



Leveraging Training Outsourcing Trend

NIIT Learning Systems (NLSL) Q1FY25 posted a sequentially better quarter with improvement in margins. Management has guided for 12-14% cc revenue growth with margins at the upper end of the range of 22-24% for FY25 while maintaining their long term topline target of +20% and margins above 20%.

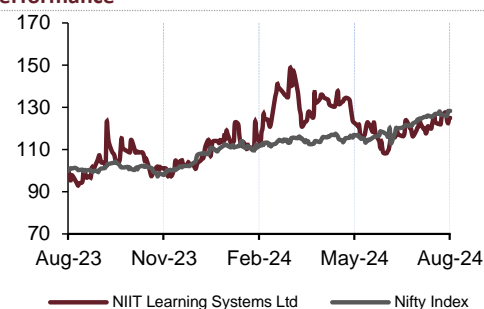
- **INR Revenue came in at INR 4,072 Mn, +2.3% QoQ / +6.5 YoY** and in line with our estimates.
- **EBITDA at INR 960 Mn, -0.9% QoQ / +12.5% YoY** and +1% above our estimates.
- **EBITDA margins stood at 23.6%, vs 24.3% / 22.3% in Q4FY24 / Q1FY24** +22bps above our estimates.
- **PAT came in at INR 600 Mn, +10.3% QoQ / +8.8% YoY** and +3% above our estimates.
- **Adj PAT came in at INR 622 Mn, +14.2% QoQ / +11.3% YoY** and +7% above our estimates.
- **EPS at INR 4.42** in Q1FY25 vs 4.02/ 4.10 in Q4FY24 / Q1FY24 respectively.
- **Adj EPS at INR 4.58** in Q1FY25 vs 4.02/ 4.15 in Q4FY24 / Q1FY24 respectively.
- **Revenue Visibility during the quarter stood at USD 350 Mn, +4.5% QoQ / -2.8% YoY.** Furthermore, this quarter the company added 3 new MTS customers, expanded scope of 3 contract and signed 1 renewal.

Rating	TP (Rs)	Up/Dn (%)
BUY	667	39

Market data

Current price	Rs	479
Market Cap (Rs.Bn)	(Rs Bn)	65
Market Cap (US\$ Mn)	(US\$ Mn)	775
Face Value	Rs	2
52 Weeks High/Low	Rs	576.9 / 342.3
Average Daily Volume	('000)	196
BSE Code		542772
Bloomberg		NIITMS
Source: Bloomberg		

Performance



% Shareholding	Jun-24	Mar-24
Promoters	16	18
Public	84	82
Total	100	100

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	11,323	13,618	15,535	17,491	21,960	27,389
EBIDTA	2,916	2,920	3,622	4,205	5,218	6,583
Margins	25.8	21.4	23.3	24.0	23.8	24.0
PAT (adj)	2,021	1,922	2,132	2,693	3,562	4,524
Growth (%)	-	-4.9	10.9	26.3	32.3	27.0
EPS	3.50	15.45	16.02	20.01	26.26	33.35
P/E (x)	137	31	30	24	18	14
P/B (x)	51	8	7	5	4	3
EV/EBITDA (x)	-2	21	16	14	11	8
RoE (%)	37	27	22	22	24	24
ROCE (%)	48	29	31	31	32	33
RoIC (%)	200	67	55	60	67	75

