

ACCUMULATE

Price	Rs112
Target Price	Rs123
Investment Period	12 months

Stock Info

Sector	Education
Market Cap (Rs cr)	1,838
Beta	0.62
52 WK High / Low	172 / 85
Avg Daily Volume	289807
Face Value (Rs)	2
BSE Sensex	15,190
Nifty	4,517
BSE Code	500304
NSE Code	NIITLTD
Reuters Code	NIIT.BO
Bloomberg Code	NIIT IN

Shareholding Pattern (%)

Promoters	30.1
MF/Banks/Indian FIs	6.3
FII/ NRIs/ OCBs	44.3
Indian Public	19.3

Abs.	3m	1yr	3yr
Sensex (%)	(1.1)	8.5	122.3
NIIT Limited (%)	18.8	(13.8)	241.7

Harit Shah

Tel: 022 – 4040 3800 Ext: 345
 e-mail: harit.shah@angeltrade.com

Performance Highlights

■ **Disappointing CLS Business leads to subdued Top-line growth:** NIIT Limited (NIIT) posted a relatively subdued growth of 6.2% yoy in its 4QFY008 Top-line (Net Revenues). This was in spite of excellent performances of its Individual Learning Solutions (ILS) and School Learning Solutions (SLS) Businesses. The ILS Business clocked a 42.9% yoy growth in Net Revenues. The ILS-IT part of the business (Retail IT Training) clocked a smart 34% yoy growth, led by continued expansion, introduction of newer courses and tie-ups with global technology majors. On the other hand, the ILS-FMT (Finance & Management Training) part of the overall ILS Business clocked a superlative 220% yoy growth, driven by higher enrolments and ever-increasing acceptance of these courses by the industry. The SLS Business on the other hand, clocked a robust 66% yoy growth driven by an outstanding 109% yoy growth in the Government Schools Business.

However, on account of a poor performance from the Corporate Learning Solutions (CLS) Business, which de-grew by over 18% yoy, overall revenue growth took a hit. This is especially significant considering that the CLS Business contributes 49% to Total Net Revenues. The company has attributed this to Rupee appreciation and longer sales cycles.

■ **Margins soar on lower G&A costs, high ILS Margins:** NIIT recorded a strong 329bp yoy expansion in EBITDA Margins in 4QFY2008. This was partly on account of lower G&A costs and significantly higher profitability of the key ILS Business segment. ILS Margins rose by an impressive 489bp yoy, with ILS-IT Margins rising by 190bp yoy. ILS-FMT Margins soared by 8,250bp yoy (82.5%) from a negative 77.1% in 4QFY2007 to 5.4% this quarter, reflecting the strong operating leverage the business is witnessing. On the other hand, SLS Margins rose by 64bp yoy, while CLS Margins improved slightly by 8bp yoy.

■ **Higher Margins, lower Depreciation, positive Other Income power Bottom-line:** On account of the higher Margins recorded, lower Depreciation charges (down 2% yoy) and positive Other Income (Rs2.4cr v/s loss of 0.8cr in 4QFY2007), Bottom-line increased by 48% yoy, in spite of a 36% yoy lower profit share from associates (NIIT Technologies). In fact, core PAT (excluding associate profits) powered ahead by as much as 230% yoy.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	795	1,007	1,248	1,480
% chg	76.4	26.6	24.0	18.5
Net Profit	57	76	108	146
% chg	38.6	32.1	42.3	35.4
EBITDA Margin (%)	9.7	10.3	11.6	13.4
Diluted EPS (Rs)	3.4	4.6	6.5	8.8
P/E (x)	32.4	24.5	17.2	12.7
P/BV (x)	5.9	5.0	4.2	3.4
RoE (%)	19.7	22.2	26.5	29.4
RoCE (%)	6.3	6.5	13.8	18.2
EV/Sales (x)	2.6	2.0	1.6	1.3
EV/EBITDA (x)	26.3	19.8	13.7	9.6

Source: Company, Angel Research

FY2008 Top-line grows 27% yoy, driven by ILS Business

NIIT recorded a strong 27% yoy growth in its FY2008 Top-line driven mainly by the ILS Business, which powered ahead by an impressive 40% yoy. Segregating the ILS Business, ILS-IT clocked over 31% yoy growth driven by a strong 25% yoy growth in enrolments, increased seat capacity, higher capacity utilisation on enhanced capacity and introduction of newer courses in partnership with industry leaders.

