

25th January, 2010**REDUCE**

Price	Target Price
Rs 70	Rs 62

Sensex	17,051
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Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(2)	23	223
Rel. to Sensex	4	(2)	10	66

Source: Capitaline

Stock Details

Sector	IT Services
Reuters	NIIT.BO
Bloomberg	NIIT@IN
Equity Capital(Rs mn)	330
Face Value(Rs)	2
52 Week H/L	165
Market Cap(Rs bn//US\$ mn)	12/260
Daily Avg Volume (No of shares)	2912124
Daily Avg Turnover (US\$)	4.4

Shareholding Pattern (%)

(31 st Dec'09)	
Promoters	34.0
FII/NRI	22.8
Institutions	11.4
Private Corp.	10.1
Public	21.7

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Reports below expectations; albeit some signs of revival

NIIT reported Q3FY10 revenues at Rs 2836 mn (+1.7% YoY) missing expectations (Emkay est. of ~Rs 2960 mn). Op profits at Rs 311 (+35.2% YoY) also missed expectations driven by lower revenues/margin performance. Net profits at Rs 94 mn (+71% YoY) missed expectations on account of lower than expected operating performance (Emkay expectations of Rs 148 mn)

ILS revenues were up by ~11% YoY, some improvement here (enrollments growth was up 22% YoY), however we believe that co management's guidance of a 10% YoY growth in ILS would likely be missed and co would end up closer to Emkay estimates of ~7.5% YoY growth for the year.

New businesses (IFBI & Imperia) show some improvement as hiring in financial services showing revival. Corporate training business (50% of revenues) continues to be under pressure and in our view could be a 2HFY11 recovery story at the earliest.

Maintain REDUCE with a TP of Rs 62. We would revise our estimates post concall today.

ILS: on track with expectations

NIIT reported revenues of 964mn (+11% YoY) from the ILS business with operating margins up by ~70 bps YoY to 19.7%. Enrollments grew by ~22% YoY showing some signs of revival. We believe that prospects for the retail training business should look better as hiring by IT services companies gathers pace. All said, co's performance in the retail training business should meet our expectations of ~7.5% YoY growth though miss co's growth guidance of 10% for the year.

Corporate training; Revenues continue to be muted

Revenues from the Corporate training side (50% of overall co wide revenues) at Rs 1339 mn (-0.4% QoQ, -8.4% YoY) remained muted with margins at 6.6% during the quarter after 7%+ over the past 2 quarters. We would await management views on demand outlook for the cos discretionary offerings like custom content and learning products as they form ~50% of the segment.

New business shows pickup

New business (IFBI & Imperia) has shown some revival with revenues at Rs 91 mn (+45% QoQ) as hiring from financial services and other sectors shows some pick up post the FY09 downturn. However new businesses remain too small at ~2-3% of revenues to shift the needle for the co given ~50% revenues from Corporate training and ~34% from retail training business.

Maintain REDUCE with a TP of Rs 62

NIIT continues to miss our muted expectations which are already below co's guidance for each of the segments. We would be reviewing our earnings estimates and rating on NIIT post the concall scheduled today. Maintain REDUCE with a price target of Rs 62.

In Rs mn	Q3FY10	Q2FY10	QoQ (%)	Q3FY09	YoY(%)
Net sales	2836	3597	-21.2%	2788	1.7%
Total Income	2,836	3,597		2,788	
Operating expenses	2525	3102		2558	
EBITDA	311	495	-37.2%	230	35.2%
Margins (%)	11.0	13.8		8.2	
Depreciation	190	198		184	
EBIT	121	297	-59.3%	46	163.0%
Margins (%)	4.3	8.3		1.6	
Other income	-93	-78		-36	
Associates	81	81		51	
Pre-tax profit	28	219		10	
Tax provided	15	39		6	
Profit after tax	13	180		4	
Emkay Net profit	94	261	-64.0%	55	70.9%
EPS (Rs)	0.6	1.6		0.3	

Source: Company, Emkay Research

Segmental Revenue Breakup	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Individual	1224	870	1035	856	1311	964
% to sales	39.5	31.2	34.4	32.8	36.4	34.0
YoY growth	26%	19.5%	15.0%	0.2%	7.1%	10.8%
Institutional	320	370	442	359	878	442
% to sales	10.3	13.3	14.7	13.8	24.4	15.6
YoY growth	32%	74%	17%	42%	174%	19%
Corporate including Element K	1447	1461	1481	1345	1345	1339
% to sales	46.8	52.4	49.2	51.5	37.4	47.2
YoY growth	3%	7%	11%	-4%	-7%	-8%
New Business	104	87	50	50	63	91
% to sales	3.4	3.1	1.7	1.9	1.8	3.2
YoY growth	36.8%	14.5%	-55.4%	-44.4%	-39.4%	4.6%
Net sales	3095	2788	3008	2610	3597	2836
YoY growth	14.5%	16.8%	10.4%	0.5%	16.2%	1.7%

