

Leveraging Training Outsourcing Trend



NIIT Learning Systems (NLSL) Q3FY24 posted a sequentially better quarter after a flattish H1FY24. Management's guidance remains intact of early to mid teens growth for FY24 while maintaining their long term topline target of +20% and margin guidance of 22-24% for FY24.

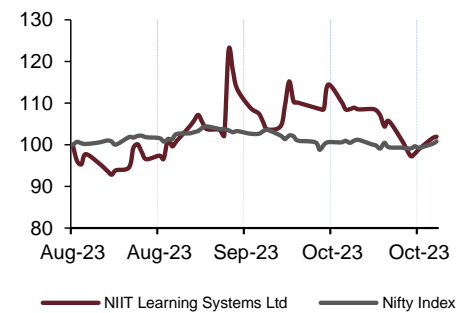
- **INR Revenue came in at INR 3,913 Mn, +7.7% YoY / +2.5 QoQ** and in line with our estimates.
- **CC Revenue growth came in at +5% YoY/ +3% QoQ.**
- **EBITDA at INR 901 Mn, +12.4% YoY / +0.2% QoQ** and +2% above our estimates.
- **EBITDA margins stood at 23.0%**, vs 22.1% / 23.5% in Q3FY23 / Q2FY24 +56bps above our estimates.
- **PAT came in at INR 568 Mn, +23.3% YoY / +21.1% QoQ** and +19% above our estimates.
- **Adj PAT came in at INR 568 Mn, +3.7% YoY / +13.8% QoQ.**
- **EPS at INR 4.20** in Q3FY24 vs 3.43/ 3.48 in Q3FY23 / Q2FY24 respectively.
- **Adj EPS at INR 4.20** in Q3FY24 vs 4.08/ 3.71 in Q3FY23/Q2FY24 respectively.
- **Revenue Visibility during the quarter stood at USD 348 Mn, +8.4% YoY / -0.6% QoQ.** Furthermore, management reported the addition of 2 new MTS customers during the quarter, as well as 4 renewals and 1 scope expansions.

Rating	TP (Rs)	Up/Dn (%)
BUY	612	36

Market data

Current price	Rs	450
Market Cap (Rs.Bn)	(Rs Bn)	61
Market Cap (US\$ Mn)	(US\$ Mn)	729
Face Value	Rs	2
52 Weeks High/Low	Rs	514 / 342.3
Average Daily Volume	('000)	139
BSE Code		543952
Bloomberg		NIITMTS.IN
Source: Bloomberg		

Performance



% Shareholding	Dec-23	Sep-23
Promoters	34.73	34.84
Public	65.27	65.16

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	11,323	13,618	15,704	19,235	23,932
EBIDTA	2,916	2,920	3,686	4,569	5,885
Margins	25.8	21.4	23.5	23.8	24.6
PAT (adj)	2,021	1,922	2,190	2,880	3,746
Growth (%)	-	-4.9	13.9	31.5	30.1
EPS	3.50	15.45	16.28	21.40	27.84
P/E (x)	129	29	28	21	16
P/B (x)	48	8	6	5	4
EV/EBITDA (x)	-2	19	15	12	9
RoE (%)	37	27	23	24	25
ROCE (%)	48	29	31	33	34
RoIC (%)	200	67	62	69	77

