

Leveraging Training Outsourcing Trend



NIIT Learning Systems (NLSL) Q4FY24 posted a sequentially better quarter with improvement in margins. Management has guided for 12-14% cc revenue growth with margins in 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 3,979 Mn, +1.7% QoQ / +3.2 YoY** and -2% below our estimates.
- **EBITDA at INR 969 Mn, +7.5% QoQ / +11.4% YoY** and +4% above our estimates.
- **EBITDA margins stood at 24.3%, vs 23% / 22.6% in Q3FY24 / Q4FY23** +128bps above our estimates.
- **PAT came in at INR 544 Mn, -4.1% QoQ / +0.9% YoY** and -3% below our estimates.
- **Adj PAT came in at INR 544 Mn, -4.1% QoQ / -3.5% YoY.**
- **EPS at INR 4.02** in Q4FY24 vs 4.20/ 4.01 in Q3FY24 / Q4FY23 respectively.
- **Adj EPS at INR 4.02** in Q4FY24 vs 4.20/ 4.19 in Q3FY24 / Q4FY23 respectively.
- **Revenue Visibility during the quarter stood at USD 335 Mn, -4.3% QoQ / -7.7% YoY.** Furthermore, management reported the addition of 1 new MTS customers during the quarter, as well as 3 renewals and 1 scope expansions.

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	11,323	13,618	15,535	17,603	22,102
EBIDTA	2,916	2,920	3,622	4,112	5,461
Margins	25.8	21.4	23.3	23.4	24.7
PAT (adj)	2,021	1,922	2,132	2,637	3,692
Growth (%)	-	-4.9	10.9	23.6	40.0
EPS	3.50	15.45	16.02	19.47	27.27
P/E (x)	130	29	28	23	17
P/B (x)	48	8	6	5	4
EV/EBITDA (x)	-2	19	15	13	9
RoE (%)	37	27	22	22	24
ROCE (%)	48	29	31	31	33
RoIC (%)	200	67	55	58	70

Source: Dalal and Broacha

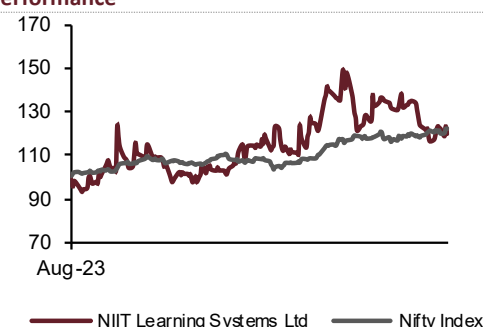
Rating	TP (Rs)	Up/Dn (%)
BUY	600	31

Market Data

Current price	Rs	457
Market Cap (Rs.Bn)	(Rs Bn)	62
Market Cap (US\$ Mn)	(US\$ Mn)	744
Face Value	Rs	2
52 Weeks High/Low	Rs	577/342
Average Daily Volume	('000)	342
BSE Code		543952
Bloomberg		NIITMTS

Source: Bloomberg

Performance



Source: Bloomberg

% Shareholding	Mar-24	Dec-23
Promoters	34.64	34.73
Public	65.36	65.27
Total	100	100

