

Results Miss; FY25 growth to be back-ended

- NIITMTS reported revenue growth of 1.7% QoQ (below DE: 3%), driven by ramp-up of new customers and increase in wallet share from existing clients. EBITDA margin expanded 131bps QoQ at 24.3% (DE: 22.9%).
- Management provided FY25 CC Revenue growth guidance of 12%-14% (vs 10% in FY24) & expects EBITDA margin to be within 22-24% range (vs 24% in FY24). Growth, however, will be back-ended given slower deal closures.
- Factoring in commentary on growth and margins we cut our FY25/FY26E EPS estimates by 8%/8% and assign 'Accumulate' rating with TP of Rs.520 valuing at 25x on FY26E EPS.

Management confident on delivering 12-14% growth in FY25

Revenue visibility stood at \$335mn (muted for past 8 qtrs) but nevertheless management is confident to deliver back-ended growth guidance (12-14% in CC terms). The company mentioned that the 95% of its training is proprietary by nature and thus client wins, also intensity of spends by clients are key driver for growth. NIITMTS is optimistic about achieving Revenue CAGR of 20% over the medium term, given the fact that just 10% of market is outsourced for L&D.

New Client wins to ramp up in couple of quarters

NIITMTS reported growth of 2% QoQ and 3% YoY in CC terms. Despite compression in High-ticket spending, NIITMTS is witnessing a rise in L&D outsourcing as clients shift their focus towards cost optimization, as evidenced by the addition of new customers (added 11 in FY24) taking total to 87 and expect to add 12-15 every year which is expected to ramp-up in next 3-4 quarters. During Q4 it also had 3 renewals deals and 1 scope expansion.

Investment strategy to expand capabilities and drive long-term growth

NIITMTS is preparing to invest significantly in enhancing its GenAI capabilities, which is expected to marginally impact its margins in FY25. The primary goal is to drive substantial growth by increasing the wallet share of existing clients and onboarding new clients, taking advantage of some industry trends such as digital transformation, decarbonization, and biopharma acceleration. With its strategic positioning, NIITMTS is poised to capitalize on opportunities & expand market share.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	3,979	3,857	3.2	3,913	1.7
Total Expense	3,011	2,987	0.8	3,012	(0.1)
EBITDA	969	870	11.4	901	7.5
Depreciation	127	146	(13.1)	143	(11.1)
EBIT	842	724	16.3	759	11.0
Other Income	99	35	183.4	72	37.6
Interest	102	80	27.9	55	85.4
EBT	839	649	29.3	776	8.2
Tax	294	109	169.1	208	41.5
RPAT	544	539	0.9	568	(4.1)
APAT	544	539	0.9	568	(4.1)
			(bps)		(bps)
Gross Margin (%)	99.9	99.9	(1)	100.0	(9)
EBITDA Margin (%)	24.3	22.6	179	23.0	131
NPM (%)	13.7	14.0	(30)	14.5	(82)
Tax Rate (%)	35.1	16.9	1824	26.8	827
EBIT Margin (%)	21.2	18.8	239	19.4	177

CMP	Rs 470
Target / Upside	Rs 520 / 11%
NIFTY	22,598

Scrip Details

Equity / FV	Rs 271mn / Rs 2
Market Cap	Rs 66bn
	USD 796.4mn
52-week High/Low	Rs 577 / 342
Avg. Volume (no)	212,880
Bloom Code	NIITMTS IN

Price Performance	1M	3M	12M
Absolute (%)	(7)	(12)	
Rel to NIFTY (%)	(9)	(14)	

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	34.8	34.7	34.6
MF/Banks/FIs	15.8	16.4	17.8
FIs	18.9	17.8	18.2
Public / Others	30.4	31.2	29.4

Valuation (x)

	FY24A	FY25E	FY26E
P/E	30.9	26.6	22.5
EV/EBITDA	17.7	16.0	14.0
ROE (%)	24.4	23.5	23.6
RoACE (%)	25.6	24.4	23.9

Estimates (Rs bn)

	FY24A	FY25E	FY26E
Revenue	15.5	17.6	20.0
EBITDA	3.6	4.0	4.6
PAT	2.1	2.5	2.9
EPS (Rs.)	15.2	17.7	20.9

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Exhibit 1: Quarterly performance (Combined) versus estimates

Particulars (Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenue	3,979	4,030	NA	(1.3)	NA	Revenues miss due to cut in spending
EBITDA	969	923	NA	4.9	NA	Lower than exp. opex led to OPM beat
EBITDA margin	24.3	22.9	NA	140 bps	NA	
PAT	544	579	NA	(6.0)	NA	PAT miss due to high tax & finance costs.

