

16<sup>th</sup> May 2007**BUY**

Price **Rs319** Target Price **Rs 377**

Sensex - 13,929

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	19	14	69	60
Rel. to Sensex	15	16	63	35

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	TIIN.BO
Bloomberg	III@IN
Equity Capital (Rs mn)	567
Mkt. Cap (Rs bn)	18.1
Face Value (Rs)	10
52 Week H/L	Rs 328/123
Daily Avg Volume (No of shares)	968842
Daily Avg Turnover (US\$ mn)	6.6

**Shareholding Pattern (%)**

Promoters	45.9
FII's /NRI's	10.3
Institutions	15.4
Private Corp	7.9
Public	20.6

Source: BSE,30.09.2006

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**3i Infotech Ltd.**Results  
review**Stellar performance with maiden bonus**

We recently met the management of 3i Infotech Ltd. The management is confident of achieving its revenue guidance of Rs 10-11 bn for FY08 implying growth of 49%-64% yoy and EPS guidance of Rs 20.1-21.5, implying growth of 43%-52% yoy. Managed services and BPO are the newer areas of growth which the company would be focusing in the near future based on its long term relationship with ICICI Bank. Existing products offerings would continue to find increased tractions in APAC and EMEA regions. The company would continue its aggressive inorganic initiatives and has recently raised 30mn Euro (Rs 1.7 bn) through FCCB for acquisitions. Based on better than expected margin improvements, we have upgraded our EBITDA and PAT estimates for FY08E by 4% and 8% respectively. The company has announced maiden bonus of 1:1 in the very 1st year of listing. We maintain BUY, with a 12 month price target of Rs 377 (13x FY09E FDEPS of Rs 29.0).

**Solid FY07**

3i Infotech's revenue grew by 57% to Rs 6.55 bn led by 70% growth in products revenues and 45% growth in services revenues. Products revenues now contribute 50.7% of the total revenues. Gross margins improved by 310 bps yoy to 46.2%, while EBITDA margins improved by 370 bps to 24.2% in FY07. Products gross margin improved by 200 bps to 54.3%, while services gross margin improved by 180 bps to 38%. EBITDA increased by 85% to 1.59 bn and PAT grew by 81% to Rs 1.04 bn. FDEPS works out to Rs 14.1 on equity base of 68.6 mn shares, up 54% yoy.

**Future outlook and valuations**

We expect robust growth –both organic and inorganic to continue for 3i Infotech. All the existing products offerings, managed services, BPO and e-governance would be the future growth drivers of the company. Based on better than expected margin improvements, we have upgraded our EBITDA and PAT estimates for FY08E by 4% and 8% respectively. We have introduced FY09E estimates as well. We expect revenues and FDEPS to post CAGR of 51% and 43% respectively over FY07-09E. Our estimates work out to FDEPS Rs 20.5 and Rs 29.0 for FY08E and FY09E respectively based on fully diluted equity of 74.1 mn shares. At CMP of Rs 319, the stock is trading at 15.6 xFY08E and 11.0 xFY09E FDEPS. With higher than industry average growth rate, better mix of revenues between products and services, improving margins and PEG of 0.3, we believe 3i Infotech is an attractive investment proposition. We maintain BUY, with a 12 month price target of Rs 377 (13x FY09E FDEPS of Rs 29.0).

**Earnings upgrade expected to our estimates**

We have not considered any revenues and profits of recently concluded acquisitions of Professional Access (US\$ 24 mn annual run rate with 8-10% PAT margins), since the deal is expected to be signed by next month end only. Similarly, we have not considered any revenues and profits from recently concluded Euro 30 mn FCCB (~ Rs 1.7 bn), though we have taken equity dilution (5.5 mn shares) in our estimates.

**Key financials (Rs mn)**

Mar	Rev	EBITDA	EBITDA	PAT	EPS	EPS	RoE	EV/	P/BV	P/E
			(%)		(Rs)	Gr (%)	(%)	EBITDA	(x)	(x)
FY06	4,178	858	20.5	574	9.1	34.0	18.8	21.8	6.3	35.0
FY07	6,555	1,585	24.2	1,037	14.1	54.2	27.1	14.9	5.1	22.7
FY08E	10,658	2,516	23.6	1,589	20.5	45.3	30.5	9.1	3.6	15.6
FY09E	14,981	3,516	23.5	2,221	29.0	41.6	30.7	6.0	2.6	11.0

### Stellar Q4 performance

3i Infotech posted revenue growth of 22.5% qoq to Rs 2,102 mn, ahead of our expectations of Rs 1,968 mn on the back of strong growth in services revenues (28.3% qoq) and consolidation of recently acquired Rhyme systems. EBITDA margins further improved by 10 bps to 25%. EBITDA jumped by 23% qoq to Rs 525 mn, ahead of our expectations of Rs 486 mn. However, due to lower other income and higher taxes, PAT grew by 16.5% qoq to Rs 322 mn, which was also ahead of our expectations of Rs 304 mn. The company has announced maiden bonus of 1:1 in the very 1st year of listing. The company has proposed dividend at 20% for FY07.

