

The Ups and Downs of Learning



NIIT Learning Systems Ltd (NLSL) has reported a weak quarter in Q2 FY25, primarily due to seasonal weaknesses related to European holidays, challenges in the management consulting sector, and a significant dip in North American real estate contracts. Management has revised its revenue growth guidance to over 7% in cc terms for FY25, down from an earlier expectation of 12-14%, reflecting the current macroeconomic challenges. NLSL anticipates that large deals closed in previous quarters will ramp up in H2FY25, supporting a return to stronger growth momentum. Additionally, the company remains focused on achieving over 20% topline growth and maintaining margins above 20% organically while actively pursuing inorganic opportunities to achieve its aspiration of reaching \$400-500 million by FY27.

- **INR Revenue came in at INR 3,974 Mn, -2.4% QoQ / -4.1 YoY and 4% below our estimates.**
- **EBITDA at INR 875 Mn, -8.8% QoQ / -2.6% YoY and 9% below our estimates.**
- **EBITDA margins stood at 22%, vs 23.6% / 23.5% in Q1FY25 / Q2FY24 114 bps below our estimates.**
- **PAT came in at INR 570 Mn, -5% QoQ / +21.7% YoY and 8% below our estimates.**
- **Adj PAT came in at INR 595 Mn, -4.3% QoQ / +19.3% YoY and 4% below our estimates.**
- **EPS at INR 4.20 in Q2FY25 vs 4.42/ 3.48 in Q1FY25 / Q2FY24 respectively.**
- **Adj EPS at INR 4.38 in Q2FY25 vs 4.58/ 3.71 in Q1FY25 / Q2FY24 respectively.**
- **Revenue Visibility during the quarter stood at USD 368 Mn, +5.1% QoQ / +5.1% YoY.** Furthermore, this quarter the company added 2 new MTS customers, signed 4 renewals and expanded scope of 1 contract.

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	11,323	13,618	15,535	16,664	20,609	25,705
EBIDTA	2,916	2,920	3,622	3,766	4,498	5,642
Margins	25.8	21.4	23.3	22.6	21.8	21.9
PAT (adj)	2,021	1,922	2,132	2,414	3,106	3,907
Growth (%)	-	-4.9	10.9	13.2	28.7	25.8
EPS	3.50	15.45	16.02	18.12	22.90	28.80
P/E (x)	132	30	29	25	20	16
P/B (x)	49	8	6	5	4	4
EV/EBITDA (x)	-2	20	16	15	12	9
RoE (%)	37	27	22	21	21	22
ROCE (%)	48	29	31	29	29	30
RoIC (%)	200	67	55	55	61	67

Source: Dalal and Broacha

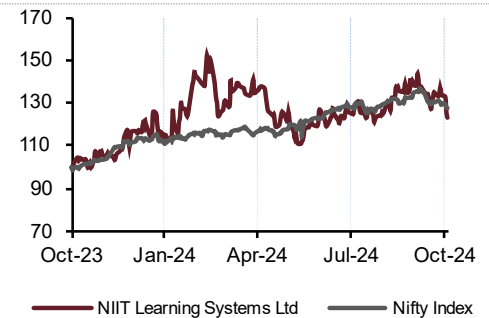
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	576	25

Market data

Current price	Rs	460
Market Cap (Rs.Bn)	(Rs Bn)	63
Market Cap (US\$ Mn)	(US\$ Mn)	743
Face Value	Rs	2
52 Weeks High/Low	Rs	576.9 / 342.3
Average Daily Volume	('000)	132
BSE Code		543952
Bloomberg		NIITMTS.IN

Source: Bloomberg

Performance



% Shareholding	Sep-24	Jun-24
Promoters	34.52	34.57
Public	65.48	65.43
Total	100.00	100.00