Source: Dalal and Broacha

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Concall Highlights

- **Organic Growth:** Organic business witnessed a 6% QoQ growth in constant currency terms, and a similar trend is expected to continue. Consolidated revenue for the first nine months increased by 18% YoY.
- **Training Consumption:** Lower training consumption volume due to uncertainty was compensated by expanding the scope in existing customers, adding new customers and transitioning them to run rate customers.
- **Visibility:** Total number of MTS customers now stands at 86, with Revenue visibility of USD 348 million dollars (-0.6% QoQ / +8.4% YoY), executable over the next 2 years.
- The addition of 2 new MTS customers in the quarter (1 in life sciences/healthcare and 1 in technology/telecom segments) indicates a healthy customer acquisition, contributing to future growth. Despite uncertainties, NLSL improved its wallet share, diversified offerings, and increased market share across multiple customers. Existing customers are taking slightly longer to ramp up in the current uncertain macro environment.
- **Automation and AI:** NLSL continues to leverage automation, implementing new systems and measures, including AI.
- **Tax Rate:** Effective tax rate for the year is expected to be around 28%, with an anticipated future rate of approximately 27%.
- **Working Capital and Cash Flow:** Temporary working capital increase last quarter due to contract transitions from NIIT Ltd. To NLSL has normalized, resulting in higher free cash flow at INR 1,099 million. DSO stands at 59 days.
- Cash balance is at INR 6,588 million, with Net cash standing at Rs 5,599 Mn, up INR 790 Mn QoQ after payout of INR 336 million towards dividend during Q3.
- **Headcount:** Total employees stand at 2,417, down 51 on a QoQ basis. Continued disproportionate investments in sales and marketing to tap into the under-penetrated Learning & Development market for faster customer acquisition. Large organizations reducing headcount due to uncertainty negatively impact NLSL. However, the long-term perspective remains positive with low unemployment rates in the US and a robust economy.
- **Growth Strategies:**
 - a. Most growth comes from acquiring new customers and transitioning them.
 - b. Anticipates growth in existing customers by offering more capabilities and gaining wallet share.
 - c. Expectations of continued sequential growth, maintaining mid to long-term guidance of 20%.
- **Client Relationships:** Top 5 clients have been with NLSL for more than 10 years, and Top 10 for more than 7-8 years.
- **Acquisition Plans:** NLSL is in active pursuit of acquisitions to build capabilities, enter new geographies, or explore new market segments.
- **Seasonality for St. Charles:** Seasonal softness in Q3 as clients of St. Charles are mainly consulting companies and there are a lot of holidays/ furloughs in this quarter, while Q4 is anticipated to be a bigger quarter for St. Charles.
- **Attrition Rate:** Attrition remains less than 12%, with the highest recorded at 21-22%.

- Depreciation & Amortization includes INR 32 Mn on account of amortization of Intangibles related to acquisition. Lower depreciation sequentially due to the extension of a real estate-related contract, where amortization is spread out.
- Net Other Income/Expenses encompasses Treasury Income (INR 65 Mn), Acquisition related expenses/charges of Rs 48 million (including interest on loans of Rs. 19 million); Demerger related Non-Operating / Transitory expenditure of Rs 11 million and Other Misc. Expenses of Rs 22 million.
- The Strategic investment of Euro 3 Mn in EIT InnoEnergy in the previous quarter opens up the green energy or renewable space market segment and expects this space to be a massive opportunity.

FY24E Outlook

- Management expects full-year growth in constant currency terms to be between 11-12% for FY24, with INR growth in the mid-teens.
- FY24 EBITDA margins are expected to be in the range of 22%-24%.
- Management expected flat H1FY24, with a pickup in Q3, slightly lower than initial expectations. Anticipates QoQ improvement in Q4 while maintaining margins similar to Q3.

Quarterly Deviation Sheet

(Rs.Mn)	Q3FY24E	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	Q3FY24E	Deviation
Revenue from Operations	3,913	3,633	7.7%	3,819	2.5%	3,915	0%
Other Income	72	34	110.0%	74	-2.5%	74	
COGS	2,648	2,506	5.7%	2,572	3.0%	2,683	
Other Expenses	364	325	11.9%	348	4.5%	352	
Total Expenses	3,012	2,831	6.4%	2,920	3.1%	3,035	
EBITDA (Excluding Other Income)	901	802	12.4%	899	0.2%	880	2%
Depreciation and Amortisation Expenses	143	118	21.1%	170	-16.0%	170	
EBIT / PBIT	831	719	15.6%	803	3.4%	784	
Finance Costs	55	46	20.0%	87	-36.3%	87	
EBT/ PBT (Before Exceptional items)	776	673	15.3%	717	8.2%	697	11%
Exceptional Items	-	107	-100.0%	43	-100.0%	43	
Tax Expense	208	105	97.7%	205	1.6%	177	
Net Profit after Tax	568	460	23.3%	469	21.1%	478	19%
Adj. PAT	568	547	3.7%	499	13.8%		
Earning Per Share	4.20	3.43	22.4%	3.48	20.7%		
Adj Earning Per Share	4.20	4.08	2.9%	3.71	13.4%	3.8	11%
No of Shares Diluted (mn)	135.0	134.1		134.6		134.6	
Margins Analysis (%)			bps		bps		
Gross Margins	32.3%	31.0%	130	32.7%	-33	31.5%	86
EBITDA Margins (Excl Other Income)	23.0%	22.1%	95	23.5%	-51	22.5%	56
PAT Margins	14.5%	12.7%	183	12.3%	223	12.2%	230
Effective Tax Rate %	26.8%	18.6%	822	30.4%	-358	27.0%	-17
Cost Analysis (%)			bps		bps		
COGS as a % to sales	67.7%	69.0%	-130	67.3%	33	68.5%	-86
Other exps as a % to sales	9.3%	9.0%	35	9.1%	18	9.0%	30