Source: DART, Company

Change in Estimates

For FY25E/FY26E – Incorporating FY25 guidance, we cut our revenue growth estimates by 3.2%/4.5%. Given commentary around decline in profitability (22-24% in FY25 Vs 24% in FY24) due to increased investments, we have also cut our estimates by 58bps/55bps. Overall, EPS has been cut by 8%/8%.

Exhibit 2: Change in Estimates

Particulars (Rs. mn)	FY23A	FY24A	FY25E			FY26E		
	Actual	Actual	Old	New	Chg.(%)	Old	New	Chg.(%)
INR Revenue	13,618	15,535	18,164	17,579	(3.2)	20,935	20,003	(4.5)
YoY growth,	20.3	14.1	16.0	13.2	(284 bps)	15.3	13.8	(151 bps)
EBITDA	3,154	3,622	4,265	4,029	(5.5)	4,879	4,551	(6.7)
EBITDA Margin,	23.2	23.3	23.5	22.9	(58 bps)	23.3	22.8	(55 bps)
Net Profit	1,922	2,132	2,703	2,485	(8.1)	3,185	2,929	(8.0)
EPS (Rs)	14.3	15.8	20.1	18.4	(8.3)	23.6	21.7	(8.0)

Source: DART, Company

What to expect Next Quarter

Given commentary on ramp-up of new clients and favorable seasonality in St. Charles, we expect revenue growth of 3.2% QoQ. Incorporating commentary on investments in S&M, we expect EBITDA margin to scale down by 191bps QoQ at 22.4%, while OPM to decline by 223bps QoQ to 18.9% owing to high Depreciation.

Exhibit 3: What to expect Next Quarter for CLG Business

Particulars (Rs mn)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY (%)
Sales	4,108	3,979	3,823	3.2	7.4
EBITDA	921	969	853	(4.9)	8.0
PAT	556	544	552	2.2	0.8
EPS (Rs)	4.1	4.0	4.1	2.6	0.6
EBIT Margin (%)	18.9	21.2	18.3	(223 bps)	60 bps

Source: Company

Valuation

Post de-merger from NIIT Ltd., NIIT learnings system (NIITMTS) was listed on 8th August, 2023 at Rs.366 per share. Management commentary remains optimistic, but ramp-up and expanding wallet share from new clients will take couple of quarters to start yielding results. Factoring in FY25 back-ended guidance and delayed client decision making over the medium term, we assign 'Accumulate' rating with TP of Rs. 520 valuing at 25x (earlier 24x) on FY26 earnings.

Exhibit 4: Quarterly and YTD Trend for CLG Biz.

Particulars (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY	QoQ	FY23	FY24	YoY
Revenue	3,857	3,823	3,819	3,913	3,979	3.2	1.7	13,618	15,535	14.1
Operating Expenditure	2,987	2,970	2,920	3,012	3,011	0.8	(0.1)	10,697	11,913	11.4
EBITDA	870	853	899	901	969	11.4	7.5	2,921	3,622	24.0
Depreciation	146	153	170	143	127	(13.1)	(11.1)	472	592	25.5
EBIT	724	701	729	759	842	16.3	11.0	2,449	3,030	23.7
Other Income	35	74	74	72	99	183.4	37.6	151	319	111.8
Exceptional item	(30)	(9)	(43)	0	0	NA	NA	(186)	(52)	(72.1)
PBT	649	683	674	776	839	29.3	8.2	2,285	2,971	30.0
Tax (Operational)	109	131	205	208	294	169.1	41.5	362	839	131.6
Adjusted PAT	539	552	469	568	544	0.9	(4.1)	1,923	2,132	10.9
Reported EPS	4.0	4.0	3.3	4.0	3.9	(3.5)	(4.5)	14.3	15.2	6.2
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	22.6	22.3	23.5	23.0	24.3	179 bps	131 bps	21.4	23.3	187
EBIT	18.8	18.3	19.1	19.4	21.2	239 bps	177 bps	18.0	19.5	152
EBT	16.8	17.9	17.6	19.8	21.1	426 bps	126 bps	16.8	19.1	235
PAT (Overall)	14.0	14.4	12.3	14.5	13.7	(30 bps)	(82 bps)	14.1	13.7	(39)
Effective Tax rate	16.9	19.2	30.4	26.8	35.1	1824 bps	827 bps	15.9	28.2	1,238