Source: BSE

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Concall Highlights

- The organic business witnessed a 6% growth in constant currency terms for FY24. The St. Charles business, acquired in November 2022, is now fully integrated and operating synergistically with the outsourcing business.
- **Training Consumption:** Despite an uncertain macro environment, NLSL posted strong EBITDA margins driven by a better product mix and improved resource utilization. Lower training consumption volume due to uncertainty was compensated by the addition of new customers and improved wallet share from existing customers. While several NLSL customers are pausing high-ticket training investments, the pressure to optimize costs is creating new opportunities for NLSL.
- **Visibility:** Total number of MTS customers now stands at 87, with Revenue visibility of USD 335 million dollars (-4.3% QoQ / -7.7% YoY), executable over the next 2 years. NLSL expects to add 12-15 new customers per annum.
- The addition of one new MTS customer, renewal of three contracts, maintaining a 100% renewal track record, and the expansion of one MTS contract, along with a strong deal pipeline with several large opportunities, indicates healthy customer acquisition contributing to future growth. Despite uncertainties and delayed decision-making, NLSL's focus on improving wallet share, diversifying offerings, and increasing market share across multiple customers remains strong. Existing customers are taking slightly longer to ramp up in the current uncertain macro environment.
- **Automation and AI:** 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. Over the next couple of quarters, they expect to roll out enterprise-scale solutions to help customers fully benefit from Gen AI.
- **Working Capital and Cash Flow:** To NLSL generated a strong free cash flow of INR 2324 million which included INR 766 Mn in Q4FY24. DSO stands at 53 days in Q4FY24 vs 52 days in Q4FY23 and 59 days in Q3FY24. Cash balance is at INR 6,589 million, with Net cash standing at Rs 5,659 Mn, up INR 60 Mn QoQ/ INR 1095 mn YoY.
- **Headcount:** Total employees stand at 2,396, down 21 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 medium to long-term guidance of 20%.
- **Acquisition Plans:** NLSL has a strong pipeline of inorganic opportunities and is in active pursuit of acquisitions to build capabilities, enter new geographies, or explore new market segments. Targeting acquisitions in the \$20-40 Mn revenue range.
- Depreciation & Amortization includes INR 32 Mn related to the amortization of intangibles from an acquisition. The decrease in depreciation for this quarter was due to the full-quarter impact of a change in the amortization period for a large project.

- Net Other Income/ (Expenses) for Q4FY24 includes:
 - a. Treasury Income: INR 82 Mn
 - b. Acquisition-related expenses: INR 69 Mn (including interest on loans of INR 17 Mn)
 - c. Scheme-related expenses: INR 11 Mn
 - d. Demerger-related non-operating/transitory expenditure: INR 12 Mn
 - e. Forex loss: INR 17 Mn
 - f. Net other miscellaneous expenses: INR 13 Mn
- The tax rate was higher this quarter as a result of foreign tax credits as well as withholding tax due to intercompany transfers. The normal tax rate is expected to be in the range of 27-28%.
- NLSL declared a final dividend of Rs. 2.75 per equity share, in addition to the interim dividend of Rs. 2.50 per equity share declared on October 30, 2023. The interim dividend was issued to compensate for the missed dividend in FY23 due to the demerger process.

FY25E Outlook

- Management Revenue growth of 12-14% in cc terms for FY25.
- FY25 EBITDA margins are expected to be in 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.

Valuation & Outlook

NIIT Learning Systems Ltd (NLSL) is well-positioned to benefit from the outsourcing trend in the training industry. Management guides for 12-14% topline cc growth in FY25, with EBITDA margins of 22-24%. In the medium to long term, they expect 20%+ revenue growth and margins above 20%, indicating strong potential. Achieving their long-term aspiration of \$400-500 million by FY27 will involve inorganic acquisitions with revenues in the range of \$20-40 Mn, which is feasible given their strong balance sheet (Net cash of INR 5,659 Mn and FCF generation of INR 2,314 Mn in FY24).

Early signs of sequential growth and improving market conditions are positive indicators. NLSL's focus on acquiring new customers and expanding scope with existing ones further strengthens their position. The continued focus on adding capabilities in Gen AI and investing in sales will support future growth.

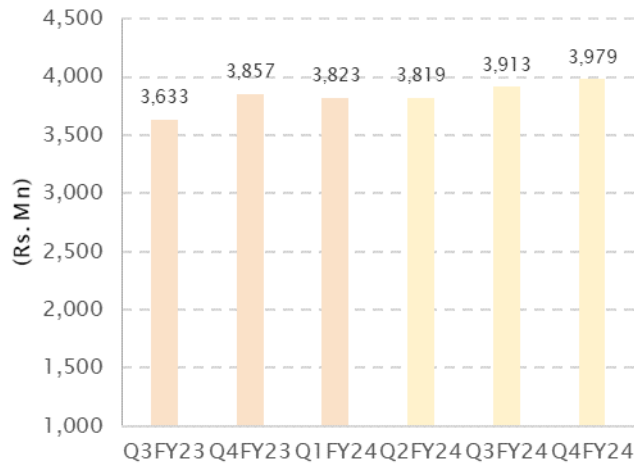
NIIT Learning Systems is currently trading at 23.3x / 16.6x FY25e / FY26e EPS respectively. Taking the above factors into consideration, we reiterate our BUY rating and our target multiple of 22x FY26e EPS to arrive at a TP of INR 600.