NIIT's operating margin expanded by ~270 bps YoY to 11%, V/s our expectations of 11.7% margins

Segmental EBITDA breakup	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Individual EBITDA	313	165	238	160	354	190
Individual EBITDA, %	25.6	19.0	23.0	18.7	27.0	19.7
Institutional EBITDA	44.0	55.0	80.0	66.0	78.0	78.0
Institutional EBITDA mgns, %	13.8	14.9	18.1	18.4	8.9	17.6
Corporate EBITDA	43	43	95	102	106	88
Corporate EBITDA mgns, %	3.0	2.9	6.4	7.6	7.9	6.6
New Business EBITDA	6	-33	-48	-42	-43	-45
New Business EBITDA mgns, %	5.8	-37.9	-96.0	-84.0	-68.3	-49.5
Company wide Operating profits	406.0	230.0	365.0	286.0	495.0	311.0
Company wide EBITDA margins,%	13.1	8.2	12.1	11.0	13.8	11.0

Source: Company, Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E
Net Sales	10,068	11,487	12,041	13,192
Growth (%)	27	14	5	10
Total Expenditure	(9,033)	(10,295)	(10,582)	(11,459)
Growth (%)	26	14	3	8
EBIDTA	1,035	1,192	1,460	1,733
Growth (%)	34	15	22	19
EBIDTA %	10.3	10.4	12.1	13.1
Other Income	(7)	(46)	(352)	(380)
Depreciation	529	648	755	876
EBIT	506	544	704	858
Interest	-	-	-	-
EBT	833	806	664	860
Tax	(77)	(104)	(44)	(86)
EAT	756	702	620	774
Growth (%)	32	(7)	(12)	25
EAT (%)	7.5	6.1	5.1	5.9

Balance Sheet

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E
Equity share capital	329	330	330	330
Reserves & surplus	3,691	4,479	4,958	5,480
Minority Interest	15	6	6	6
Networth	4,035	4,815	5,294	5,816
Secured Loans	1,836	2,521	3,321	3,621
Unsecured Loans	221	960	960	961
Loan Funds	2,057	3,481	4,281	4,582
Total Liabilities	6,092	8,296	9,575	10,398
Goodwill	2,192	2,192	2,192	2,192
Gross Block	3,622	5,879	6,984	8,311
Less: Depreciation	2,309	2,957	3,712	4,588
Net block	3,505	5,114	5,464	5,915
Capital WIP	476	476	476	476
Investment	892	1,066	1,066	1,066
Current Assets	4,578	5,688	6,599	7,996
Inventories	126	97	130	130
Sundry debtors	2,048	2,904	3,299	3,976
Cash & bank balance	799	747	827	1,075
Loans & advances	1,304	1,500	1,903	2,375
Other current assets	301	441	441	441
Current Liab & Prov	3,611	4,568	4,515	5,541
Current liabilities	3,190	4,122	3,974	4,881
Provisions	421	445	542	660
Net current assets	967	1,121	2,084	2,455
Misc exps	1	1	1	1
Deferred Tax	250	344	344	344
Total Assets	6,092	8,296	9,575	10,398

Cash Flow	FY08	FY09E	FY10E	FY11E
Net Profit after Tax	756	702	620	774
Add : Depreciation	(529)	(648)	(755)	(876)
Add : Misc exp w/off	(1)	(1)	-	-
Net changes in WC	(35)	(24)	(97)	(118)
Operational Cash Flows	1,518	1,049	493	1,612
Capital expenditure	(663)	(2,397)	(1,105)	(1,327)
Investments	-	-	-	-
Investing Cash Flows	(663)	(2,397)	(1,105)	(1,327)
Borrowings	(641)	1,424	800	301
dividend paid	(252)	(252)	(252)	(252)
Issue of shares	507	(32)	32	0
Share Premium	364	8	-	-
Financing Cash Flows	(792)	1,232	756	(40)
changes in cash	63	(116)	144	245
Opening balance	736	799	747	827
Closing balance	799	747	827	1,075

Key ratios	FY08	FY09E	FY10E	FY11E
EPS (Rs)	4.6	4.2	3.7	4.7
CEPS (Rs)	7.7	8.1	8.3	9.9
Book Value Per Share (Rs)	24.3	28.8	31.9	35.0
Dividend Per Share (Rs)	1.3	1.3	1.3	1.3
Valuations Ratios (x)				
PER	15.8	17.0	19.3	15.4
P/CEPS	14.0	13.3	13.0	10.9
P/BV	3.0	2.5	2.3	2.1
EV/EBIDTA	12.8	12.3	10.6	-
EV/Sales	1.3	1.3	1.3	-
M-Cap/sales	1.2	1.0	1.0	0.9
Profitability Ratios (%)				
RoCE	7.9	7.1	7.5	8.1
RoNW	21.1	15.9	12.3	13.9
EBITDA Margin	10.3	10.4	12.1	13.1
EBIT Margins	5.0	4.7	5.8	6.5
Net Profit Margin	7.5	6.1	5.1	5.9

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