Source: Dalal and Broacha

Neel Nadkarni
(022) 67141412
neel.nadkarni@dalal-broacha.com

Concall Highlights

- The organic business witnessed a 2% QoQ and 5% YoY growth in cc terms for Q1FY25.
- **Training Consumption:** Despite an uncertain macro environment, Resilient sequential growth was driven by the ramp-up of new customers and improving wallet share from existing customers. While consumption in existing customers continues to be compressed given the current environment, green shoots are being observed in training consumption across a subset of customers.
- **Visibility:** Total number of MTS customers now stands at 89, with Revenue visibility of USD 350 million dollars (+4.5% QoQ / -2.8% YoY), executable over the next 2 years.
- **Customer Acquisition:** The addition of 3 new MTS customers (2 in Technology and 1 in Lifesciences), the renewal of 1 contract, maintaining a 100% renewal track record, and the scope expansions of 3 MTS contracts, along with a strong deal pipeline with several large opportunities, indicate healthy customer acquisition contributing to future growth.
- **Automation and AI:** Investments in Gen AI over the last 17-18 months have started to help NLSL build enterprise-class solutions to improve the efficiency and effectiveness of the company's L&D organizations. NLSL continues to leverage automation and AI, implementing new systems and measures, including Gen AI. Management believes Gen AI will become a significant part of their offerings for adding and servicing customers. NLSL is making rapid progress in this area, having completed several pilots with customers. Gen AI provides an opportunity to significantly transform learning and development. The rapid transformation across industries that NLSL serves, driven by digital transformation, decarbonization, and the impact of AI, presents a significant opportunity for NLSL, with massive headroom for growth given that only about 20% of large enterprises have outsourced their learning and development presently.
- **Working Capital and Cash Flow:** NLSL generated a strong free cash flow of INR 833 Mn in Q1FY25. DSO stands at 55 days vs 53 days in Q4FY24. Cash and cash equivalents are at INR 7,360 million, with Net cash standing at INR 6,489 Mn, up by INR 830 Mn QoQ. Capex for the quarter was INR 105 Mn.
- **Headcount:** Total employees stand at 2,358, down 38 on a QoQ basis. Continued disproportionate investments in sales and marketing, as well as investments in creating new capabilities like Gen AI, aim to tap into the under-penetrated learning and development market for faster customer acquisition.
- **Revenue by Sector:** Revenue from BFSI and Lifesciences continues to see growth. Volumes in Technology and Management Consulting, although up QoQ due to seasonality, have been impacted by the current environment and are expected to pick up once macro conditions improve.
- **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 medium to long-term guidance of 20% organic growth.
- **Acquisition Plans:** NLSL has an active pipeline of inorganic opportunities and is in active pursuit of acquisitions to build capabilities, enter new geographies, or explore new market segments.
- The normal tax rate is expected to be in the range of 27-28%.

- Net Other Income/ (Expenses) for Q1 FY25 includes:
 - a. Treasury Income: INR 82 Mn
 - b. Scheme-related expenses: INR 12 Mn (pertaining to ESOPs of NIIT Limited held by employees of NLSL at the time of demerger)
 - c. Acquisition-related expenses: INR 59 Mn (including notional charge of INR 42 Mn due to fair value adjustments for future earnout liability and INR 17 Mn towards Interest expense on loan related to the acquisition)
 - d. Demerger-related non-operating/transitory expenditure: INR 12 Mn
 - e. Other expenses of INR 82 million (including forex loss of INR 27 million and exceptional expenses of INR 29 million related to inorganic growth initiatives and net other expenses of INR 26 million)

Outlook

- Management Revenue growth of 12-14% in cc terms for FY25.
- FY25 EBITDA margins are expected to be at the upper end of the range of 22%-24%.
- Management expected growth to accelerate in the second half of FY25.
- The medium to long-term aspiration continues to be 20% growth while maintaining 20%+ margins.
- Guiding to achieve \$400-500 Mn by FY27, supported by inorganic acquisition.

Valuation & Outlook

NIIT Learning Systems Ltd (NLSL) is strategically positioned to capitalize on the growing outsourcing trend in the training industry. Management forecasts 12-14% topline cc growth for FY25, with EBITDA margins at the upper end of the 22-24% range. In the medium to long term, they project 20% organic revenue growth with margins exceeding 20%, underscoring strong potential. Achieving their ambitious goal of \$400-500 million by FY27 will involve inorganic acquisitions, which is feasible given their robust balance sheet (Net cash of INR 6,489 Mn and FCF generation of INR 833 Mn in Q1 FY25).

NLSL serves a significant number of customers in highly regulated sectors such as BFSI, Lifesciences, and energy commodities, where mandatory and compliance-related training is essential. In contrast, industries like technology require a considerable amount of discretionary training to keep pace with technological advancements. Across their diverse customer base, the ratio of mandatory to discretionary training tends to be 1:1, with a higher proportion in highly regulated industries.