Source: Company

Earnings call KTAs

- **Revenue:** NIITMTS reported Revenue of Rs. 3,979mn, up 1.7% QoQ and 3.2% YoY. On constant currency basis, it reported 2% QoQ and 3% YoY growth. For FY24, organic growth stood at 6% YoY and total growth of 10% in CC. Management stated that growth was led by expansion of scope with existing customers, while some of the newer customers have transitioned to steady run-rates.
- **Operating Performance:** Reported EBITDA stood at Rs. 969mn, up 7.5%/11.4% QoQ/YoY. EBITDA margin was at 24.3%, up 131bps QoQ and up 179bps YoY. As per Mar-24 presentation, Adj. EBITDA stood at Rs. 995mn, up 6.5%/5% QoQ/YoY. EBITDA Margin was at 25%, up 114bps/43bps on QoQ/YoY basis.
- **Segment wise:** Growth was led by Life Sciences & Healthcare, up 29.4% QoQ, followed by Management Consulting & Professional services grew 13.8% QoQ, BFSI segment up 1.7% QoQ. Segments reporting single digit growth were a) Aviation & Aerospace, b) Energy & Commodities, grew by 0.7%/0.8% QoQ respectively. Technology & Telecom and Other segments declined by 11%/5.3% respectively.
- **Client Commentary:** New Customer addition stood at 1 in Q4. NIITMTS also achieved 3 renewals and 1 scope expansion during Q4. At the end of the quarter, the company has 87 active MTS customers and expect to add 12-15 new clients each year. Revenue visibility of USD 335mn down 8% YoY (flat vs avg. 8 qtrs revenue visibility) continues to remain stagnant. Providing a qualitative outlook, management stated that high-ticket client spending has paused due to an elongated decision-making cycle but pressure to optimize costs at client's end is leading to an uptick in outsourcing (although propensity to outsource converting into order and into revenue could take 2-3 quarters).
- **Customer Concentration:** Revenue contribution of Top-5 customer stood at 39% (up 1.7% QoQ), while Top 10 grew by 5.3%. Top-20 clients grew by 2% QoQ. Revenue Visibility stood at \$335mn, down 3.7% QoQ and 8.2% YoY (Q3: \$348mn).
- **Headcount:** Lowered net headcount by 21 QoQ to 2,396 (Q3FY24: 2,417). Management stated that it continues to leverage automation to improve utilization.
- **L&D outsourcing landscape:** Management pointed companies generally spend 1% of revenue on L&D outsourcing or approx. \$1100 per employee while in Lifesciences, it tends to be \$1600 per employee due higher training time owing to new drug launches and

regulatory purpose. Overall L&D Outsourcing is around 10% while rest is mostly insourcing.