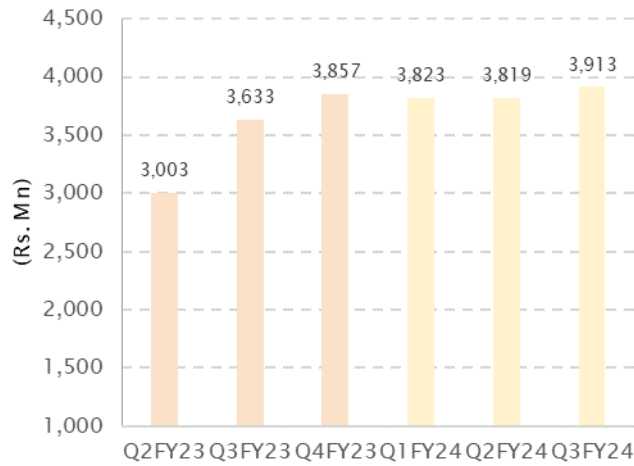
Source: Dalal & Broacha Research, Company

Valuation & Outlook

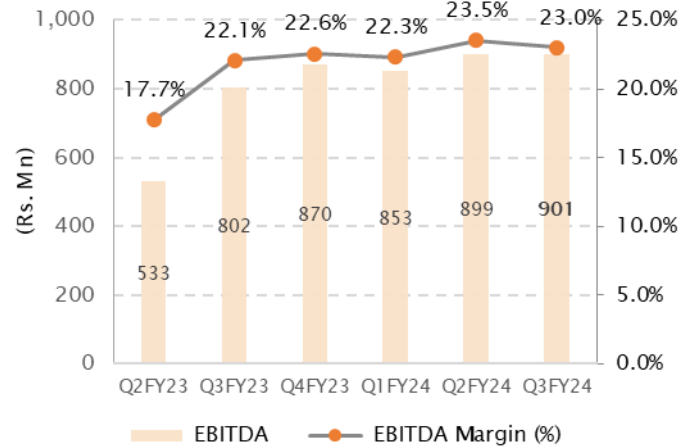
NIIT Learning Systems Ltd (NLSL) is strategically positioned to leverage the outsourcing trend in the training industry. With a medium to long-term outlook remaining intact for 20%+ revenue growth and margins expected to be above 20%, the company shows promise. With initial green shoots of sequential growth and signs of uncertain markets improving, NLSL's focus on new customer acquisition and scope expansion in existing customers positions them well to capitalize on the L&D outsourcing trend.

NIIT Learning Systems is currently trading at 21.0x / 16.2x FY25e / FY26e EPS respectively. Taking the above factors into consideration, we reiterate our BUY rating and our target multiple of 22x FY26e EPS to arrive at a TP of INR 612.

