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Rating	BUY
Price	Rs389
Target Price	Rs470
Implied Upside	20.8%
Sensex	21,033
Nifty	6,242

(Prices as on January 14, 2014)

Trading data

Market Cap. (Rs bn)	23.5
Shares o/s (m)	60.2
3M Avg. Daily value (Rs m)	94.8

Major shareholders

Promoters	31.08%
Foreign	32.35%
Domestic Inst.	17.34%
Public & Other	19.23%

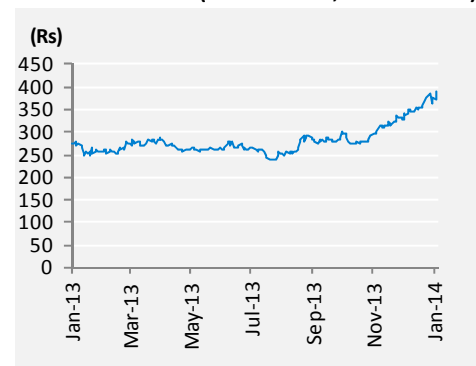
Stock Performance

(%)	1M	6M	12M
Absolute	16.1	46.9	40.6
Relative	14.6	41.6	35.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2015	47.1	44.7	5.3
2016	51.7	50.7	1.8

Price Performance (RIC: NITT.BO, BB: NITEC IN)



Source: Bloomberg

NIIT Technologies (NIIT Tech) reported revenues softer than expected, whereas margin was ahead of expectation. The company reported order intake of \$377m, against average of ~\$100m. We retain our 'BUY' rating with a revised TP of **Rs470**.

- Revenue growth muted, margins ahead:** NIIT Tech reported a muted revenue growth (-0.8% in USD terms) QoQ to Rs5,873m (PLe: Rs5,991m, Cons: Rs5,962m). EBITDA margins expanded by 121bps to 16.2% (PLe: 16.2%, Cons.: 15.1%), driven by lower hardware pass-thru revenue. PAT decline by 14.9% QoQ to Rs531m (PLe: Rs595m, Cons.: Rs595m), due to lower other income.
- Order book strongest ever, 3x higher than average:** Order book for NIIT Tech swelled to \$377m, compared to average of ~\$100m, driven by one large deal of in BFSI/US of \$300m (New Scope: \$30m). The management said that the deal could further add to the order book in subsequent quarters.
- Strategic focus to accelerate growth:** NIIT Tech is aspiring for \$1bn revenue opportunity by FY17. Three prong strategy involves **1)** Positioning for expanding its presence in the US **2)** Increased focus on strong verticals like TTL and BFSI **3)** Investing for opportunities in IMS.
- Margin expansion likely to continue:** The management expects steady improvement in margin driven by lower hardware revenue and higher US/UK revenue. **We factored in 40bp improvement in margins for FY15.**
- Is it a time for re-rating?** The company has been on the steady path of recovery in terms of operating margin, cash conversion and deal wins in FY14. We expect strong order book would improve the revenue visibility in FY15 and demonstrate the ability of the company to consummate the large deals. A new beginning. **We will wait for few more silverlines to push forward an argument for re-rating.**
- Valuation & Recommendation – Reiterate "BUY" with revise target price of Rs470:** Positive IATA commentary, improved deal pipeline and AAI project ramp-up would give steady revenue growth with steady margin improvement. It is currently trading at 7.5x FY16E earnings with an EPS CAGR of 14% (FY14-16E).

Key financials (Y/e March)	2013	2014	2015E	2016E
Revenues (Rs m)	20,213	23,133	26,187	29,067
Growth (%)	28.2	14.4	13.2	11.0
EBITDA (Rs m)	3,296	3,624	4,209	4,506
PAT (Rs m)	2,133	2,398	2,839	3,112
EPS (Rs)	35.4	39.8	47.1	51.7
Growth (%)	7.1	12.4	18.3	9.6
Net DPS (Rs)	9.4	12.0	13.5	15.0