Source: Bloomberg

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

Concall Highlights

- NIIT Learning Systems Ltd reported a 4% YoY increase in revenue for Q2FY25, but a 2% decline QoQ, primarily due to Seasonal weakness due to European holidays, a challenging quarter for Management Consulting firms and a strong dip in North American real estate contract impacting training volumes.
- **Customer Dynamics:** The company added two new MTS customers (one in FMCG and another in energy) and renewed four contracts, maintaining a 100% renewal rate. The total number of MTS customers now stands at 91.
- **Visibility:** Total number of MTS customers now stands at 91, with Revenue visibility of USD 368 million dollars (+5.1% QoQ/YoY), the increase in revenue visibility indicating a positive outlook for future revenues executable over the next 2 years.
- **Customer Acquisition:** The company added two new MTS customers (one in FMCG and another in energy) and renewed four contracts, maintaining a 100% renewal rate, along with a strong deal pipeline along with deals closed in the previous quarters, indicates a healthy customer acquisition contributing to future growth.
- **Investments in AI and Automation:** The company continues to invest in Generative AI to enhance learning solutions and operational efficiency. Progress is being made in integrating AI into various aspects of the business.
- **Training Consumption:** Despite positive economic indicators, customer sentiment remains weak, particularly in sectors like management consulting and professional services. The training business is highly sensitive to seasonal variations and Q2 typically sees lower training activity.
- DSO improved to 50 days vs 55 days in Q1FY25. Cash and cash equivalents are INR 7,370 million, with Net cash standing at INR 6,554 Mn, up by INR 65 Mn QoQ. Capex for the quarter was INR 118 Mn.
- **Headcount:** Total employees stand at 2,323, down 35 on a QoQ basis. Continued disproportionate investments in sales and marketing enhance efficiency through technology investments, as well as investments in creating new capabilities like Gen AI.
- **Revenue by Sector:** BFSI (+82.1% YoY), Lifesciences (+50.3% YoY) and Technology & Telecom showed recovery (+12.2% QoQ, -0.3% YoY). However, Management Consulting volumes (-23.7% YoY) impacted by cost-cutting pressures given the current macro environment and are expected to pick up once macro conditions improve.
- 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%.
- **Training Consumption:** Despite positive economic indicators, customer sentiment remains weak, particularly in sectors like management consulting and professional services. The training business is highly sensitive to seasonal variations and Q2 typically sees lower training activity.

- Net Other Income/ (Expenses) for Q2FY25 includes:
 - a. Treasury Income: INR 117 Mn
 - b. Acquisition-related expenses: INR 91 Mn, which consists of:
 - i. Notional charge of INR 43 million due to fair value adjustments for future earnout liability.
 - ii. INR 16 million towards interest expense on loans related to the acquisition
 - iii. INR 32 million in exceptional expenses related to inorganic growth initiatives
 - c. Demerger scheme-related non-operating/transitory expenditure of INR 7 million (pertaining to ESOPs of NIIT Limited held by employees of NLSL at the time of demerger)
 - d. Other expenses of INR 57 million, which includes:
 - i. Forex loss of INR 40 million
 - ii. Net other expenses of Rs. 17 million

Outlook

- Guidance Revised: FY25 revenue guidance lowered to 7%+ from 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 navigate the current training environment, which has been impacted by seasonal fluctuations and economic uncertainties. The company reported a 4% year-on-year increase in revenue for Q2 FY25, although it faced a 2% decline quarter-on-quarter due to seasonal weakness related to European holidays and challenges in the management consulting sector and a strong dip in North American real estate contract..

Despite these challenges, NLSL has demonstrated resilience through strong customer dynamics, adding two new MTS customers and renewing four contracts while maintaining a 100% renewal rate. The total number of MTS customers now stands at 91, contributing to improved revenue visibility of USD 368 million, reflecting a 5.1% increase QoQ/YoY. This enhanced visibility indicates a positive outlook for future revenues, with expectations for sequential growth driven by new customer ramp-ups.

Sector performance shows promising signs, particularly in BFSI and technology, which have exhibited significant year-on-year growth. However, management consulting volumes have been adversely affected by cost-cutting measures in the current macro environment. As the company continues to invest in Generative AI and automation, it aims to enhance learning solutions and operational efficiency, positioning itself to capitalize on emerging outsourcing opportunities.

