

Leveraging Training Outsourcing Trend



NIIT Learning Systems Q2FY24 posted a flattish quarter in line with the expectations. Management has guided for 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 3,819 Mn, +27.2% YoY / flat QoQ** and in line with our estimates
- **CC Revenue growth came in at +21% YoY/ -2% QoQ.**
- **EBITDA at INR 899 Mn, +68.8% YoY / +5.3% QoQ** and +16% above our estimates.
- **EBITDA margins stood at 23.5%, vs 17.7% / 22.3% in Q2FY23 / Q1FY24.**
- **PAT came in at INR 469 Mn, +26.6% YoY / -15% QoQ** and -5% below our estimates
- PAT includes one-time expenses related to the demerger and notional costs related to the consolidation of St Charles and a Higher tax rate this quarter.
- **EPS at INR 3.48** in Q2FY24 vs 2.76/ 4.10 in Q2FY23 / Q1FY24 respectively
- **Revenue Visibility during the quarter stood at USD 350 Mn, +15% YoY / -3% QoQ.** Furthermore, management reported the addition of 4 new MTS customers during the quarter, as well as 4 renewals and 2 scope expansions. The pipeline appears strong, marking the third consecutive quarter of adding 4 new customers.

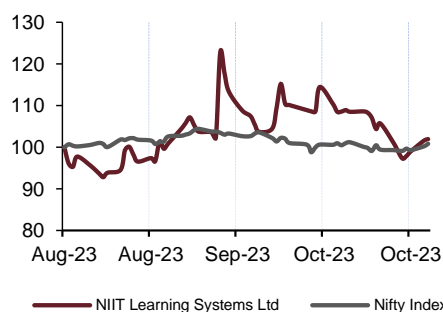
Performance

Rating	TP (Rs)	Up/Dn (%)
BUY	510	31

Market data

Current price	Rs	391
Market Cap (Rs.Bn)	(Rs Bn)	53
Market Cap (US\$ Mn)	(US\$ Mn)	632
Face Value	Rs	2
52 Weeks High/Low	Rs	514 / 342.3
Average Daily Volume	('000)	476
BSE Code		543952
Bloomberg		NIITMTS.IN

Source: Bloomberg



% Shareholding	Sep-23	Aug-23
Promoters	35	35
Public	65	65
Total	100	100

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY 22	FY 23	FY 24E	FY 25E
Net sales	11,323	13,618	15,711	19,265
EBIDTA	2,916	2,920	3,642	4,565
Margins	25.8	21.4	23.2	23.7
PAT (adj)	2,021	1,922	2,370	2,983
Growth (%)	-	-4.9	23.3	25.9
EPS	3.50	15.45	17.61	22.17
P/E (x)	112	25	22	18
P/B (x)	41	7	5	4
EV/EBITDA (x)	-2	16	13	10
RoE (%)	37	27	24	23
ROCE (%)	48	29	29	29
RoIC (%)	200	67	68	75

Source: Dalal and Broacha

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Concall Highlights

- Depreciation & Amortization comprises notional amortization costs related to StC consolidation (INR 32 Mn) and amortization expenses associated with rental premises, in addition to standard depreciation charges. The increase in QoQ expenses is primarily due to the inclusion of a full quarter's rental expense for office facilities.
- Net Other Income/Expenses encompasses Treasury Income (INR 64 Mn), Forex Gain (INR 14 Mn), Scheme-related Expenses (INR 59 Mn), Acquisition-related Interest Costs (INR 19 Mn), Notional Charges (INR 60 Mn), Other Financial Charges (INR 16 Mn), and Other Miscellaneous Income (INR 10 Mn).
- Net cash stands at Rs 4,809 Mn, which includes the impact of the investment in EIT InnoEnergy and a temporary increase in working capital resulting from the transfer of contracts from NIIT Limited to NLSL.
- The Strategic investment of Euro 3 Mn in EIT InnoEnergy opens up the green energy or renewable space market segment and expects this space to be in the several trillion dollars over a period of time.
- The higher tax in Q2 was due to the absence of a one-time tax benefit that NLSL received in Q1 and a higher tax incidence resulting from the movement of dividends from one subsidiary to another to facilitate capital investments. **Going forward, the management anticipates a tax rate in the vicinity of 27%.** Additionally, the demerger expenses, such as stamp duty, are one-time expenses that contributed to the higher tax rate this quarter as they are non-tax-deductible.
- The exceptional expenses primarily consisted of stamp duty on account of demerger. Other legal costs, will no longer be incurred. Some expenses related to NIIT options pre-demerger will persist but are expected to decrease over time.
- NLSL has added 12 new customers in the last 3 quarters which should ramp up and drive the growth in the near term. While the existing customers are taking slightly longer to ramp up in the given uncertain macro environment.
- Order book of USD 350 million dollars, executable over the next 2 years.
- The management has expressed its active pursuit of acquisitions to build new capabilities, enter new geographies, or explore new market segments like automotive etc. in the future.
- NLSL declared an interim dividend of Rs 2.50 per share