Quarterly Deviation Sheet

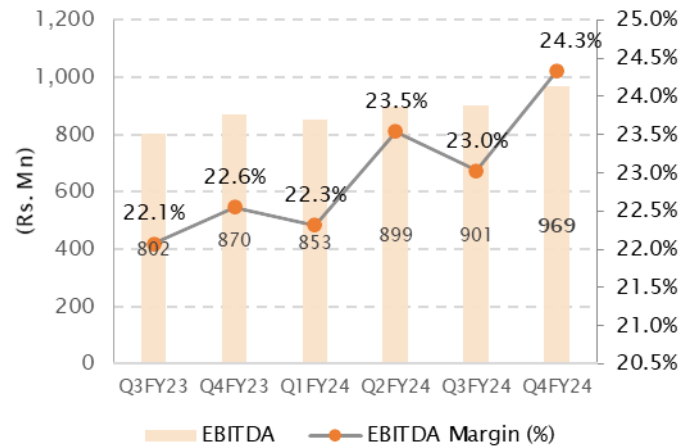
(Rs.Mn)	Q4FY24	Q3FY24	QoQ Growth (%)	Q4FY23	YoY Growth (%)	Q4FY24E	Diff
Revenue from Operations	3,979	3,913	1.7%	3,857	3.2%	4,050	-2%
Other Income	99	72	37.6%	35	183.4%	72	
Total Income	4,079	3,985	2.3%	3,892	4.8%	4,122	-1%
COGS	4	0		3		(0)	
Employee Benefits Expense	1,899	1,911	-0.6%	1,838	3.3%	2,018	-6%
Professional & Technical outsourcing expenses	719	738	-2.5%	790	-9.0%	749	-4%
Other Expenses	389	364	6.9%	356	9.2%	349	12%
Total Expenses	3,011	3,012	-0.1%	2,987	0.8%	3,116	-3%
EBITDA (Excluding Other Income)	969	901	7.5%	870	11.4%	934	4%
Depreciation and Amortisation Expenses	127	143	-11.1%	146	-13.1%	100	
EBIT / PBIT	941	831	13.3%	759	24.0%	907	
Finance Costs	102	55	85.4%	80	27.9%	53	
EBT/ PBT (Before Exceptional items)	839	776	8.1%	679	23.6%	853	-2%
Exceptional Items	-	-		30		-	
Tax Expense	294	208	41.5%	109	169.1%	292	
Net Profit after Tax	544	568	-4.1%	539	0.9%	561	-3%
Adj. PAT	544	568	-4.1%	564	-3.5%	561	
Earning Per Share	4.02	4.20	-4.3%	4.01	0.3%	4.2	
Adj Earning Per Share	4.02	4.20	-4.3%	4.19	-4.1%	4.2	-3%
No of Shares Diluted (mn)	135.4	135.0		134.6		135.0	
Margins Analysis (%)			bps		bps		
Gross Margins	34.1%	32.3%	179	31.8%	233	31.7%	245
EBITDA Margins (Excl Other Income)	24.3%	23.0%	131	22.6%	179	23.1%	128
PAT Margins	13.7%	14.5%	-82	14.0%	-30	13.9%	-18
Effective Tax Rate %	35.1%	26.8%	827	16.9%	1824	34.2%	91
Cost Analysis (%)			bps		bps		
COGS as a % to sales	0.1%	0.0%	9	0.1%	1	0.0%	9
EE Cost as a % to sales	47.7%	48.8%	-110	47.6%	8	49.8%	-211
Outsourcing Expenses as a % to sales	18.1%	18.8%	-78	20.5%	-242	18.5%	-43
Other exps as a % to sales	9.8%	9.3%	48	9.2%	54	8.6%	117