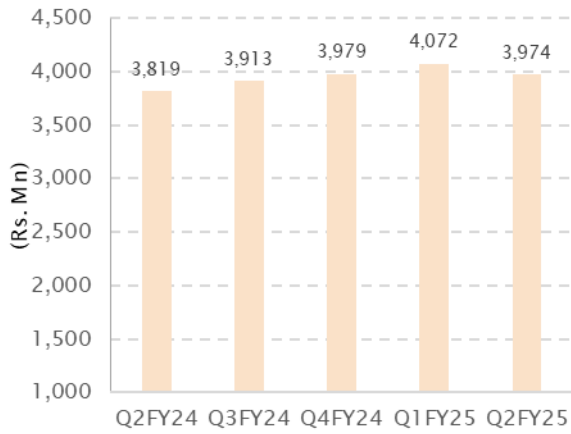
Looking ahead, management anticipates growth acceleration in H2FY25 on the back of the large deals closed in the previous quarters, with a revised full-year revenue guidance of over 7% in cc terms from earlier 12-14%. The medium to long-term aspiration remains at 20% organic growth while maintaining margins above 20%. NLSL is also actively pursuing inorganic opportunities to expand its capabilities and market presence, aiming for a target of \$400-500 million by FY27. **NIIT Learning Systems is currently trading at 25.4x / 20.1x / 16x FY25e / FY26e / FY27e EPS respectively. Taking the above factors into consideration, we reiterate our BUY ON DIPS rating and our target multiple of 20x FY27e EPS to arrive at a TP of INR 576.**

Quarterly Deviation Sheet

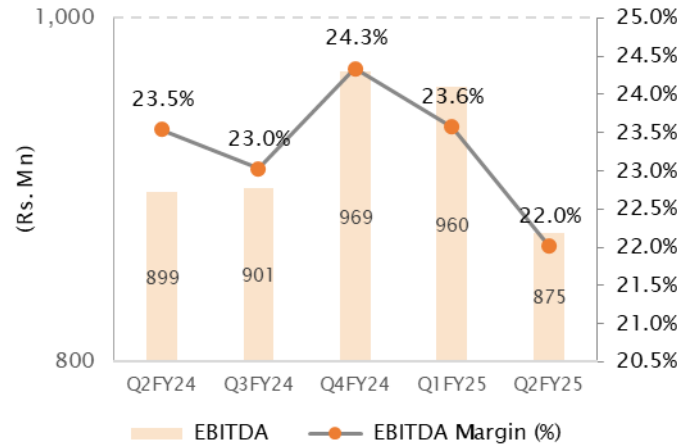
(Rs.Mn)	Q2FY25	Q1FY25	QoQ Growth (%)	Q2FY24	YoY Growth (%)	Q2FY25E	Diff
Revenue from Operations	3,974	4,072	-2.4%	3,819	4.1%	4,154	-4%
Other Income	126	93	35.2%	74	70.5%	80	
Total Income	4,101	4,166	-1.6%	3,893	5.3%	4,234	-3%
COGS	0	1		0		1	
Employee Benefits Expense	1,978	1,950	1.5%	1,841	7.5%	2,031	-3%
Professional & Technical outsourcing	702	750	-6.5%	731	-4.1%	765	-8%
Other Expenses	419	411	1.9%	348	20.3%	395	6%
Total Expenses	3,099	3,112	-0.4%	2,920	6.1%	3,192	-3%
EBITDA (Excluding Other Income)	875	960	-8.8%	899	-2.6%	962	-9%
Depreciation and Amortisation	153	140	9.1%	170	-10.1%	140	
EBIT / PBIT	849	914	-7.1%	803	5.7%	902	
Finance Costs	71	72	-1.2%	87	-17.8%	50	
EBT/ PBT (Before Exceptional items)	778	842	-7.6%	717	8.5%	852	-9%
Exceptional Items	32	29		43		-	
Tax Expense	175	212	-17.5%	205	-14.5%	230	
Net Profit after Tax	570	600	-5.0%	469	21.7%	622	-8%
Adj. PAT	595	622	-4.3%	499	19.3%	622	-4%
Earning Per Share	4.20	4.42	-5.1%	3.48	20.6%	4.6	
Adj Earning Per Share	4.38	4.58	-4.4%	3.71	18.2%	4.6	-4%
No of Shares Diluted (mn)	135.9	135.7		134.6		135.7	
Margins Analysis (%)			bps		bps		
Gross Margins	32.6%	33.7%	-111	32.7%	-9	32.7%	-10
EBITDA Margins (Excl Other Income)	22.0%	23.6%	-156	23.5%	-152	23.2%	-114
PAT Margins	14.4%	14.7%	-39	12.3%	208	15.0%	-62
Effective Tax Rate %	23.5%	26.1%	-264	30.4%	-692	27.0%	-351
Cost Analysis (%)			bps		bps		
COGS as a % to sales	0.0%	0.0%	-1	0.0%	1	0.0%	-1
EE Cost as a % to sales	49.8%	47.9%	189	48.2%	159	48.9%	88
Outsourcing Expenses as a % to sales	17.7%	18.4%	-77	19.2%	-150	18.4%	-77
Other exps as a % to sales	10.5%	10.1%	45	9.1%	142	9.5%	104

