FY19
New Customer Addition			
USA	3	6	6
Europe	6	2	0
ROW	1	2	5
Total	10	10	11
Fresh Order Intake (US\$ mn)			
USA	81	90	94
Europe	52	62	45
ROW	47	66	31
Total	180	218	170
Executable Orders over next 12 months (US\$ mn)	468	424	390

Source: Company, BOBCAPS Research

Valuation methodology

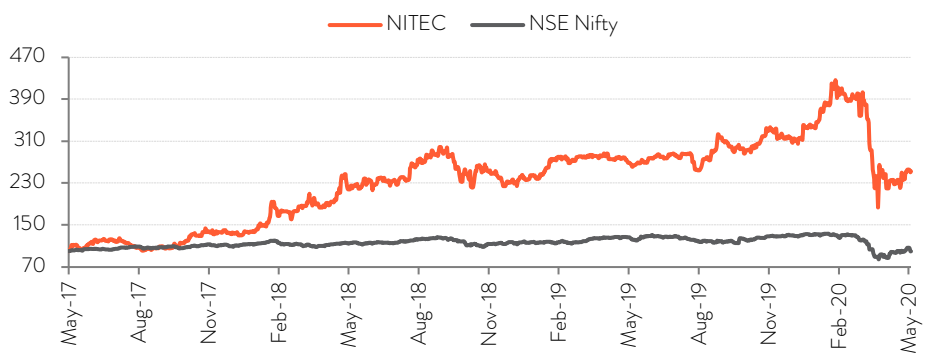
We trim FY21/FY22 EPS estimates by 11%/6% and revise our target FY22E P/E multiple down 20% to 13.6x to factor in demand and profit compression due to Covid-19 – this translates to a revised Mar’21 target price of Rs 1,330 (from Rs 1,800). Following a ~40% stock correction in the last three months, valuations at 14.7x/12.1x FY21E/FY22E P/E look attractive. Valuation comfort, a strong Mar’20 quarter despite pandemic-led adversities, and bold management commentary fuel our rating upgrade from SELL to ADD.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	670	600	(10.4)	753	663	(11.9)
YoY growth (%)	12.7	1.1	-	12.4	10.6	-
Revenues	46,866	44,997	(4.0)	52,696	49,754	(5.6)
EBITDA	8,575	7,765	(9.5)	9,642	9,104	(5.6)
EBITDA margins (%)	18.3	17.3	-	18.3	18.3	-
Net Profits	5,595	4,994	(10.7)	6,507	6,096	(6.3)
EPS (Rs)	90.6	80.8	(10.7)	105.3	98.7	(6.3)

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	FY20P	FY21E	FY22E
Total revenue	29,914	36,762	41,839	44,997	49,754
EBITDA	5,012	6,453	7,431	7,765	9,104
Depreciation	1,273	1,248	1,730	1,798	1,944
EBIT	3,739	5,205	5,701	5,967	7,160
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	298	476	462	1,125	1,392
Exceptional items	0	0	0	0	0
EBT	4,037	5,681	6,163	7,092	8,552
Income taxes	950	1,404	1,203	1,737	2,095
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	285	188	236	360	360
Reported net profit	2,802	4,089	4,724	4,994	6,096
Adjustments	0	0	0	0	0
Adjusted net profit	2,802	4,089	4,724	4,994	6,096

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	5,115	6,345	7,222	7,767	8,588
Provisions	2,943	3,626	4,127	4,438	4,907
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	21,625	25,842	29,212	33,248
Shareholders' fund	17,963	22,240	26,457	29,827	33,863
Total liabilities and equities	26,700	32,890	38,484	42,711	48,037
Cash and cash eq.	4,102	8,726	13,575	17,683	22,571
Accounts receivables	5,911	7,352	8,368	8,999	9,951
Inventories	0	0	0	0	0
Other current assets	2,701	3,324	3,783	4,068	4,498
Investments	3,955	3,955	3,955	3,955	3,955
Net fixed assets	8,800	8,302	7,572	6,774	5,830
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	26,700	32,890	38,484	42,711	48,036