- **Outlook:** For FY25, management guided for 12-14% CC growth (vs 10% for FY24) and expects EBITDA in the range of 22-24% (vs 24% in FY24). FY25 growth would thus be derived from new customer addition, wallet share expansion (via offering scope) and gaining market share, which NIITMTS is working towards. Management reiterated its 20-20 policy of 20%+ growth and 20%+ Margin to continue, of which growth to be partly driven by M&A as well.
- **Net Cash & Dividends:** Net Cash Stood at Rs. 5,659mn; up by Rs. 60mn QoQ. Board announced dividend of Rs. 2.75 per share. On dividends, management stated it will continue to stick to a similar payout policy in future as well.
- **PAT:** PAT at Rs. 544mn; with EPS of Rs. 4.0. PAT was lower mainly due to high tax-rate of 35% in Q4 mainly due to foreign tax as well as withholding tax on inter-company transfers. Management expects ETR of ~27%+ going forward.
- **GenAI:** Management pointed out that it is investing aggressively in adding Gen AI capabilities as it is expected to be a significant part of offerings in servicing existing customers and onboarding new ones. It will roll out enterprise scale solutions that will help customers take full advantage of GenAI offerings in next couple of quarters.

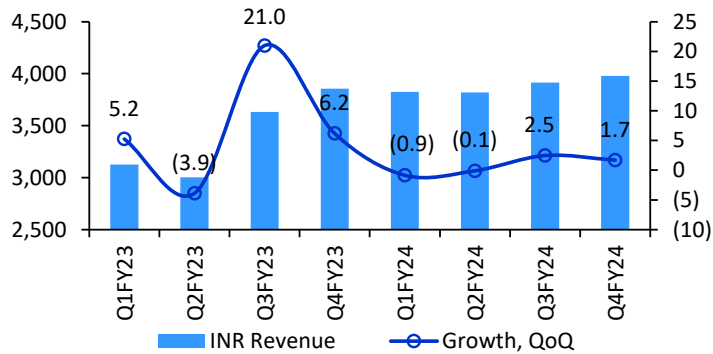
Exhibit 5: Operating Metrics 1

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Revenue	3,633	3,857	3,823	3,819	3,913	3,979
QoQ growth	20.9	6.2	(0.9)	(0.1)	2.5	1.7
Revenue mix by sector						
Technology & Telecom	29	26	25	24	24	21
Management Consulting & Professional Services	9	17	17	15	13	15
Life Sciences And Healthcare	11	10	9	9	11	14
Energy & Commodities	12	9	10	12	12	12
BFSI	8.5	8.0	8.0	8	9	9
Others	21.0	21.0	22.0	22	20	19
Aviation & Aerospace	9.5	9.0	9.0	10	10	10
Revenue mix by sector QoQ growth						
Technology & Telecom	9.6	(4.8)	(4.7)	(4.1)	2.5	(11.0)
Management Consulting & Professional Services	NA	100.5	(0.9)	(11.9)	(8.5)	13.8
Life Sciences And Healthcare	2.3	(3.5)	(10.8)	(0.1)	25.2	29.4
Energy & Commodities	3.7	(20.4)	10.1	19.9	3.3	0.8
BFSI	2.8	(0.1)	(0.9)	(0.1)	15.3	1.7
Others	0.0	6.2	3.9	(0.1)	(5.0)	(5.3)
Aviation & Aerospace	76.8	0.6	(0.9)	11.0	3.5	0.7
Revenue mix by sector YoY growth						
Technology & Telecom	NA	NA	(1.8)	(4.6)	(10.9)	(16.7)
Management Consulting & Professional Services	NA	NA	NA	NA	60.4	(9.0)
Life Sciences And Healthcare	NA	NA	(16.1)	(12.0)	7.7	44.4
Energy & Commodities	NA	NA	(6.8)	9.0	8.6	37.6
BFSI	NA	NA	7.2	1.7	14.1	16.1
Others	NA	NA	(4.4)	14.2	4.6	(6.7)
Aviation & Aerospace	NA	NA	114.2	95.6	14.5	14.6
Customer revenue contribution						
Top 5 Client	38	45	44	41	39	39
Top 10 Client	56	60	59	58	56	58
Top 20 Client	75	77	77	76	75	76
Customer revenue QoQ growth						
Top 5 Client	14.9	25.7	(3.1)	(6.9)	(2.5)	1.7
Top 10 Client	18.8	13.7	(2.5)	(1.8)	(1.1)	5.3
Top 20 Client	21.0	9.0	(0.9)	(1.4)	1.1	3.0
Clients and Revenue Visibility						
Number of MTS clients	71	80	83	85	86	87
Revenue Visibility (US\$ mn)	305	365	360	350	348	335
YoY (%)	3.7	11.3	18.4	14.8	8.4	(8.2)
Headcount						
People Resource (CLG)	2,277	2,335	2,390	2,468	2,417	2,396
Net Addition	35	58	55	78	(51)	(21)
DSO and Net Cash						
DSO Days	62	52	42	46	59	53
Net Cash	4,036	4,563	5,325	4,809	5,599	5,659