Resilient sequential growth, improved revenue visibility, and the addition of 3 new MTS customers are positive indicators. NLSL's focus on acquiring new customers and expanding scope with existing ones further strengthens their market position. Continued investment in Gen AI capabilities and sales efforts will support future growth. With an improving macro environment and the ramp-up of new customers, management anticipates a stronger H2FY25.

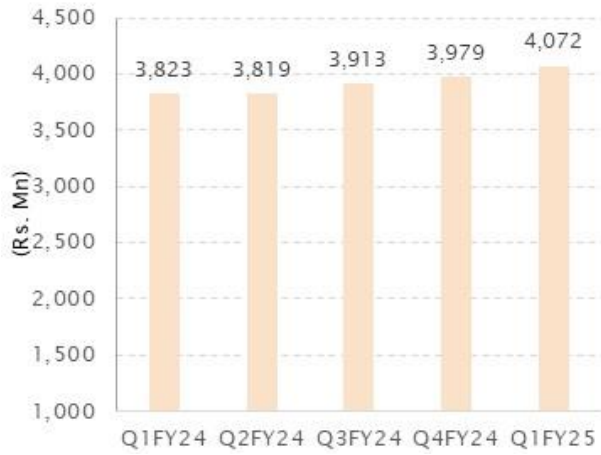
NIIT Learning Systems is currently trading at 23.9x / 18.2x / 14.4x FY25e / FY26e / FY27e EPS respectively. Taking the above factors into consideration, we reiterate our BUY rating and our target multiple of 20x FY27e EPS to arrive at a TP of INR 667.

Quarterly Deviation Sheet

(Rs.Mn)	Q1FY25	Q4FY24	QoQ Growth (%)	Q1FY24	YoY Growth (%)	Q1FY25E	Diff
Revenue from Operations	4,072	3,979	2.3%	3,823	6.5%	4,059	0%
Other Income	93	99	-5.9%	74	26.7%	80	
Total Income	4,166	4,079	2.1%	3,897	6.9%	4,139	1%
COGS	1	4		2		3	
Employee Benefits Expense	1,950	1,899	2.7%	1,882	3.6%	1,978	-1%
Professional & Technical outsourcing	750	719	4.4%	738	1.7%	733	2%
Other Expenses	411	389	5.7%	348	17.9%	397	4%
Total Expenses	3,112	3,011	3.4%	2,970	4.8%	3,111	0%
EBITDA (Excluding Other Income)	960	969	-0.9%	853	12.5%	948	1%
Depreciation and Amortisation	140	127	10.4%	153	-8.3%	143	
EBIT / PBIT	914	941	-2.9%	774	18.0%	884	
Finance Costs	72	102	-29.6%	83	-12.9%	80	
EBT/ PBT (Before Exceptional items)	842	839	0.3%	692	21.7%	804	5%
Exceptional Items	29	-		9		-	
Tax Expense	212	294	-27.9%	131	61.6%	221	
Net Profit after Tax	600	544	10.3%	552	8.8%	583	3%
Adj. PAT	622	544	14.2%	559	11.3%	583	7%
Earning Per Share	4.42	4.02	10.0%	4.10	8.0%	4.3	
Adj Earning Per Share	4.58	4.02	14.0%	4.15	10.4%	4.3	6%
No of Shares Diluted (mn)	135.7	135.4		134.6		135.4	
Margins Analysis (%)			bps		bps		
Gross Margins	33.7%	34.1%	-45	31.4%	224	33.1%	54
EBITDA Margins (Excl Other Income)	23.6%	24.3%	-76	22.3%	126	23.4%	22
PAT Margins	14.7%	13.7%	106	14.4%	31	14.4%	37
Effective Tax Rate %	26.1%	35.1%	-897	19.2%	690	27.5%	-137
Cost Analysis (%)			bps		bps		
COGS as a % to sales	0.0%	0.1%	-7	0.0%	-2	0.1%	-6
EE Cost as a % to sales	47.9%	47.7%	16	49.2%	-133	48.7%	-84
Outsourcing Expenses as a % to sales	18.4%	18.1%	36	19.3%	-88	18.1%	36
Other exps as a % to sales	10.1%	9.8%	32	9.1%	98	9.8%	32