Profitability & Valuation	2013	2014	2015E	2016E
EBITDA margin (%)	16.3	15.7	16.1	15.5
RoE (%)	21.2	20.4	20.9	19.9
RoCE (%)	21.0	19.1	20.1	19.1
EV / sales (x)	1.1	0.9	0.8	0.7
EV / EBITDA (x)	6.5	5.9	4.9	4.3
PE (x)	11.0	9.8	8.3	7.5
P / BV (x)	2.1	1.9	1.6	1.4
Net dividend yield (%)	2.4	3.1	3.5	3.9

Source: Company Data; PL Research

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Exhibit 1: Revenue softer than expected, but margin ahead of expectation (Rs m)

Y/e March	Q3FY14	Q2FY14	QoQ	Q3FY13	YoY	Consensus	Q3FY14(PLe)	Variance(PL VS ACTUAL)
Revenue	5,873	5,873	0.0%	5,144	14.2%	5,962	5,990.5	-2.0%
EBITDA	957.0	886	8.0%	813	17.7%	939	922.5	3.7%
<i>EBITDA Margin</i>	<i>16.3%</i>	<i>15.1%</i>	<i>121 bps</i>	<i>15.8%</i>	<i>49 bps</i>	<i>15.7%</i>	<i>15.4%</i>	<i>90 bps</i>
Pre Tax Income	727.0	913	-20.4%	797	-8.8%	853	840.8	-13.5%
Tax	182.0	269	-32.3%	230	-20.9%	258	246	-26.0%
<i>Tax Rate</i>	<i>25%</i>	<i>29%</i>	<i>-443 bps</i>	<i>29%</i>	<i>-382 bps</i>	<i>30%</i>	<i>29%</i>	<i>-420 bps</i>
PAT	531.0	624	-14.9%	561	-5.3%	595	595	-10.8%
EPS (Rs)	8.74	10.3	-14.9%	9.3	-6.1%	10.0	9.8	-10.8%

Source: Company Data, PL Research

- Conference call highlights:**
 - Q3FY14 Revenue – Insurance: Rs407m (Op. Margin: 18%), Media: Rs376m (11.3%), Projecta: Rs182m (10%), GIS: Rs233m (13%), Hardware: Rs237m
 - Non-Linear revenue: 24%
 - ETR for FY14 ~27-28% (Q3FY14: 25%)
 - 4 new customers with 1 each in TTL, BFS, Manufacturing and Insurance
 - DSO: 96 days (should come down to ~85-100 days)
 - Capex for Q3FY14: ~Rs450m (Q4FY14: ~Rs500m).
 - Net addition 143 employees (Employee addition expectation: +~150/quarter)

Exhibit 2: Order Intake strong in the US driven by a \$300mn in BFSI

Fresh Order Analysis (\$ m)	Q3FY14	Q2FY14	QoQ gr.	Q3FY13	YoY gr.
USA	320	16	1900.0%	31	932.3%
EMEA	43	51	-15.7%	34	26.5%
ROW	14	17	-17.6%	18	-22.2%
Total	377	84	348.8%	83	354.2%
Executable over next 12 months	265	248	6.9%	242	9.5%
New Customer Addition					
USA	1	0	NA	0	NA
EMEA	0	3	-100.0%	1	-100.0%
ROW	3	0	NA	3	0.0%
Total	4	3	33.3%	4	0.0%

Source: Company Data, PL Research

Exhibit 3: Revising margin estimates up for FY15 & FY16

	New		Old		Revision	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Revenue	26,187	29,067	26,274	29,574	-0.3%	-1.7%
EBITDA	4,209	4,506	3,834	4,259	9.8%	5.8%
EBITDA Margin	16.1%	15.5%	14.6%	14.4%	148 bps	110 bps
EPS	47.11	51.66	43.30	48.19	8.8%	7.2%
Multiple	9		9		0%	
Target Price	470		440		7%	

Source: PL Research

Exhibit 4: The US and Europe witnessed steady growth

By Geography	Q3FY14	Q2FY14	QoQ gr.	Q3FY13	YoY gr.
USA	2,584	2,408	7.3%	1,903	35.8%
Europe	2,232	2,114	5.6%	2,058	8.5%
RoW	1,057	1,351	-21.7%	1,183	-10.6%
Total	5,873	5,873	0.0%	5,144	14.2%
USA	44.0%	41.0%	300 bps	37.0%	700 bps
Europe	38.0%	36.0%	200 bps	40.0%	-200 bps
RoW	18.0%	23.0%	-500 bps	23.0%	-500 bps