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	4,199	5,525	6,690	7,152	8,401
Interest expenses	(34)	(476)	(462)	(1,125)	(1,392)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(128)	(151)	(97)	(61)	(91)
Other operating cash flows	(213)	0	0	0	0
Cash flow from operations	3,824	4,898	6,131	5,967	6,917
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	462	1,125	1,392
Cash flow from investing	(2,480)	(274)	(538)	125	392
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)	0	(744)	(1,983)	(2,421)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(744)	0	(744)	(1,983)	(2,421)
Changes in cash and cash eq.	600	4,624	4,849	4,108	4,888
Closing cash and cash eq.	4,102	8,726	13,575	17,683	22,571

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	45.4	66.2	76.5	80.8	98.7
Adjusted EPS	45.4	66.2	76.5	80.8	98.7
Dividend per share	15.0	0.0	10.0	26.7	32.6
Book value per share	290.8	360.0	428.2	482.8	548.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.4	1.9	1.6	1.4	1.2
EV/EBITDA	14.0	10.8	9.1	8.1	6.4
Adjusted P/E	26.2	18.0	15.6	14.7	12.1
P/BV	4.1	3.3	2.8	2.5	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	69.4	72.0	76.7	70.4	71.3
Interest burden (PBT/EBIT)	108.0	109.1	108.1	118.9	119.4
EBIT margin (EBIT/Revenue)	12.5	14.2	13.6	13.3	14.4
Asset turnover (Revenue/Avg TA)	116.5	123.4	117.2	110.8	109.7
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.4	1.4
Adjusted ROAE	15.3	20.3	19.4	17.7	19.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	7.4	22.9	13.8	7.5	10.6
EBITDA	6.9	28.8	15.2	4.5	17.2
Adjusted EPS	3.5	45.9	15.5	5.7	22.1
Profitability & Return ratios (%)					
EBITDA margin	16.8	17.6	17.8	17.3	18.3
EBIT margin	12.5	14.2	13.6	13.3	14.4
Adjusted profit margin	9.4	11.1	11.3	11.1	12.3
Adjusted ROAE	15.3	20.3	19.4	17.7	19.1
ROCE	12.6	18.1	20.5	22.6	28.8
Working capital days (days)					
Receivables	66	66	69	70	70
Inventory	0	0	0	0	0
Payables	107	132	128	125	126
Ratios (x)					
Gross asset turnover	3.5	4.3	5.3	6.3	7.9
Current ratio	1.6	1.9	2.3	2.5	2.7
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.4)	(0.5)	(0.6)	(0.7)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

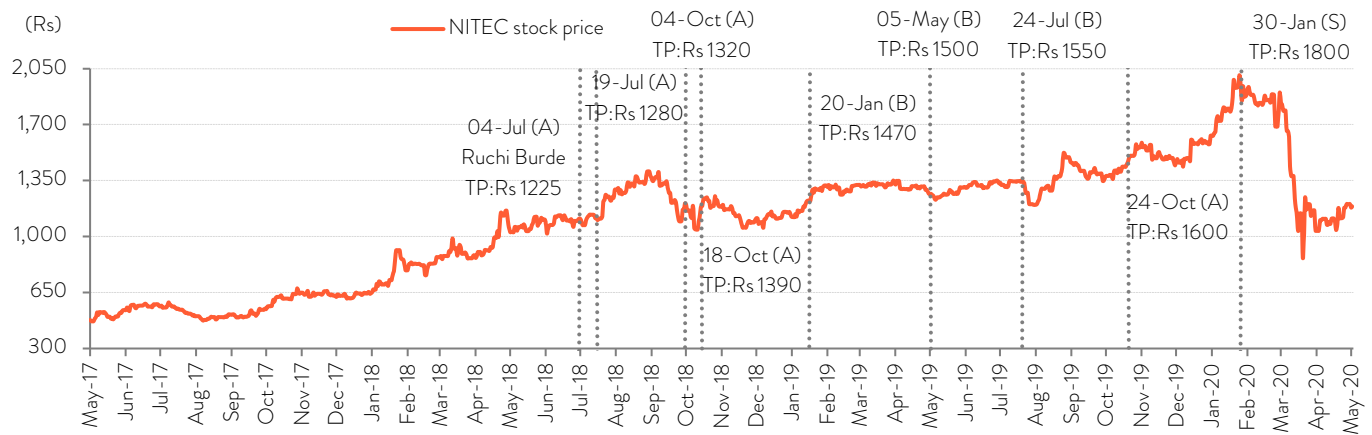
ADD – Expected return from >+5% to +15%

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)

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



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

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