FY24e Outlook

- Management expects FY24e revenue growth outlook in the early to mid-teens in cc terms
- FY24 EBITDA margins are expected to be in the range of 22%-24%.

Quarterly Deviation Sheet

(Rs.Mn)	Q2FY24A	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Revenue from Operations	3,819	3,003	27.2%	3,823	-0.1%
Other Income	74	50	47.0%	74	0.4%
COGS	2,572	2,156	19.3%	2,622	-1.9%
Other Expenses	348	315	10.7%	348	-0.1%
Total Expenses	2,920	2,471	18.2%	2,970	-1.7%
EBITDA (Excluding Other Income)	899	533	68.8%	853	5.3%
Depreciation and Amortisation Expenses	170	108	57.3%	153	11.1%
EBIT / PBIT	803	475	69.1%	774	3.7%
Finance Costs	87	1	6133.1%	83	4.7%
EBT/ PBT (Before Exceptional items)	717	474	51.3%	692	3.6%
Exceptional Items	43	46	-5.9%	9	398.8%
Tax Expense	205	58	255.6%	131	56.0%
Net Profit after Tax	469	370	26.6%	552	-15.0%
Adj Earning Per Share	3.7	3.1	21.2%	4.2	-10.7%
No of Shares Diluted (mn)	134.6	134.6		134.6	
Margins Analysis (%)			bps		bps
Gross Margins	32.7%	28.2%	445	31.4%	122
EBITDA Margins (Excl Other Income)	23.5%	17.7%	581	22.3%	122
PAT Margins	12.3%	12.3%	-5	14.4%	-216
Effective Tax Rate %	30.4%	13.5%	1694	19.2%	1118
Cost Analysis (%)			bps		bps
COGS as a % to sales	67.3%	71.8%	-445	68.6%	-122
Other exps as a % to sales	9.1%	10.5%	-136	9.1%	0

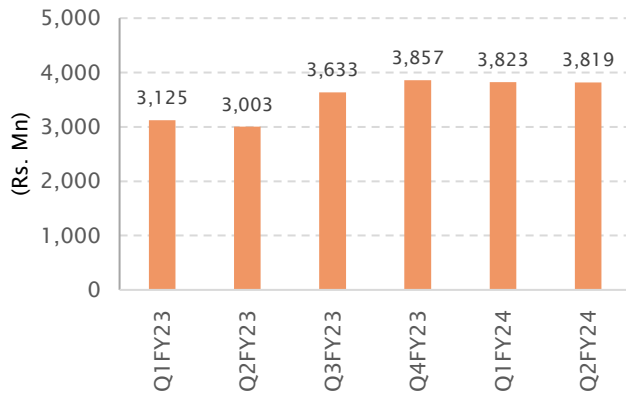
Source: Dalal & Broacha Research, Company

Valuation & Outlook

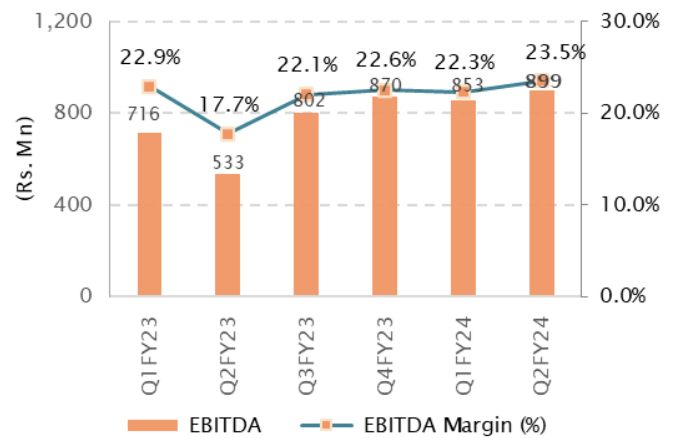
NIIT Learning Systems Ltd (NLSL) is strategically positioned to leverage the outsourcing trend in the training industry. Management has revised down its FY24 guidance, which initially projected growth in the mid to high teens, but their long-term outlook maintains 20%+ revenue growth, with margins expected to be in the range of 22-24% for FY24. NLSL consistently maintains a revenue CQGR of 5% and an EBITDA CQGR surpassing 1.5x the topline CQGR over the last 16 quarters.