Source: Dalal & Broacha Research, Company

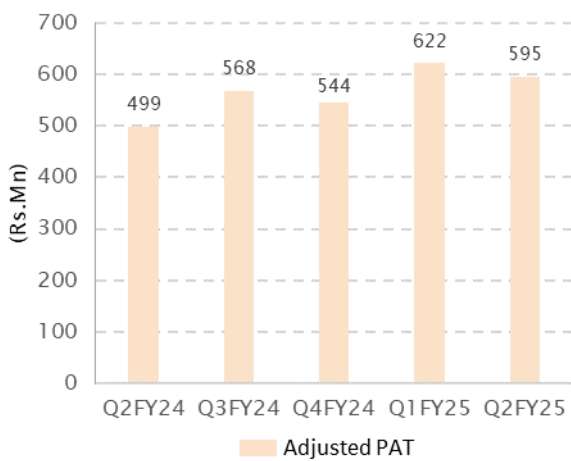
Net Sales Trajectory



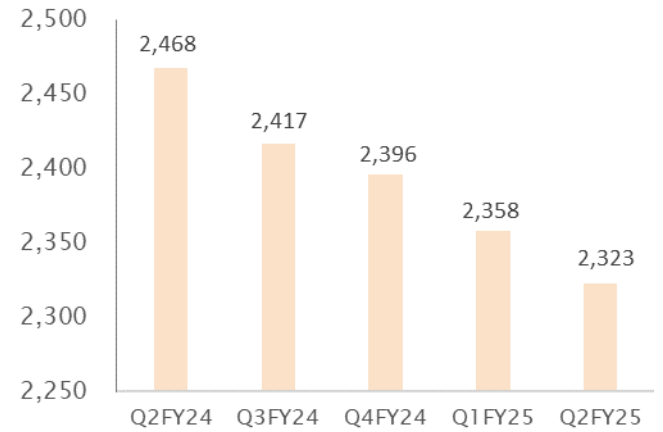
EBITDA Trajectory



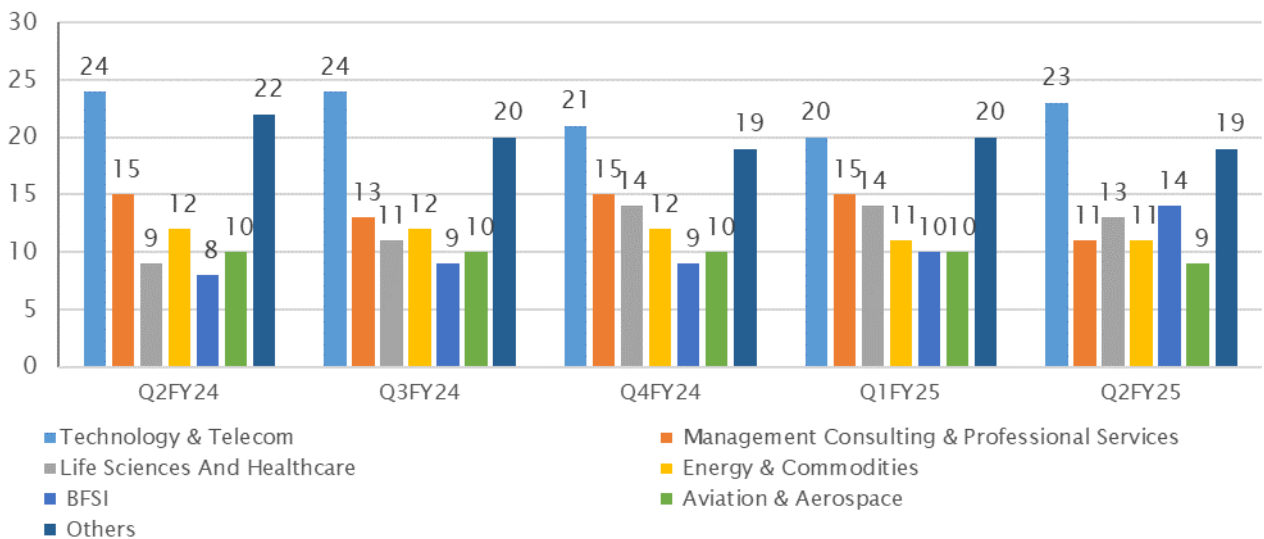
PAT Trajectory



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	16,664	20,609	25,705
Operating Expenses	-7,489	-9,418	-10,464	-11,314	-14,123	-17,659
Other Expenses	-918	-1,280	-1,449	-1,584	-1,989	-2,404
Operating Profit	2,916	2,920	3,622	3,766	4,498	5,642
Depreciation	-423	-471	-592	-573	-574	-631
PBIT	2,493	2,449	3,030	3,193	3,923	5,011
Other income	139	151	319	420	480	480
Interest	-10	-129	-327	-222	-148	-138
PBT	2,622	2,471	3,023	3,391	4,255	5,353
Profit before tax (post exceptional)	2,622	2,285	2,971	3,330	4,255	5,353
Provision for tax	-601	-363	-839	-916	-1,149	-1,445
Reported PAT	2,021	1,922	2,132	2,414	3,106	3,907
Owners PAT	2,021	1,922	2,132	2,414	3,106	3,907
Adjusted Profit (excl Exceptionals)	2,021	2,079	2,170	2,459	3,106	3,907

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	11,556	14,196	17,517
Net worth	5,452	7,703	9,774	11,827	14,467	17,788
Non Current Liabilites	23	3,068	2,568	2,349	2,279	2,301
Current Liabilites	4,008	6,298	7,989	8,204	8,651	9,223
TOTAL LIABILITIES	9,483	17,069	20,331	22,379	25,397	29,312
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	15,020	17,794	21,444
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	2,414	2,986	3,724
Cash and Bank Balances	3,526	2,786	2,844	3,911	5,503	7,754
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	22,379	25,397	29,312

	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	21.3	12.2	10.7	11.0	12.2	13.3