Source: Dalal & Broacha Research, Company

Net Sales Trajectory



EBITDA Trajectory



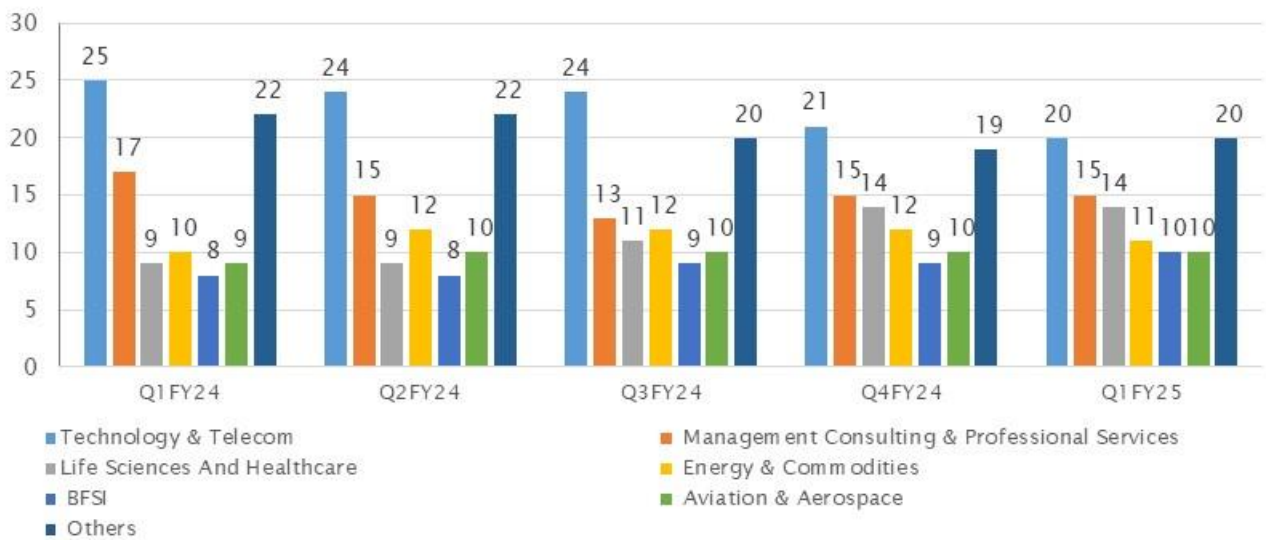
PAT Trajectory



Headcount Trajectory



Revenue Mix by Sector



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	11,323	13,618	15,535	17,491	21,960	27,389
Operating Expenses	-7,489	-9,418	-10,464	-11,668	-14,623	-18,245
Other Expenses	-918	-1,280	-1,449	-1,617	-2,119	-2,561
Operating Profit	2,916	2,920	3,622	4,205	5,218	6,583
Depreciation	-423	-471	-592	-573	-574	-631
PBIT	2,493	2,449	3,030	3,632	4,644	5,952
Other income	139	151	319	333	384	384
Interest	-10	-129	-327	-222	-148	-138
PBT (excl Except)	2,622	2,471	3,023	3,744	4,880	6,198
Profit before tax	2,622	2,285	2,971	3,715	4,880	6,198
Provision for tax	-601	-363	-839	-1,022	-1,317	-1,673
Reported PAT	2,021	1,922	2,132	2,693	3,562	4,524
Adjusted PAT (excl Except)	2,021	2,079	2,170	2,714	3,562	4,524