NIIT Learning Systems is currently trading at 22.1x / 17.6x FY24e / FY25e EPS respectively. Taking the above factors into consideration, we re-iterate our BUY rating and our target multiple of 23x FY25e EPS to arrive at TP of INR 510.

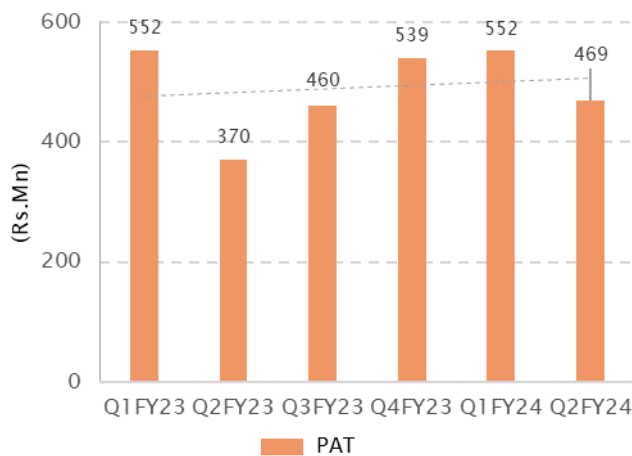
Net Sales Trajectory



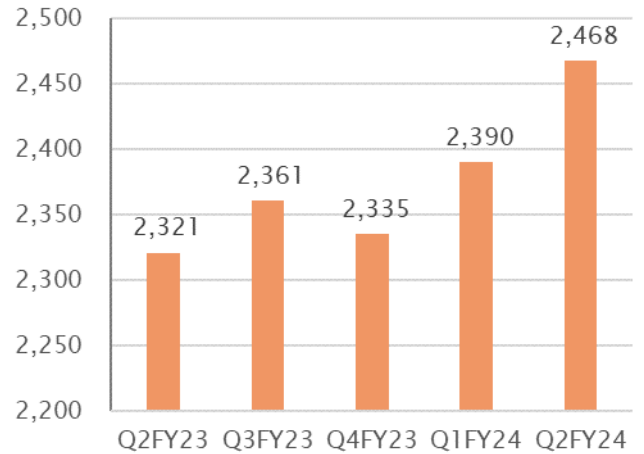
EBITDA Trajectory



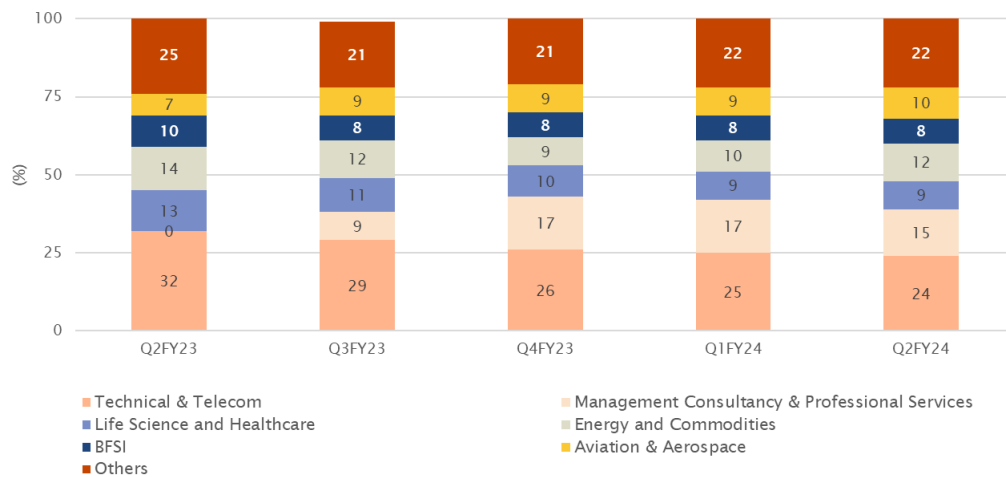
PAT Trajectory



Headcount Trajectory



Revenue Mix by Sector



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY 22	FY 23	FY 24E	FY 25E	Cashflow (Rs mn)	FY 22	FY 23	FY 24E	FY 25E
Net Sales	11,323	13,618	15,711	19,265	PBT	2,622	2,285	3,160	4,031
Operating Expenses	-7,489	-9,418	-10,671	-13,066	Depreciation	423	471	517	569
Other Expenses	-918	-1,280	-1,398	-1,635	Net Chg in WC	-517	-1,150	-198	-307
Operating Profit	2,916	2,920	3,642	4,565	Taxes	-466	-625	-790	-1,048
Depreciation	-423	-471	-517	-569	Others	704	635	142	143
PBIT	2,493	2,449	3,125	3,996	CFO	2,766	1,617	2,831	3,388
Other income	139	151	151	151	Capex	-190	-407	-307	-325
Interest	-10	-129	-116	-116	CFI	-665	-2,654	-307	-325
PBT	2,622	2,471	3,160	4,031	CFF	-890	1,066	-577	-883
(post exceptional)	2,622	2,285	3,160	4,031	Generated	1,211	29	1,948	2,179
Provision for tax	-601	-363	-790	-1,048	Balance	1,320	2,531	2,560	4,507
Reported PAT	2,021	1,922	2,370	2,983	Balance	2,531	2,560	4,507	6,687
(excl Exceptionals)	2,021	2,079	2,370	2,983					

(mn)	FY 22	FY 23	FY 24E	FY 25E	Ratios	FY 22	FY 23	FY 24E	FY 25E
Equity capital	1,156	269	269	269	OPM	25.8	21.4	23.2	23.7
Reserves	4,296	7,434	9,804	12,786	NPM	17.6	15.1	14.9	15.4
Net worth	5,452	7,703	10,073	13,056	Tax rate	-22.9	-15.9	-25.0	-26.0
Liabilites	23	3,068	3,068	3,068	Growth Ratios (%)				