Source: Dalal & Broacha Research, Company

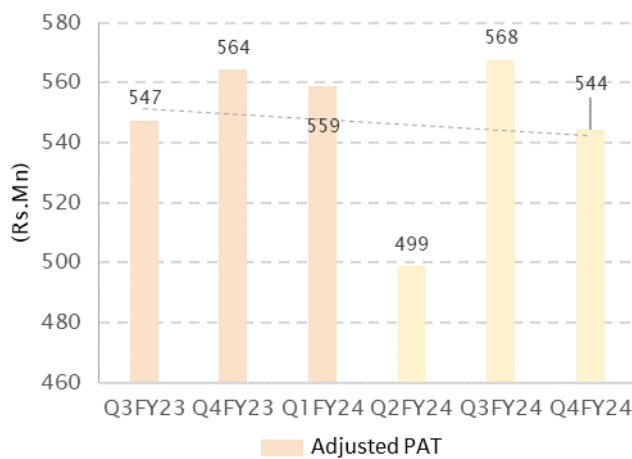
Net Sales Trajectory



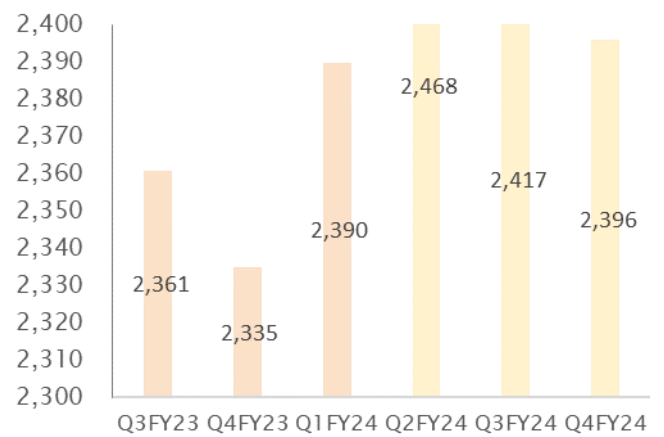
EBITDA Trajectory



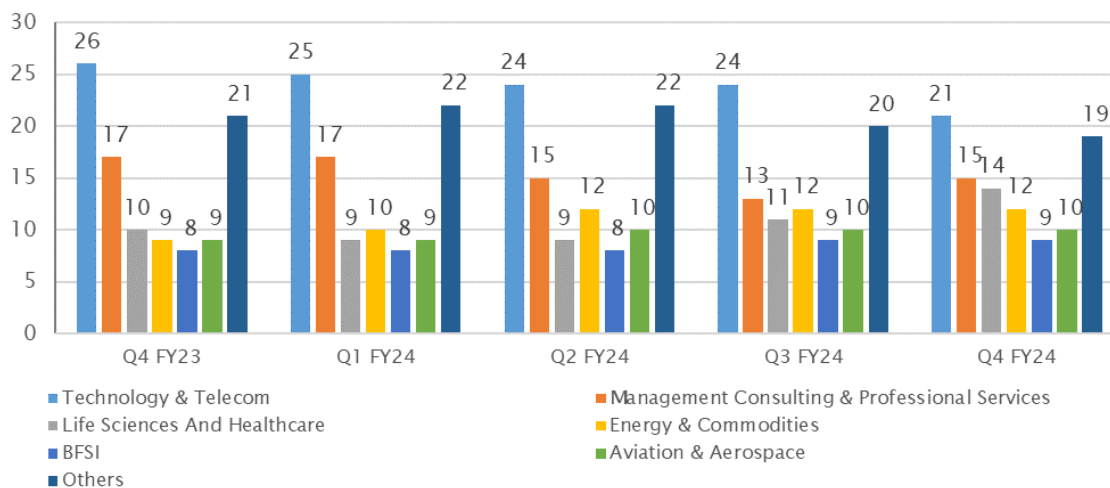
PAT Trajectory



Headcount Trajectory



Revenue Mix by Sector



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	Cashflow (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	11,323	13,618	15,535	17,603	22,102	PBT	2,622	2,285	2,971	3,637	5,058
Operating Expenses	-7,489	-9,418	-10,464	-11,898	-14,847	Depreciation	423	471	592	573	574
Other Expenses	-918	-1,280	-1,449	-1,593	-1,794	Net Chg in WC	-517	-1,150	-1,346	-176	-397
Operating Profit	2,916	2,920	3,622	4,112	5,461	Taxes	-466	-625	-729	-1,000	-1,366
Depreciation	-423	-471	-592	-573	-574	Others	704	635	1,299	233	160
PBIT	2,493	2,449	3,030	3,539	4,887	CFO	2,766	1,617	2,787	3,267	4,030
Other income	139	151	319	319	319	Capex	-190	-407	-473	-467	-487
Interest	-10	-129	-327	-222	-148	Net Investments	-557	-471	-389	-30	-
PBT	2,622	2,471	3,023	3,637	5,058	Others	82	-1,776	-957	-	-
PBT (post exceptional)	2,622	2,285	2,971	3,637	5,058	CFI	-665	-2,654	-1,819	-497	-487
Provision for tax	-601	-363	-839	-1,000	-1,366	Change in Debts	-129	1,090	-249	-320	-120
Reported PAT	2,021	1,922	2,132	2,637	3,692	Div. & Div Tax	-744	-	-711	-395	-554
Owners PAT	2,021	1,922	2,132	2,637	3,692	Others	-17	-24	276	-884	-846
Adjusted Profit (excl Exceptionals)	2,021	2,079	2,170	2,637	3,692	CFF	-890	1,066	-683	-1,600	-1,520
						Total Cash Generated	1,211	29	284	1,170	2,022
						Cash Opening Balance	1,320	2,531	2,560	2,844	4,014
						Cash Closing Balance	2,531	2,560	2,844	4,014	6,036