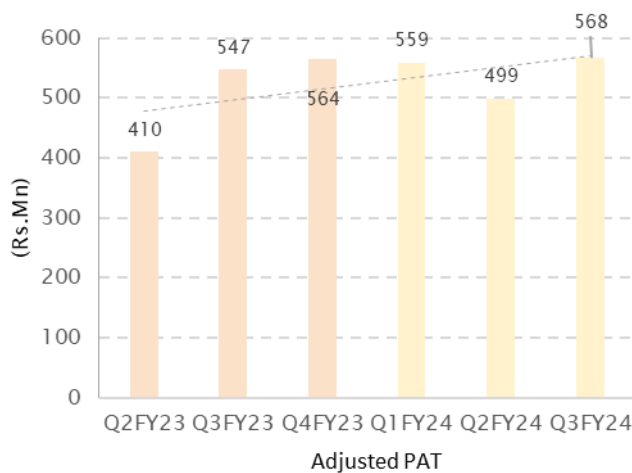
Net Sales Trajectory



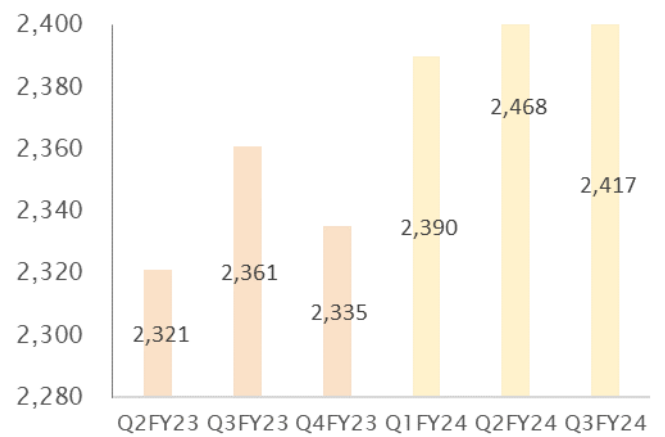
EBITDA Trajectory



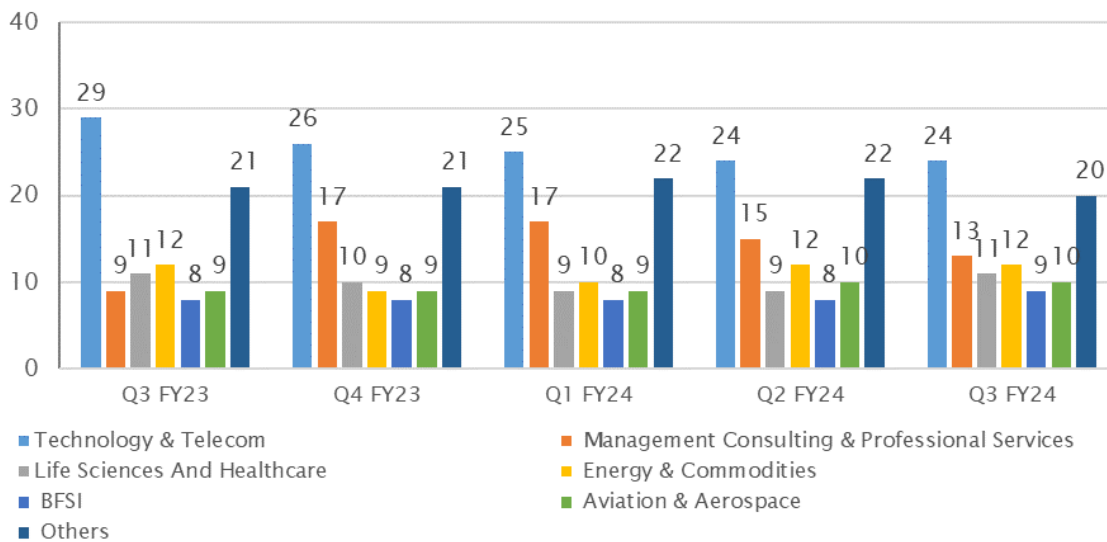
PAT Trajectory



Headcount Trajectory



Revenue Mix by Sector



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	Cashflow (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	11,323	13,618	15,704	19,235	23,932	PBT	2,622	2,285	3,042	3,945	5,132
Operating Expenses	-7,489	-9,418	-10,620	-13,034	-16,208	Depreciation	423	471	517	569	722
Other Expenses	-918	-1,280	-1,398	-1,632	-1,839	Net Chg in WC	-517	-1,150	-202	-301	-405
Operating Profit	2,916	2,920	3,686	4,569	5,885	Taxes	-466	-625	-852	-1,065	-1,386
Depreciation	-423	-471	-517	-569	-722	Others	704	635	304	234	211
PBIT	2,493	2,449	3,169	4,000	5,163	CFO	2,766	1,617	2,810	3,381	4,274
Other income	139	151	151	151	151	Capex	-190	-407	-307	-325	-346
Interest	-10	-129	-278	-206	-182	Net Investments made	-557	-471	-265	-27	-
PBT	2,622	2,471	3,042	3,945	5,132	Others	82	-1,776	-	-	-
Profit before tax (post exceptional)	2,622	2,285	3,042	3,945	5,132	CFI	-665	-2,654	-572	-352	-346
Provision for tax	-601	-363	-852	-1,065	-1,386	Change in Debts	-129	1,090	-	-320	-120
Reported PAT	2,021	1,922	2,190	2,880	3,746	Div. & Div Tax	-744	-	438	461	562
Adjusted Profit (excl Exceptionals)	2,021	2,079	2,190	2,880	3,746	Others	-17	-24	-1,615	-1,895	-2,258
						CFF	-890	1,066	-1,177	-1,754	-1,816
						Total Cash Generated	1,211	29	1,060	1,275	2,113
						Cash Opening					
						Balance	1,320	2,531	2,560	3,620	4,895
						Cash Closing Balance	2,531	2,560	3,620	4,895	7,008