Current Liabilites	4,008	6,298	6,599	7,030	Net Sales	-	20.3	15.4	22.6
TOTAL LIABILITIES	9,483	17,069	19,739	23,154	Operating Profit	-	0.1	24.7	25.3
Non Current Assets	1,468	6,445	6,647	6,869	PBIT	-	-1.8	27.6	27.9
Fixed Assets	834	1,630	1,818	2,025	PAT	-	-4.9	23.3	25.9
Goodwill	344	4,342	4,342	4,342	Per Share (Rs.)				
Right of Use Assets	37	120	120	120	Net Earnings (EPS)	3.50	15.45	17.61	22.17
Financial Assets	25	27	28	30	Cash Earnings (CPS)	4.23	17.79	21.45	26.39
Deferred Tax Asset	160	192	197	203	Book Value	9.44	57.24	74.85	97.02
Assets	68	134	141	148	Free Cash Flow	2.83	7.24	17.51	21.50
Current Assets	8,015	10,624	13,093	16,285	Valuation Ratios				
Current investments	994	2,826	3,109	3,420	P/E(x)	112	25	22.1	17.6
Inventories	5	1	1	2	P/B(x)	41	7	5	4
Trade Receivables	1,394	2,155	2,487	3,049	EV/EBIDTA(x)	-2	16	13	10
Cash and Bank Balances	3,526	2,786	4,507	6,687	FCF Yield(%)	0.73	1.86	4.49	5.51
Other Financial Assets	1,942	2,653	2,786	2,925	Return Ratios (%)				
Other Current Assets	153	202	202	202	ROE	37%	27%	24%	23%
TOTAL ASSETS	9,483	17,069	19,739	23,154	ROCE	48%	29%	29%	29%
					RoIC	200%	67%	68%	75%

	FY 22	FY 23	FY 24E	FY 25E		FY 22	FY 23	FY 24E	FY 25E
ROA	21.3	12.2	12.0	12.9	Equity	1,156	269	269	269
Current Assets	3,495	5,012	5,476	6,179	Face Value	2	2	2	2
Net Debt	-4,439	-4,453	-6,457	-8,948	CMP	390	390	390	390
Gross Fixed Asset Turn	23	19	20	22	Mcap	-	52,482	52,482	52,482
Net Fixed Asset Turn	92	39	37	38	Debt	80	1,159	1,159	1,159
					Cash	4,588	5,746	7,757	10,254
					EV	-4,507	47,895	45,884	43,387
					Net Debt	-4,507	-4,587	-6,598	-9,095

Source: Dalal & Broacha Research, Company

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