Balance Sheet (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,156	269	271	271	271	271
Reserves	4,296	7,434	9,504	11,793	14,821	18,666
Net worth	5,452	7,703	9,774	12,064	15,092	18,938
Non Current Liabilites	23	3,068	2,568	2,349	2,279	2,301
Current Liabilites	4,008	6,298	7,989	8,234	8,694	9,274
TOTAL LIABILITIES	9,483	17,069	20,331	22,647	26,065	30,512
Non Current Assets	1,468	6,445	7,108	7,360	7,602	7,869
Fixed Assets	834	1,630	1,602	1,807	2,031	2,278
Goodwill	344	4,342	4,408	4,408	4,408	4,408
Right of Use Assets	37	120	386	386	386	386
Financial Assets	25	27	332	364	365	367
Deferred Tax Asset	160	192	148	153	157	162
Other Non Current Assets	68	134	231	243	255	268
Current Assets	8,015	10,624	13,224	15,288	18,462	22,644
Current investments	994	2,826	3,474	3,821	4,203	4,624
Inventories	5	1	1	1	1	1
Trade Receivables	1,394	2,155	2,250	2,534	3,181	3,968
Cash and Bank Balances	3,526	2,786	2,844	4,059	5,976	8,710
Other Financial Assets	1,942	2,653	4,356	4,574	4,803	5,043
Other Current Assets	153	202	298	298	298	298
TOTAL ASSETS	9,483	17,069	20,331	22,647	26,065	30,512

	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	21.3	12.2	10.7	12.0	13.7	14.8
Current Assets	3,495	5,012	6,906	7,407	8,283	9,310
Net Debt	-4,439	-4,453	-5,388	-7,251	-9,649	-12,782

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,622	2,285	2,971	3,715	4,880	6,198
Depreciation	423	471	592	573	574	631
Net Chg in WC	-517	-1,150	-1,346	-179	-392	-473
Taxes	-466	-625	-729	-1,022	-1,317	-1,673
Others	704	635	1,299	233	160	150
CFO	2,766	1,617	2,787	3,320	3,904	4,833
Capex	-190	-407	-473	-467	-487	-510
Net Investments made	-557	-471	-389	-30	-	-
Others	82	-1,776	-957	-	-	-
CFI	-665	-2,654	-1,819	-497	-487	-510
Change in Debts	-129	1,090	-249	-320	-120	22
Div. & Div Tax	-744	-	-711	-404	-534	-679
Others	-17	-24	276	-884	-846	-932
CFF	-890	1,066	-683	-1,608	-1,501	-1,589
Total Cash Generated	1,211	29	284	1,215	1,916	2,734
Cash Opening Balance	1,320	2,531	2,560	2,844	4,059	5,976
Cash Closing Balance	2,531	2,560	2,844	4,059	5,976	8,710

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	25.8	21.4	23.3	24.0	23.8	24.0
NPM	17.6	15.1	13.7	15.2	15.9	16.3
Tax rate	-22.9	-15.9	-28.2	-27.5	-27.0	-27.0
Growth Ratios (%)						
Net Sales	-	20.3	14.1	12.6	25.6	24.7
Operating Profit	-	0.1	24.0	16.1	24.1	26.2
PBIT	-	-1.8	23.7	19.8	27.9	28.2
PAT	-	-4.9	10.9	26.3	32.3	27.0
Per Share (Rs.)						
Net Earnings (EPS)	3.50	15.45	16.02	20.01	26.26	33.35
Cash Earnings (CPS)	4.23	17.79	20.12	24.08	30.49	38.01
Dividend	-	-	5.25	2.98	3.95	5.01
Book Value	9.44	57.24	72.19	88.93	111.25	139.60
Free Cash Flow	2.83	7.24	6.91	18.88	22.74	29.44
Valuation Ratios						
P/E(x)	137	31	29.9	23.9	18.2	14.4
P/B(x)	51	8	7	5	4	3
EV/EBIDTA(x)	-2	21	16	14	11	8
Div. Yield(%)	-	-	1.10	0.62	0.82	1.05
FCF Yield(%)	0.59	1.51	1.44	3.94	4.75	6.15
Return Ratios (%)						
ROE	37%	27%	22%	22%	24%	24%
ROCE	48%	29%	31%	31%	32%	33%
RoIC	200%	67%	55%	60%	67%	75%

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative’s financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | : equity.research@dalal-broacha.com