The company's total enrolments grew by 25.2% yoy to hit 3,89,000 (3,10,542). Average revenues per enrolment also witnessed a strong up-tick of nearly 10% yoy. This reflects a continuous upgradation and ever-increasing relevance of NIIT's courses for the industry. The company has introduced newer courses such as Infrastructure Management, Digital Media and Web 2.0 in partnership with industry leaders like Adobe, Cisco Intel, Microsoft and Sun Microsystems to keep its programs up-to-date and relevant for students to ensure that they become industry-ready. Infrastructure Management is one of the fastest-growing service lines for software majors like Infosys, TCS and Wipro and going ahead, these services are likely to grow at a robust rate leading to strong demand for personnel.

In terms of capacity, NIIT increased its total seat-years during FY008 by around 15% yoy to 1,89,000 (1,64,584). Even on this enhanced capacity, the utilisation rate rose to 55% (54%), leading to the strong growth witnessed in the business during the fiscal. Going ahead, with the current uncertainty in the US economy, NIIT expects this to result in greater offshoring, leading to increasing demand for skilled people.

The ILS-FMT Business grew by a scorching 322% yoy, with enrolments crossing 11,000 for the fiscal, taking total ILS Business enrolments to 4,00,000. The company's programs, which are part of its newer business initiatives to diversify away from purely IT and emerge as a 'full-services diversified training company', are witnessing increasing acceptance from the industry. The Finance Training program (NIIT Institute of Finance, Banking and Insurance, IFBI) saw the addition of more partners, which now include names like ICICI Bank, ICICI Lombard, ICICI Prudential, Kotak Mahindra Bank, Yes Bank and HDFC Bank. NIIT also trained 3,700 officers of UCO Bank on the core banking platform of software major Infosys Technologies, Finacle.

As regards NIIT Imperia, the Management Training initiative, NIIT counts as its academic partners the top names among Indian business schools like IIM-Ahmedabad, IIM-Calcutta, IIM-Indore, IIM-Lucknow, IIFT, New Delhi and IMT, Ghaziabad. The business added 16 new centres, taking its total to 22 centres in 19 cities.

Exhibit 1: Segment-wise Revenue break-up

Segment	Revenues (Rs cr)		Chg (%)	Contribution (%)	
	FY2007	FY2008		(FY2007)	(FY2008)
ILS Business	254	355	39.6	32.0	35.2
<i>ILS-IT</i>	247	324	31.2	31.1	32.2
<i>ILS-FMT</i>	7	31	321.9	0.9	3.1
SLS Business	85	101	19.5	10.7	10.1
<i>Government Schools</i>	61	73	19.9	7.6	7.2
<i>Private Schools</i>	24	28	18.8	3.0	2.8
CLS Business	456	551	20.8	57.4	54.7
Total	795	1,007	26.7	100.0	100.0

Source: Company, Angel Research

The company's SLS Business grew by a decent 19.5% yoy led by good growth in both the Government and Private Schools Businesses, with the former growing by 20% yoy, while the latter grew by 19% yoy. The growth was led by strong order wins and launch of newer products like Math Lab and eGuru. During FY2008, the company worked with 4,652 Government schools and 981 Private schools (3,006 and 806 respectively, in FY2007). NIIT is witnessing renewed traction in the Government Schools Business, with Government Policy proving to be conducive with a greater degree of transparency in the tendering process, apart from the significant opportunity that exists in this space. However, the company will have to effectively manage execution risks, high capex and higher receivables, all factors that are inherent in the business.

The CLS Business grew by 21% yoy, however, led by full consolidation of Element-K's revenues with those of NIIT. It should be noted that NIIT had acquired Element-K in FY2007 and only 8 months of revenues were reflected in the consolidated revenues that fiscal. On an organic basis, the business has clearly witnessed de-growth owing to Rupee appreciation and longer sales cycles. Double-digit Rupee appreciation during FY2008 led to a significant loss of Rs69cr on the Revenue front and of Rs108mn in EBITDA. Adjusting for this, CLS Revenues would have grown by 36% yoy. Going ahead, we expect this business to grow at a slower rate than the overall company and fall further as a percentage of Sales.

ILS, SLS Businesses contribute to Margin enhancement

In FY2008, NIIT clocked a decent 53bp yoy expansion in EBITDA Margins. Segment-wise, again the ILS Business clocked an impressive increase in profitability, with Margins rising by a high 449bp yoy. ILS-IT Margins rose by 292bp yoy, crossing the 20%-mark (20.5%). This was led by strong operating leverage and increased capacity utilisation on enhanced capacity. ILS-FMT saw an 11,622bp yoy (116.2%) improvement in profitability, albeit continued operating losses of 8.4% (losses of 124.7% in FY2007). However, it is pertinent to note that in 3Q and 4QFY2008, the business achieved EBITDA break-even, leading to marginal overall EBITDA losses for the fiscal.

