

Pick of the Week



NIIT Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
90	115	27.8%	125 / 61	15032

Key Highlights:

- Corporate Learning Group (CLG) which contributes about 71 percent of total revenue for the company grew by 25% YoY in 3QFY19, and has been leading the performance which is expected to continue the momentum going forward.
- CLG is expected to have a long runway of growth as training outsourcing picks up among the Fortune 500 companies. NIIT's deal win with Pitney Bowes is an example of structured training outsourcing.
- Skills and Carriers Group (SNC) contributes ~28% of revenue for the company. SNC focus has been on new initiatives towards improving visibility. SNC which is a low margin business currently has a potential to become a high twenties EBITDA margin business as it has been in the past.
- Revenue visibility and number of MTS clients remains strong for CLG business at USD 255mn and 42 clients respectively. Within SNC business share of beyond IT and enrollment was at 42% and 29277.
- NIIT changed its business model for its private schools business by deciding to focus on its IP based solutions. Also, recognizing the difficulties in collecting receivables from government school contracts, NIIT consciously stopped taking new government projects.
- School business is expected to see growth by 4QFY19 as it is a seasonally strong quarter and cost related to exit of Government school business is expected to be over.
- NIIT Ltd holds ~23.6% in NIIT Technologies. In several discussions with shareholders company has said it is ready to monetize its stake at an appropriate valuation and in a tax efficient manner.
- At the current market cap of Rs. 81.6 bn of NIIT Technologies as on 7March 2019, NIIT's stake at 23.6% stood at Rs.19.3bn. This translates to a per share value of ~Rs. 116.
- We expect revenue growth of 8% CAGR over FY18-20E and EBITDA margin to improve by 190bps over FY18-20. We have BUY rating with a price target of Rs.115.

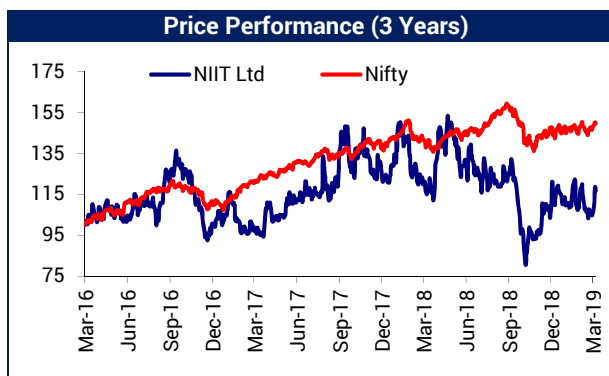
Financials (Rs mn)*	FY18	FY19E	FY20E
Sales	8,505	8,873	9,946
Growth (%)	0.6	4.3	12.1
EBITDA	746	841	1,069
EBITDA margin (%)	8.8%	9.5%	10.7%
PBT (exc income from associ)	177	220	499
Adjusted Net profit (inc Inc fr	626	962	1,336
Adjusted EPS (Rs) (inc Inc frc	3.8	5.8	8.0
Growth (%)	52.0	52.6	37.9
P/E (x)	23.7	15.5	11.2

Debt/equity	0.1	0.2	0.1
RONW (%) (core)	1.6	(2.2)	7.5
RoCE (%) (core)	7.3	7.9	12.9

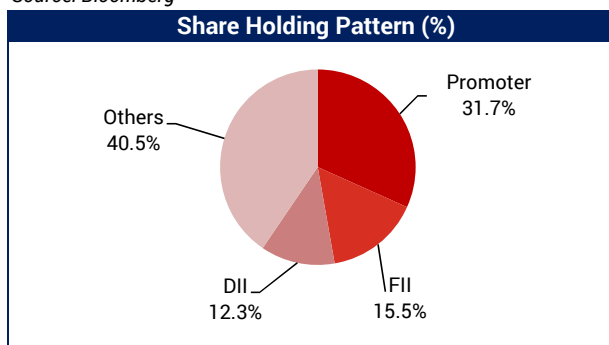
Source: Kotak Securities - Private Client Research; * Consolidated

Financials (Rs mn)*	3Q-FY18	3Q-FY19	% Chg
Revenues	2,094	2,278	8.8
EBITDA	184	200	8.7
EBITDA Margin (%)	8.8%	8.8%	
Adj PAT	198	195	(1.5)
Adj PAT Margin (%)	9.5%	8.6%	
Adj EPS (Rs)	1.2	1.2	

Source: Kotak Securities - Private Client Research; * Consolidated



Source: Bloomberg



Source: Bloomberg

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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