Balance Sheet (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	Ratios	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,156	269	269	269	269	OPM	25.8	21.4	23.5	23.8	24.6
Reserves	4,296	7,434	9,186	11,605	14,789	NPM	17.6	15.1	13.8	14.9	15.6
Net worth	5,452	7,703	9,455	11,874	15,058	Tax rate	-22.9	-15.9	-28.0	-27.0	-27.0
Non Current Liabilites	23	3,068	3,068	2,848	2,778	Growth Ratios (%)					
Current Liabilites	4,008	6,298	6,594	6,927	7,400	Net Sales	-	20.3	15.3	22.5	24.4
TOTAL LIABILITIES	9,483	17,069	19,116	21,649	25,237	Operating Profit	-	0.1	26.2	24.0	28.8
Non Current Assets	1,468	6,445	6,912	7,161	7,404	PBIT	-	-1.8	29.4	26.2	29.1
Fixed Assets	834	1,630	1,818	2,025	2,253	PAT	-	-4.9	13.9	31.5	30.1
Goodwill	344	4,342	4,342	4,342	4,342	Per Share (Rs.)					
Right of Use Assets	37	120	120	120	120	Net Earnings (EPS)	3.50	15.45	16.28	21.40	27.84
Financial Assets	25	27	294	322	323	Cash Earnings (CPS)	4.23	17.79	20.12	25.63	33.20
Deferred Tax Asset	160	192	197	203	209	Dividend	-	-	3.26	3.42	4.18
Other Non Current Assets	68	134	141	148	155	Book Value	9.44	57.24	70.26	88.24	111.90
Current Assets	8,015	10,624	12,204	14,488	17,833	Free Cash Flow	2.83	7.24	17.02	21.27	27.79
Current investments	994	2,826	3,109	3,420	3,762	Valuation Ratios					
Inventories	5	1	1	2	2	P/E(x)	129	29	27.6	21.0	16.2
Trade Receivables	1,394	2,155	2,486	3,044	3,788	P/B(x)	48	8	6	5	4
Cash and Bank						EV/EBIDTA(x)	-2	19	15	12	9
Balances	3,526	2,786	3,620	4,895	7,008	Div. Yield(%)	-	-	0.72	0.76	0.93
Other Financial Assets	1,942	2,653	2,786	2,925	3,072	FCF Yield(%)	0.63	1.61	3.78	4.73	6.18
Other Current Assets	153	202	202	202	202	Return Ratios (%)					
TOTAL ASSETS	9,483	17,069	19,116	21,649	25,237	ROE	37%	27%	23%	24%	25%
						ROCE	48%	29%	31%	33%	34%
						RoIC	200%	67%	62%	69%	77%

	FY22	FY23	FY24E	FY25E	FY26E		FY22	FY23	FY24E	FY25E	FY26E
ROA	21.3	12.2	11.5	13.3	14.8	Equity	1,156	269	269	269	269
Current Assets	3,495	5,012	5,475	6,174	7,064	Face Value	2	2	2	2	2
Net Debt	-4,439	-4,453	-5,570	-7,456	-10,011	CMP	450	450	450	450	450
						Mcap	-	60,557	60,557	60,557	60,557
						Debt	80	1,159	1,159	859	759
						Cash	4,588	5,746	6,869	8,462	10,924
						EV	-4,507	55,969	54,846	52,953	50,391
						Net Debt	-4,507	-4,587	-5,711	-7,604	-10,166

Source: Dalal & Broacha Research, Company

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