Source: Company Data, PL Research

Exhibit 5: Growth led by Manufacturing & BFSI

By Verticals	Q3FY14	Q2FY14	QoQ	Q3FY13	YoY
Finance Insurance & Banking	2,056	1,938	6.1%	1,595	28.9%
Transportation	2,232	2,173	2.7%	2,160	3.3%
Manufacturing & Retail	411	352	16.7%	309	33.2%
Government	352	587	-40.0%	412	-14.4%
Others	822	822	0.0%	669	23.0%
Total	5,873	5,873	0.0%	5,144	14.2%
as % of Total					
Finance Insurance & Banking	35.0%	33.0%	200 bps	31.0%	400 bps
Transportation	38.0%	37.0%	100 bps	42.0%	-400 bps
Manufacturing & Retail	7.0%	6.0%	100 bps	6.0%	100 bps
Government	6.0%	10.0%	-400 bps	8.0%	-200 bps
Others	14.0%	14.0%	0 bps	13.0%	100 bps

Source: Company Data, PL Research

Exhibit 6: Good growth in top 5 clients

Client metrics	Q3FY14	Q2FY14	QoQ gr.	Q3FY13	YoY gr.
Top 5 Clients	2,173	2,114	2.8%	1,749	24.2%
Top 6-10 Clients	705	763	-7.7%	720	-2.1%
Top 10 Clients	2,878	2,878	0.0%	2,469	16.6%
Non Top 10 Clients	2,995	2,995	0.0%	2,675	12.0%
Total	5,873	5,873	0.0%	5,144	14.2%
Top 5 Clients	37.0%	36.0%	100 bps	34.0%	300 bps
Top 10 Clients	49.0%	49.0%	0 bps	48.0%	100 bps
Non Top 10 Clients	51.0%	51.0%	0 bps	52.0%	-100 bps

Source: Company Data, PL Research

**Exhibit 7: Onsite-Offshore mix is stable**

Revenue by Delivery Type	Q3FY14	Q2FY14	QoQ gr.	Q3FY13	YoY gr.
Onsite	3,817	3,817	0.0%	3,241	17.8%
Offshore	2,056	2,056	0.0%	1,903	8.0%
Total	5,873	5,873	0.0%	5,144	14.2%
% of Total Revenue					
Onsite	65.0%	65.0%	0 bps	63.0%	200 bps
Offshore	35.0%	35.0%	0 bps	37.0%	-200 bps

Source: Company Data, PL Research

Exhibit 8: Expected to hire ~150 employees each quarter

Employee metrics	Q3FY14	Q2FY14	QoQ gr.	Q3FY13	YoY gr.
Total employees	8,160	8,017	1.8%	7,882	3.5%
Net addition	143	(190)	NA	265	-46.0%
Utilisation	78.4%	80.3%	-190 bps	78.4%	0 bps
Attrition	13.4%	12.4%	97 bps	12.5%	87 bps

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2013	2014	2015E	2016E
Net Revenue	20,213	23,133	26,187	29,067
Raw Material Expenses	13,159	15,277	17,188	19,244
Gross Profit	7,054	7,857	8,999	9,823
Employee Cost	—	—	—	—
Other Expenses	3,758	4,232	4,790	5,317
EBITDA	3,296	3,624	4,209	4,506
Depr. & Amortization	567	637	729	747
Net Interest	—	—	—	—
Other Income	207	365	339	365
Profit before Tax	2,936	3,352	3,820	4,123
Total Tax	751	1,006	993	1,031
Profit after Tax	2,185	2,346	2,827	3,092
Ex-Od items / Min. Int.	52	(52)	(12)	(20)
Adj. PAT	2,133	2,398	2,839	3,112
Avg. Shares O/S (m)	60.2	60.2	60.2	60.2
EPS (Rs.)	35.4	39.8	47.1	51.7

Cash Flow Abstract (Rs m)