Source: Company, DART

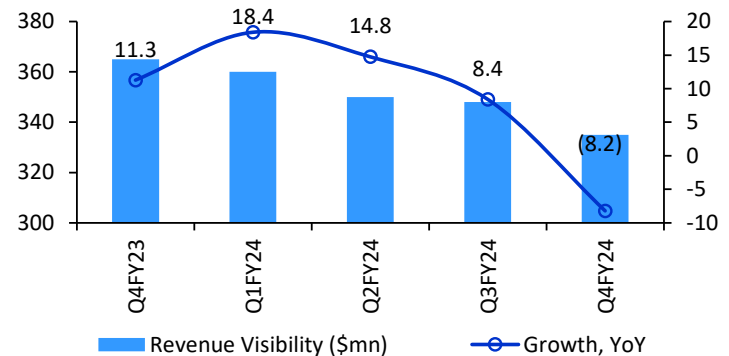
Story in Charts

Exhibit 6: Revenue was up 1.7% QoQ



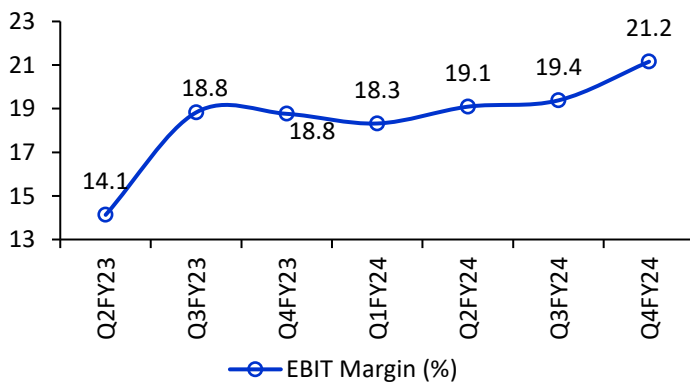
Source: Company, DART

Exhibit 7: Revenue Visibility stands at \$335mn.