### Faster growing order book position

Order book position has more than doubled in last one year. Services order book position recorded 69% qoq jump in Q4FY07 mainly on account of increased traction in managed services, BPO and e-governance contracts.

Order Book (Rs mn)	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
<b>Product</b>	945	1,323	1,465	1,609	2,544	2,778
QoQ growth	28%	40%	11%	10%	58%	9%
<b>Service</b>	1,301	1,341	1,467	1,614	1,723	2,909
QoQ growth	-1%	3%	9%	10%	7%	69%
Total	2,246	2,664	2,932	3,223	4,268	5,687
QoQ growth	10%	19%	10%	10%	32%	33%
QoQ Order Addition	196	418	268	291	1,044	1,420

Source: Company

### Future acquisitions

3i Infotech would continue its aggressive inorganic initiatives and has recently raised 30mn Euro (Rs 1.7 bn) through FCCB for acquisitions. FCCB's are convertible over a period of five years with a conversion price of Rs 309/-. The company has identified managed services and BPO as areas of future acquisitions to strengthen its offerings in services segment. Trade finance and cash management are the gaps in the products offerings which the company intends to fill through acquisitions.

### Strong guidance for FY08

All the existing products offerings, managed services, BPO and e-governance would be the future growth drivers of the company. The order book position as on 31<sup>st</sup> March, 2007 stood at Rs 5.7 bn - Rs 2.8 bn from products and Rs 2.9 bn from services, up from Rs 2.66 bn as on 31<sup>st</sup> March, 2006. The company has given guidance of Rs 10-11 bn in terms of revenues and Rs 1.45-1.55 bn in terms of net profits for FY08E. The company has given guidance of Rs 20.1-21.5 EPS for FY08E based on equity of 68.6 mn shares.

### Risks and concerns

Products revenues are non-uniform in nature, thereby exposing the company to higher uncertainty / volatility in revenues. Higher dependence on the ICICI Bank Group as a single large customer, where growth is expected to be below average company growth. Further equity dilution through new ESOPs cannot be ruled out. Debt (including preference capital and FCCBs) / Equity ratio of 2:1 could provide strain on company's cash flow.

## Quarterly Results Analysis

## Consolidated Income Statements

March end (Rs in mn)	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
<b>Operating Revenues</b>	<b>885</b>	<b>974</b>	<b>1,120</b>	<b>1,200</b>	<b>1,285</b>	<b>1,450</b>	<b>1,716</b>	<b>2,102</b>
<b>Q-o-Q growth (%)</b>	<b>9.4</b>	<b>10.0</b>	<b>15.0</b>	<b>7.1</b>	<b>7.1</b>	<b>12.9</b>	<b>18.3</b>	<b>22.5</b>
Products Revenues	400	443	528	580	628	699	917	1,076
Services Revenues	484	530	592	620	657	751	800	1,026
Cost of Revenues	502	552	629	667	697	778	924	1,122
Gross Profit	383	422	491	533	587	672	792	980
Products Gross Profit	206	223	286	306	330	384	509	580
Services Gross Profit	176	199	205	227	257	288	284	400
S,G and A Expenses	213	222	257	277	294	331	366	455
<b>EBITDA</b>	<b>170</b>	<b>200</b>	<b>234</b>	<b>255</b>	<b>293</b>	<b>341</b>	<b>427</b>	<b>525</b>
<b>Q-o-Q growth (%)</b>	<b>19.7</b>	<b>17.7</b>	<b>17.1</b>	<b>9.3</b>	<b>14.8</b>	<b>16.2</b>	<b>25.2</b>	<b>23.0</b>
Interest	25	13	20	25	32	45	71	61
Depreciation/Amort	56	73	66	65	79	90	133	131
Other Income	15	10	24	16	48	39	61	8
PBT	103	123	172	182	231	245	283	340
Tax	(0)	(10)	7	6	17	13	4	20
PAT	103	133	165	176	214	232	279	320
Minority interest	-	-	2	1	-	6	3	(2)
<b>NetPAT</b>	<b>103</b>	<b>133</b>	<b>163</b>	<b>175</b>	<b>214</b>	<b>226</b>	<b>276</b>	<b>322</b>
<b>Q-o-Q growth (%)</b>	<b>37.3</b>	<b>29.6</b>	<b>22.0</b>	<b>7.6</b>	<b>22.2</b>	<b>5.4</b>	<b>22.6</b>	<b>16.5</b>
Gross margin (%)	43.2	43.3	43.8	44.4	45.7	46.3	46.2	46.6
Products Gross margin (%)	51.5	50.3	54.1	52.7	52.5	55.0	55.5	53.9
Services Gross margin (%)	36.4	37.5	34.6	36.6	39.1	38.3	35.5	39.0
EBITDA margin (%)	19.2	20.5	20.9	21.3	22.8	23.5	24.9	25.0
Net Margin (%)	11.4	13.6	14.4	14.5	16.1	15.6	15.7	15.2