Y/e March	2013	2014	2015E	2016E
C/F from Operations	2,351	2,941	2,944	3,422
C/F from Investing	(1,133)	(2,082)	(1,309)	(1,453)
C/F from Financing	(543)	(723)	(813)	(904)
Inc. / Dec. in Cash	675	136	821	1,065
Opening Cash	1,654	2,329	2,466	3,287
Closing Cash	2,329	2,466	3,287	4,352
FCFF	955	911	1,647	1,988
FCFE	1,169	911	1,647	1,988

Key Financial Metrics

Y/e March	2013	2014	2015E	2016E
Growth				
Revenue (%)	28.2	14.4	13.2	11.0
EBITDA (%)	22.8	10.0	16.1	7.0
PAT (%)	8.2	12.4	18.3	9.6
EPS (%)	7.1	12.4	18.3	9.6
Profitability				
EBITDA Margin (%)	16.3	15.7	16.1	15.5
PAT Margin (%)	10.6	10.4	10.8	10.7
RoCE (%)	21.0	19.1	20.1	19.1
RoE (%)	21.2	20.4	20.9	19.9
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.2)
Net Wrkng Cap. (days)	32	24	22	22
Valuation				
PER (x)	11.0	9.8	8.3	7.5
P / B (x)	2.1	1.9	1.6	1.4
EV / EBITDA (x)	6.5	5.9	4.9	4.3
EV / Sales (x)	1.1	0.9	0.8	0.7
Earnings Quality				
Eff. Tax Rate	25.6	30.0	26.0	25.0
Other Inc / PBT	7.1	10.9	8.9	8.8
Eff. Depr. Rate (%)	8.1	7.0	7.0	6.3
FCFE / PAT	54.8	38.0	58.0	63.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2013	2014	2015E	2016E
Shareholder's Funds	10,941	12,565	14,577	16,766
Total Debt	339	339	339	339
Other Liabilities	173	173	173	173
Total Liabilities	11,453	13,076	15,089	17,278
Net Fixed Assets	4,661	6,105	6,686	7,392
Goodwill	—	—	—	—
Investments	820	820	820	820
Net Current Assets	5,481	5,660	7,093	8,575
Cash & Equivalents	2,329	2,466	3,287	4,352
Other Current Assets	7,087	8,705	10,187	11,307
Current Liabilities	3,935	5,511	6,382	7,083
Other Assets	491	491	491	491
Total Assets	11,453	13,076	15,090	17,278

Quarterly Financials (Rs m)

Y/e March	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Net Revenue	5,372	5,419	5,873	5,873
EBITDA	884	782	886	957
% of revenue	16.5	14.4	15.1	16.3
Depr. & Amortization	161	148	155	160
Net Interest	—	—	—	—
Other Income	(14)	206	182	(70)
Profit before Tax	709	840	913	727
Total Tax	129	296	269	182
Profit after Tax	565	532	624	531
Adj. PAT	565	532	624	531

Key Operating Metrics

Y/e March	2013	2014	2015E	2016E
Total Technical Billed (Headcount)	12,257	12,624	14,051	15,596
Utilization	78.2	—	79.0	78.0
Software Dev. Exp. (% of Sales)	65.1	66.0	65.6	66.2
Sales & Mktg. (% of Sales)	18.6	18.3	18.3	18.3

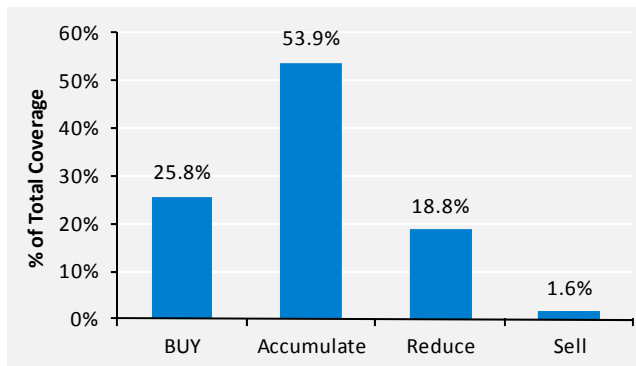
Source: Company Data, PL Research.

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PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
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