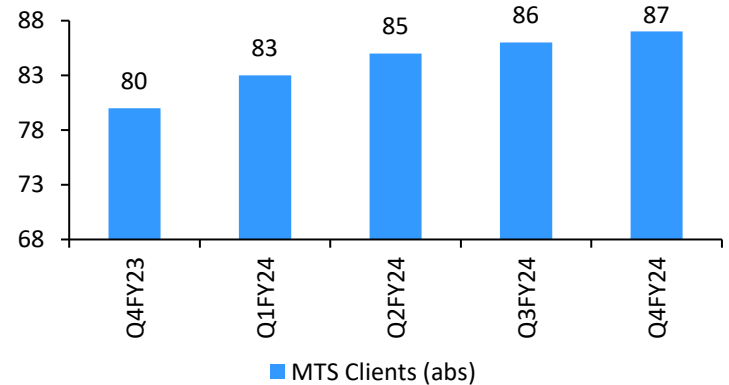
Source: Company, DART

Exhibit 8: EBIT Margin was up 177bps QoQ



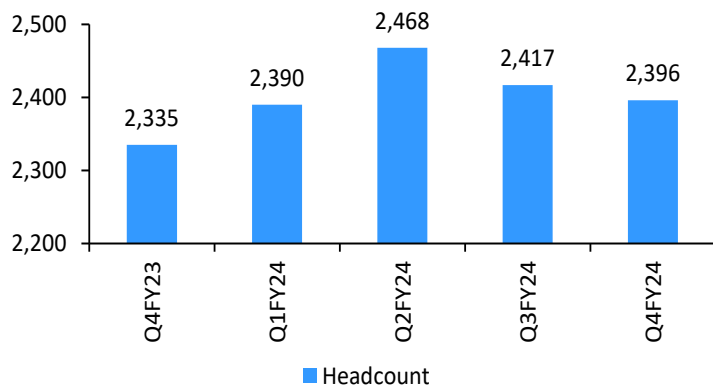
Source: Company, DART

Exhibit 9: NIITMTS added 1 new MTS clients in this quarter



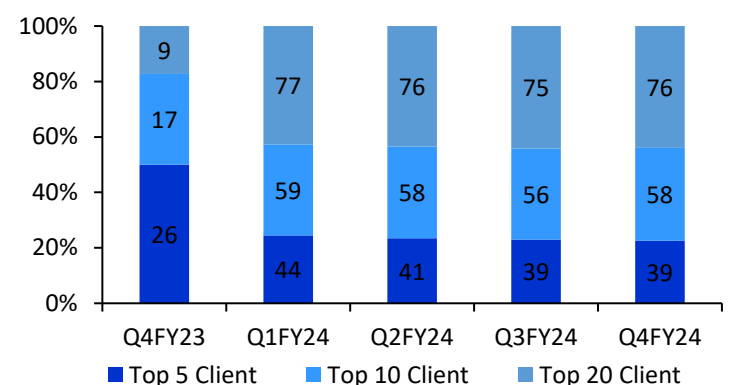
Source: Company, DART

Exhibit 10: Headcount decreased by 21 QoQ to 2.4k



Source: Company, DART

Exhibit 11: Top 10 clients grew 5.3% QoQ.



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Revenue	13,618	15,535	17,579	20,003
Total Expense	10,698	11,913	13,550	15,452
COGS	0	0	0	0
Employees Cost	9,411	10,458	11,818	13,477
Other expenses	1,287	1,455	1,732	1,975
EBIDTA	2,920	3,622	4,029	4,551
Depreciation	471	592	603	666
EBIT	2,449	3,030	3,426	3,885
Interest	129	327	335	270
Other Income	151	319	337	436
Exc. / E.O. items	(186)	(52)	0	0
EBT	2,285	2,971	3,428	4,051
Tax	363	839	943	1,122
RPAT	1,922	2,132	2,485	2,929
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,922	2,132	2,485	2,929

Balance Sheet

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	269	271	271	271
Minority Interest	0	0	0	0
Reserves & Surplus	7,434	9,504	11,147	13,093
Net Worth	7,703	9,774	11,418	13,364
Total Debt	1,159	930	935	945
Net Deferred Tax Liability	14	44	44	44
Total Capital Employed	8,876	10,748	12,396	14,353

Applications of Funds

Net Block	1,630	1,602	1,782	2,049
CWIP	4,342	4,408	4,408	4,408
Investments	2,826	3,474	3,474	3,474
Current Assets, Loans & Advances	8,271	10,848	10,954	11,955
Inventories	1	1	1	1
Receivables	2,155	2,250	2,697	3,014
Cash and Bank Balances	2,560	2,843	2,442	3,066
Loans and Advances	0	0	0	0
Other Current Assets	3,555	5,753	5,814	5,874
Less: Current Liabilities & Provisions	8,193	9,583	8,221	7,533
Payables	1,006	906	1,114	1,355
Other Current Liabilities	7,187	8,678	7,107	6,178
<i>sub total</i>				
Net Current Assets	78	1,264	2,733	4,422
Total Assets	8,876	10,748	12,396	14,353