Source: Company

## Operating Matrices

Geography Mix (%)	FY06	FY07
India	39	35
EMEA	25	21
USA	29	28
Asia Pacific	7	10
UK		6
Customer Concentration (%)	FY06	FY07
Top Customer (ICICI Group)	21	17
Top 5 (excluding ICICI Group)	11	9
Top 10 (excluding ICICI Group)	16	15
No. of mn \$ clients	FY06	FY07
>1 mn \$	17	32
>5 mn \$	2	4

Source: Company

### Change in Estimates

Based on better than expected margin improvements, we have upgraded our EBITDA and PAT estimates for FY08E by 4% and 8% respectively.

(Rsmn)	FY08E		
	Old	Revised	% Change
Revenues	10,645	10,645	0%
EBITDA	2,408	2,516	4%
PAT	1,468	1,589	8%
EPS(Rs.)	21.0	20.5	-2%
O/s shares	66.6	74.1	11%

### Future outlook and valuations

We expect robust growth –both organic and inorganic to continue for 3i Infotech. The company plans to recruit 400-500 employees for FY08E on the current employee base of 3,400+. The company has announced wage hike of 12% for FY08E. Attrition at 15% for FY07 is well within the industry standard. Based on better than expected margin improvements, we have upgraded our EBITDA and PAT estimates for FY08E by 4% and 8% respectively. We have introduced FY09E estimates as well. We now expect revenues and FDEPS to post CAGR of 51% and 43% respectively over FY07-09E. Our estimates work out to FDEPS Rs 20.5 and Rs 29.0 for FY08E and FY09E respectively based on fully diluted equity of 74.1 mn shares. At CMP of Rs 319, the stock is trading at 15.6 xFY08E and 11.0 xFY09E FDEPS. With higher than industry average growth rate, better mix of revenues between products and services, improving margins and PEG of 0.3, we believe 3i Infotech is an attractive investment propositions. We maintain BUY, with a 12 month price target of Rs 377 (13x FY09E FDEPS of Rs 29.0).

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## Income Statement

March end (Rs in mn)	FY06	FY07	FY08E	FY09E
<b>Operating Revenues</b>	<b>4,178</b>	<b>6,555</b>	<b>10,658</b>	<b>14,981</b>
<b>Y-o-Y Growth</b>	<b>44%</b>	<b>57%</b>	<b>63%</b>	<b>41%</b>
Products Revenues	1,952	3,321	5,407	7,459
Y-o-Y Growth	52%	70%	63%	38%
Services Revenues	2,227	3,234	5,251	7,522
Y-o-Y Growth	39%	45%	62%	43%
Cost of Revenues	2,351	3,524	5,797	8,245
Gross Profit	1,827	3,031	4,861	6,737
Products Gross Profit	1,020	1,803	2,866	3,954
Services Gross Profit	807	1,228	1,995	2,783
Gross margin (%)	43.1%	46.2%	45.6%	45.0%
Products Gross margin (%)	52%	54%	53%	53%
Services Gross margin (%)	36%	38%	38%	37%
S,G and A Expenses	969	1,446	2,345	3,221
<b>EBITDA</b>	<b>858</b>	<b>1,585</b>	<b>2,516</b>	<b>3,516</b>
<b>Y-o-Y Growth</b>	<b>79%</b>	<b>85%</b>	<b>59%</b>	<b>40%</b>
EBITDA margin (%)	20.5%	24.2%	23.6%	23.5%
Interest	83	209	295	375
Depreciation and Amort.	261	433	620	780
Other Income	65	155	142	172
PBT	580	1,098	1,743	2,532
Tax	3	54	131	241
PAT	577	1,044	1,612	2,292
Minority interest	2	7	23	71
<b>Net PAT</b>	<b>574</b>	<b>1,037</b>	<b>1,589</b>	<b>2,221</b>
<b>Y-o-Y Growth</b>	<b>79%</b>	<b>81%</b>	<b>53%</b>	<b>40%</b>
Net Margin (%)	13.5%	15.5%	14.7%	14.7%
Pref Div	72	71	72	72
Profits available to Equity	502	966	1,517	2,148
Basic EPS	9.5	17.8	26.9	38.2
<b>Diluted EPS</b>	<b>9.1</b>	<b>14.1</b>	<b>20.5</b>	<b>29.0</b>
<b>Y-o-Y Growth</b>	<b>34%</b>	<b>54%</b>	<b>45%</b>	<b>42%</b>