Balance Sheet (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	Ratios	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,156	269	271	271	271	OPM	25.8	21.4	23.3	23.4	24.7
Reserves	4,296	7,434	9,504	11,745	14,883	NPM	17.6	15.1	13.7	14.7	16.5
Net worth	5,452	7,703	9,774	12,015	15,154	Tax rate	-22.9	-15.9	-28.2	-27.5	-27.0
Non Current Liabilities	23	3,068	2,568	2,349	2,279	Growth Ratios (%)					
Current Liabilities	4,008	6,298	7,989	8,254	8,713	Net Sales	-	20.3	14.1	13.3	25.6
TOTAL LIABILITIES	9,483	17,069	20,331	22,618	26,146	Operating Profit	-	0.1	24.0	13.5	32.8
Non Current Assets	1,468	6,445	7,108	7,360	7,602	PBIT	-	-1.8	23.7	16.8	38.1
Fixed Assets	834	1,630	1,602	1,807	2,031	PAT	-	-4.9	10.9	23.6	40.0
Goodwill	344	4,342	4,408	4,408	4,408	Per Share (Rs.)					
Right of Use Assets	37	120	386	386	386	Net Earnings (EPS)	3.50	15.45	16.02	19.47	27.27
Financial Assets	25	27	332	364	365	Cash Earnings (CPS)	4.23	17.79	20.12	23.71	31.51
Deferred Tax Asset	160	192	148	153	157	Dividend	-	-	5.25	2.92	4.09
Other Non Current Assets	68	134	231	243	255	Book Value	9.44	57.24	72.19	88.75	111.93
Current Assets	8,015	10,624	13,224	15,259	18,543	Free Cash Flow	2.83	7.24	6.91	18.44	24.06
Current investments	994	2,826	3,474	3,821	4,203	Valuation Ratios					
Inventories	5	1	1	1	1	P/E(x)	130	29	28.3	23.3	16.6
Trade Receivables	1,394	2,155	2,250	2,550	3,202	P/B(x)	48	8	6	5	4
Cash and Bank Balances	3,526	2,786	2,844	4,014	6,036	EV/EBIDTA(x)	-2	19	15	13	9
Other Financial Assets	1,942	2,653	4,356	4,574	4,803	Div. Yield(%)	-	-	1.16	0.64	0.90
Other Current Assets	153	202	298	298	298	FCF Yield(%)	0.63	1.60	1.53	4.07	5.31
TOTAL ASSETS	9,483	17,069	20,331	22,618	26,146	Return Ratios (%)					
	-	-	-	-	-	ROE	37%	27%	22%	22%	24%
						ROCE	48%	29%	31%	31%	33%
						RoIC	200%	67%	55%	58%	70%

	FY22	FY23	FY24E	FY25E	FY26E		FY22	FY23	FY24E	FY25E	FY26E
ROA	21.3	12.2	10.7	11.7	14.1	Equity	1,156	269	271	271	271
Current Assets	3,495	5,012	6,906	7,423	8,304	Face Value	2	2	2	2	2
Net Debt	-4,439	-4,453	-5,388	-7,205	-9,710	CMP	453	453	453	453	453
						Mcap	-	60,960	61,332	61,332	61,332
						Debt	80	1,159	930	630	530
						Cash	4,588	5,746	6,549	8,079	10,495

Source: Dalal & Broacha Research, Company

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