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	30.9	32.7	32.8	32.6
EBIDTA Margin	21.4	23.3	22.9	22.8
EBIT Margin	18.0	19.5	19.5	19.4
Tax rate	15.9	28.2	27.5	27.7
Net Profit Margin	14.1	13.7	14.1	14.6
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	69.1	67.3	67.2	67.4
Other	9.4	9.4	9.9	9.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	19.0	9.3	10.2	14.4
Inventory days	0	0	0	0
Debtors days	58	53	56	55
Average Cost of Debt	20.8	31.3	35.9	28.7
Payable days	27	21	23	25
Working Capital days	2	30	57	81
FA T/O	8.4	9.7	9.9	9.8
(D) Measures of Investment				
AEPS (Rs)	14.3	15.2	17.7	20.9
CEPS (Rs)	17.8	19.4	22.0	25.6
DPS (Rs)	0.0	5.3	6.0	7.0
Dividend Payout (%)	0.0	34.6	33.9	33.6
BVPS (Rs)	57.3	69.6	81.3	95.2
RoANW (%)	29.2	24.4	23.5	23.6
RoACE (%)	31.0	25.6	24.4	23.9
RoAIC (%)	52.5	42.6	38.4	36.6
(E) Valuation Ratios				
CMP (Rs)	470	470	470	470
P/E	32.9	30.9	26.6	22.5
Mcap (Rs Mn)	65,991	65,991	65,991	65,991
MCap/ Sales	4.8	4.2	3.8	3.3
EV	64,590	64,078	64,484	63,870
EV/Sales	4.7	4.1	3.7	3.2
EV/EBITDA	22.1	17.7	16.0	14.0
P/BV	8.2	6.8	5.8	4.9
Dividend Yield (%)	0.0	1.1	1.3	1.5
(F) Growth Rate (%)				
Revenue	20.3	14.1	13.2	13.8
EBITDA	0.1	24.0	11.2	12.9
EBIT	(1.8)	23.7	13.1	13.4
PBT	(20.3)	30.0	15.4	18.2
APAT	(15.2)	10.9	16.6	17.8
EPS	(18.2)	6.2	16.6	17.8

E – Estimates

Cash Flow

Particulars	FY23A	FY24A	FY25E	FY26E
Profit before tax	2,471	3,023	3,428	4,051
Depreciation & w.o.	471	592	603	666
Net Interest Exp	(47)	40	(2)	(166)
Direct taxes paid	(625)	(729)	(943)	(1,122)
Change in Working Capital	(935)	(352)	(1,899)	(1,096)
Non Cash	281	213	0	0
(A) CF from Operating Activities	1,617	2,787	1,187	2,333
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,210)	(1,269)	(798)	(948)
Free Cash Flow	(594)	1,518	390	1,385
(Inc.)/ Dec. in Investments	(471)	(389)	0	0
Other	27	(161)	2	166
(B) CF from Investing Activities	(2,654)	(1,819)	(796)	(782)
Issue of Equity/ Preference	0	76	0	0
Inc./(Dec.) in Debt	1,090	(249)	50	55
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	(336)	(842)	(983)
Other	(70)	(184)	0	0
(C) CF from Financing	1,020	(693)	(792)	(928)
Net Change in Cash	29	284	(401)	624
Opening Cash balances	2,531	2,560	2,844	2,443
Closing Cash balances	2,560	2,844	2,443	3,067

E – Estimates

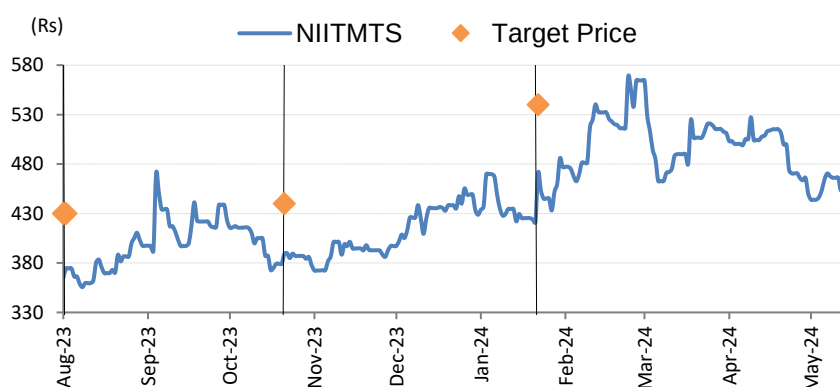
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-23	Buy	430	365
Aug-23	BUY	430	374
Oct-23	Buy	440	389
Jan-24	Buy	540	471

*Price as on recommendation date

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