NIIT

On a learning curve

The company's shift in focus to corporate training is showing results

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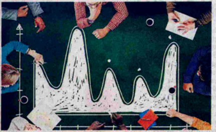
When the market hits turbulent patches, investors typically turn to companies in defensive sectors. One such choice, for those with a long-term perspective, is NIIT, an education service provider. The company offers computer education and training to corporates, schools and individual clients.

While revenue stagnated in the past three years, the recent shift in focus — from the government school segment to corporate training — should help drive revenue and profit growth in the next few years. The company's strong balance sheet — with debt at 0.2 times equity — also provides comfort. The stock currently trades at 13 times FY17 Bloomberg consensus earnings. Investors can buy the NIIT stock, given the company's improving revenue and earnings outlook.



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Shift in focus

NIIT has consciously shifted away from government schools to focus on corporate learning and skills development. In the December 2015 quarter, revenue from the school segment fell 33 per cent and contributed only 8 per cent to the overall income.

There were a few reasons to shift focus away from this segment. One, the receivables cycle is very long; ₹140 crore of receivables are due from the government currently. Two, the business is capex heavy and returns are depressing.

The number of government school clients has been on a steady decline, from the peak of over 15,000 in 2009-10 to about 3,700 currently.

The company plans to exit the government and other capex-heavy school services business segment as these contracts end (by 2018-19). It will focus on asset-light, cloud-based solutions for the 2,500 private school clients.

The school business has also been carved out into a separate subsidiary and the company plans to leverage the NIIT brand name.

The revenue shift is already boosting the company's overall margin and profit. In the nine months of 2015-16, operating profit jumped 58 per cent Y-o-Y to ₹58 crore, even as revenue increased 4.7 per cent to ₹768 crore. The management expects non-capex intensive services to grow at 10-15 per cent over the next two years.

Robust corporate revenue

NIIT's corporate learning segment, which contributes 60 per cent of the overall revenue, grew 17 per cent in the December 2015 quarter. International service, especially in Europe, contributed about half of this segment's revenue.

Orders in the nine months of 2015-16 rose 28 per cent Y-o-Y to $78 million. The company has 27 global customers and revenue visibility of $195 million from these customers over a three- to five-year period.

In the corporate learning segment, the management is confident of sustaining a margin of 12 per cent and growing revenue at 15 per cent annually in the next two years.

Skill segment recovery

NIIT's Skills and Career Group, which contributes about a third of total revenue, has been witnessing a turnaround.

Revenue from this segment, which has been on a decline over the last few years, has been on an uptrend over the last three quarters. In the December 2015 quarter, revenue increased 3 per cent compared with the same quarter a year ago. The company has been consolidating its operations by reducing seat capacity, headcount and exiting unprofitable international locations.

The company is adding new specialisations in IT, such as big data and business analytics; its Beyond-IT courses such as retail sales enablement and finance are also seeing good traction. In October 2015, NIIT.tv, an internet TV portal to offer skill-based live and on-demand courses digitally, was launched.

These operational changes and new initiatives should aid revenue and profit growth in this segment. NIIT holds 23.74 per cent stake in software company NIIT Technologies.

In the nine months of 2015-16, higher earnings from its associates and joint ventures as well as lower depreciation expenses boosted the net profit of NIIT by four times Y-o-Y to ₹50 crore. Net margin improved to 6.5 per cent, from 1.8 per cent in the same period.

Margins are likely to sustain at these levels or improve over the next few years as the company moves to an asset-light model and focuses on the high-margin corporate learning segment.

BUY

Why

- Improving revenue and earnings outlook
- Corporate learning to aid margin
- Skill development to boost growth

Did you know?

NIIT was named 'India's Most Trusted Training Brand' by Trust Research Advisory four years in a row