Source: Company, Emkay research

## Cash Flow Statement

March end (Rs in mn)	FY06	FY07	FY08E	FY09E
PBT	580	1,098	1,743	2,532
Depreciation	261	433	620	780
Other Misc Non-Cash Adj	95	(615)	(446)	(572)
Changes in working capital	(666)	(847)	(835)	(366)
Taxes (Paid) / Refund	(53)	(54)	(131)	(241)
Cash Flow from Operations	217	16	951	2,134
Net capital expenditures	(1,064)	(3,731)	(140)	(200)
Net Borrowings	1,896	2,871	196	150
Redemption of Preference Capital	(500)	0	0	0
Net Cash Flow	550	(844)	1,007	2,084
Dividends including tax thereon	(147)	(183)	(184)	(184)
Issue of Equity	2,055	30	0	0
Cash at the beginning	147	2,604	1,607	2,430
Cash at the end	2,604	1,607	2,430	4,329

Source: Company, Emkay research

## Balance Sheet

March end (Rs in mn)	FY06	FY07	FY08E	FY09E
Equity Share Capital	530	560	560	560
Preference Share Capital	1,000	1,000	1,000	1,000
Reserves	2,148	3,002	4,407	6,442
<b>Net Worth</b>	<b>3,679</b>	<b>4,563</b>	<b>5,967</b>	<b>8,003</b>
Minority Interest	7	14	37	37
Secured Loans	715	1,425	1,475	1,525
Unsecured Loans	2,635	4,781	4,881	4,981
Total Loans	3,357	6,221	6,394	6,544
<b>Total Liabilities</b>	<b>7,036</b>	<b>10,784</b>	<b>12,361</b>	<b>14,547</b>
<b>Goodwill</b>	<b>704</b>	<b>5,578</b>	<b>5,578</b>	<b>5,578</b>
Gross Block	3,296	2,046	2,246	2,496
Less : Depreciation	1,111	944	1,164	1,444
<b>Net Block</b>	<b>2,185</b>	<b>1,103</b>	<b>1,083</b>	<b>1,053</b>
Capital Work-in-Progress	53	160	100	50
Investments	1	10	15	15
Deferred Tax Asset (net)	136	400	400	400
Inventories	3	10	15	15
Debtors	1,139	1,765	2,559	3,327
Unbilled Revenues	972	1,555	2,333	3,033
Cash & Cash equivalents	2,604	1,607	2,430	4,330
Total Current Assets	4,718	4,937	7,337	10,704
Loans and Advances	448	538	646	775
Current Liabilities	940	1,551	2,249	3,261
Provisions	270	391	548	767
<b>Working Capital</b>	<b>3,957</b>	<b>3,533</b>	<b>5,186</b>	<b>7,451</b>
<b>Total Assets</b>	<b>7,036</b>	<b>10,784</b>	<b>12,361</b>	<b>14,547</b>

Source: Company, Emkay research

## Ratios

March end (Rs in mn)	FY06	FY07	FY08E	FY09E
<b>Valuation ratios (x)</b>				
PE	35.0	22.7	15.6	11.0
P/CEPS	22.2	12.6	8.4	6.2
P/BV	6.3	5.1	3.6	2.6
Mcap/Sales	4.1	2.7	1.7	1.2
EV/EBITDA	21.8	14.9	9.1	6.0
EV/ Revenues	4.5	3.6	2.2	1.4
PEG	0.4	0.3	0.3	0.3
<b>Return (%)</b>				
Return to Equityshareholders	18.8	27.1	30.5	30.7
ROCE	13.8	12.1	16.5	17.4
<b>Per Share Data (Rs.)</b>				
Basic EPS	9.5	17.8	26.9	38.2
Diluted EPS	9.1	14.1	20.5	29.0
CEPS	14.4	25.5	38.0	52.0
BVPS	50.5	63.3	88.2	124.4
DPS	2.0	2.0	2.0	2.0
<b>Other Ratios</b>				
Current Ratio	3.9	2.5	2.6	2.7
D/E Ratio*	1.6	2.0	1.5	1.1

\*Debt includes Preference Share Capital plus FCCB also

Source: Company, Emkay research

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