Exhibit 2: Segment-wise EBITDA Margins

Segment	EBITDA (Rs cr)		Chg (%)	Margins (%)		Chg (%)
	FY2007	FY2008		(FY2007)	(FY2008)	
ILS Business	34	64	86.0	13.5	18.0	4.5
<i>ILS-IT</i>	43	66	53.0	17.6	20.5	2.9
<i>ILS-FMT</i>	(9)	(3)	(71.4)	(124.7)	(8.4)	116.2
SLS Business	10	13	32.3	11.7	12.9	1.3
CLS Business	36	27	(25.1)	7.8	4.8	(3.0)
Opex*	2	-	(100.0)	-	-	-
Total	78	104	33.5	9.7	10.3	0.5

Source: Company, Angel Research; * Acquisition-related opex relating to Element-K

Going ahead, we expect Margin expansion in this business to be a key contributor to an overall positive trend in Margins and are enthused by NIIT's greater focus on such high potential and higher Margin businesses. The SLS Business, on the other hand, clocked a 126bp yoy increase in Margins, given greater focus on profitability by the company. CLS Margins, however, fell by 296bp yoy, thus restricting the overall pace of Margin expansion.

Higher Margins, Tax credit lead to strong Bottom-line growth

On account of Margin expansion and Tax credits received by Element-K in the US, NIIT recorded a strong 74% yoy growth in its core PAT (excluding profit share from associates). Including share of profit from associates, which grew by just 1% yoy, the company's Bottom-line grew by 32% yoy.

Establishes JV with BPO major, Genpact, to address demand for ITES Sector

In what could be another key new business initiative, NIIT has entered into a joint venture (JV) with BPO major, Genpact, to address the increasing demand for skilled workers in the ITES Sector. NIIT will hold a 75% stake in the venture, called NIIT Institute of Process Excellence (NIPE), with the balance 25% being held by Genpact. The institute will offer courses in business processes, language skills, business communication, finance and accounting (F&A), banking, insurance and supply chain. The IT Industry apex body, NASSCOM estimates that the Indian BPO Industry will generate an additional 1.4mn jobs by 2010. This JV aims to achieve 20-25% share of this market over the next few years.

The JV will set up training facilities in Gurgaon, Hyderabad, Kolkata, Bangalore, Chennai, Mumbai and Pune in its first year of operations, followed by cities in China and the Philippines in the next phase. It expects to have over 250 learning centres by 2012. Thus, the scope for growth seems significant and this JV will further enable NIIT to achieve its goal of becoming a 'Global Talent Development Corporation'.

Declares dividend of 65% for FY2008

The Board of Directors of NIIT has proposed a 65% dividend for FY2008 (Rs1.30 per share, dividend yield of 1.2%).

Outlook and Valuation

Going ahead, we expect NIIT to clock a CAGR of 21.2% and 38.8% in Top-line and Bottom-line respectively, over FY2008-10E. We expect Top-line growth to be driven by the ILS Business, which is expected to grow at a CAGR of 35% over the same period, with ILS-IT expected to grow by 27.4% CAGR and ILS-FMT by a robust 98.4% CAGR. The SLS Business is expected to grow at over-25% CAGR, while the CLS Business is expected to clock a nearly 11% CAGR over the same period. We expect strong Margin expansion over the period led by strong operating leverage in the ILS Business, particularly ILS-FMT. **At the CMP, the stock is trading at 12.7x FY2010E EPS. We maintain an Accumulate on the stock, with a Target Price of Rs123.**

Exhibit 3: Financial Performance

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Total Revenue	272	257	6.2	1,007	795	26.6
Operating Costs	242	236	2.4	903	718	25.9
EBITDA	31	20	50.2	104	78	33.5
Depreciation	13	13	(2.3)	53	47	11.8
Other Income / (Expense)	2	(1)		(10)	(6)	
Income before Income Taxes	20	7	210.8	40	25	62.8
Income Taxes	2	1	118.2	(2)	0	
Net Income	18	5	229.6	42	24	73.7
Share of Profit in Associates	8	12	(35.9)	33	33	1.2
Net Income after Associate Profits	25	17	48.0	76	57	31.9
Diluted EPS (Rs)	1.5	1.0	48.0	4.5	3.4	31.9
EBITDA Margin (%)	11.2	7.9		10.3	9.7	
Net Profit Margin (%)	9.3	6.7		7.5	7.2	
Effective Tax Rate (%)	11.9	16.9		(5.0)	1.6	

Source: Company, Angel Research



Angel Broking Limited

Research Team Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)