Current Assets	3,495	5,012	6,906	7,287	8,088	9,066
Net Debt	-4,439	-4,453	-5,388	-7,102	-9,176	-11,826

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,622	2,285	2,971	3,330	4,255	5,353
Depreciation	423	471	592	573	574	631
Net Chg in WC	-517	-1,150	-1,346	-90	-329	-432
Taxes	-466	-625	-729	-916	-1,149	-1,445
Others	704	635	1,299	233	160	150
CFO	2,766	1,617	2,787	3,130	3,512	4,257
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	-362	-466	-586
Others	-17	-24	276	-884	-846	-932
CFF	-890	1,066	-683	-1,566	-1,432	-1,496
Total Cash Generated	1,211	29	284	1,067	1,592	2,251
Cash Opening Balance	1,320	2,531	2,560	2,844	3,911	5,503
Cash Closing Balance	2,531	2,560	2,844	3,911	5,503	7,754

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	25.8	21.4	23.3	22.6	21.8	21.9
NPM	17.6	15.1	13.7	14.4	14.7	14.9
Tax rate	-22.9	-15.9	-28.2	-27.5	-27.0	-27.0
Growth Ratios (%)						
Net Sales	-	20.3	14.1	7.3	23.7	24.7
Operating Profit	-	0.1	24.0	4.0	19.4	25.4
PBIT	-	-1.8	23.7	5.4	22.9	27.7
PAT	-	-4.9	10.9	13.2	28.7	25.8
Per Share (Rs.)						
Net Earnings (EPS)	3.50	15.45	16.02	18.12	22.90	28.80
Cash Earnings (CPS)	4.23	17.79	20.12	22.02	27.13	33.46
Dividend	-	-	5.25	2.67	3.44	4.33
Book Value	9.44	57.24	72.19	87.18	106.65	131.13
Free Cash Flow	2.83	7.24	6.91	17.19	19.33	24.67
Valuation Ratios						
P/E(x)	132	30	28.7	25.4	20.1	16.0
P/B(x)	49	8	6	5	4	4
EV/EBIDTA(x)	-2	20	16	15	12	9
Div. Yield(%)	-	-	1.14	0.58	0.75	0.94
FCF Yield(%)	0.62	1.57	1.50	3.74	4.20	5.36
Return Ratios (%)						
ROE	37%	27%	22%	21%	21%	22%
ROCE	48%	29%	31%	29%	29%	30%
RoIC	200%	67%	55%	55%	61%	67%

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