

Maintain REDUCE with a target of Rs 62

27th Oct'09

REDUCE

Price Target Price
Rs 68 Rs 62

Sensex 16,741

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	6	142	147
Rel. to Sensex	0	(3)	65	28

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	77/14
Market Cap(Rs bn//US\$ mn)	11/236
Daily Avg Volume (No of shares)	8385940
Daily Avg Turnover (US\$)	12.5

Shareholding Pattern (%)

(30th Sept'09)

Promoters	34.0
FII/NRI	17.7
Institutions	11.9
Private Corp.	12.6
Public	23.8

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NIIT reported Q2FY10 revenues at Rs 3597 mn (+16.2% YoY) ~10% higher than our expectations driven by one time H/W sales in the SLS during the quarter. Further operating profits at Rs 495 mn (+22% YoY) also beat expectations driven by higher revenues.

Revenue performance in the retail training business was in line with our expectations (in our view it still is lagging per co guidance and hence makes it a slightly tough task for the company to meet the annual guidance of ~10% YoY growth, note that we build in only ~7% YoY growth here). However margin performance in the ILS business continue to surprise positively with operating margins from the segment up by 140 bps sequentially at 27%, the highest ever.

Co has posted a 4.3% YoY growth in Net revenues in the retail training business, implying an asking rate of ~16% YoY growth for H2FY10, a tough ask in our view. We leave our estimates at ~7% growth for FY10, implying ~10.6% YoY growth for H2FY10

Better margin performance in CLS and retail training business lead a raise in our FY10/FY11 EBITDA by ~2.4%/5.2% respectively. However we maintain our FY10 EPS estimates at Rs 4.1 while raise our FY11 EPS estimates marginally by ~3.6% to Rs 4.3.

Co plans to raise Rs 2.3 bn through a combination of preferential issue warrants which is positive in our view as that prepares the company well for the slew of PPP projects that would come up over H2FY10/FY11.

Maintain REDUCE with a revised target price of Rs 62 (Rs 56 earlier) based on 13.5x 1 year rolling forward earnings, average of 5 year 1 year P/E multiple.

ILS revenue performance lower than co guidance

NIIT reported revenues of Rs 1311 mn, up 7% YoY and in line with our expectations though lower than the co guidance. Note that the co has guided for ~10% YoY growth in revenues from the retail training business, thereby implying a 16% YoY growth for H2FY10 after a dismal 4.2% YoY growth for H1FY10. However co's margin performance is credible with co reporting ~140 bps increase in operating margins to 27, the highest ever in the past 4 years. Although the company maintained it's target of achieving 10% YoY growth in ILS, we remain lower at ~7% YoY growth for FY10 and assuming a pickup only in FY11 as we building ~13% YoY growth.

Margins are the real surprise

NIIT's operating margin performance has been credible over the past 2 quarters with the company not only being able to hold but increase margins in the retail IT training business but also implementing cost controls in the corporate training business which has offset the revenue headwinds from the segment. (refer table below for segmental margins)

Maintain REDUCE with a revised TP of Rs 62

We have revised our FY10 revenue, margin estimates by ~3% however our EPS estimates remain largely unchanged offset by higher depreciation assumption. However for FY11, we raise our revenue, EBITDA and EPS estimates by ~1%, 5.2% and 3.6% respectively. We maintain REDUCE with a revised target price of Rs 62, based on 13.5x 1 year rolling forward P/E multiple (V/s Rs 56 earlier). We had cut our rating to REDUCE in July'09 citing fuller valuations and we believe that the stock price performance has remained in line with expectations with NIIT underperforming peers as well as broader markets.

NIIT reported higher revenues driven by H/w sales in the SLS segment

In Rs mn	Q2FY10	Q1FY10	QoQ (%)	Q2FY09	YoY(%)
Net sales	3597	2610	37.8%	3095	16.2%
Total Income	3,597	2,610		3,095	
Operating expenses	3102	2324		2689	
EBITDA	495	286	73.1%	406	21.9%
Margins (%)	13.8	11.0		13.1	
Depreciation	198	168		146	
EBIT	297	118	151.7%	260	14.2%
Margins (%)	8.3	4.5		8.4	
Other income	-78	-101		21	
Associates	81	56		89	
Pre-tax profit	219	17		281	
Tax provided	39	-26		73	
Profit after tax	180	43		208	
Emkay Net profit	261	99	163.6%	297	-12.1%
EPS (Rs)	1.6	0.6		1.8	

Source: Company, Emkay Research

Segmental Revenue Breakup	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Individual	854	1224	870	1035	856	1311
% to sales	32.9	39.5	31.2	34.4	32.8	36.4
YoY growth	34%	26%	19.5%	15.0%	0.2%	7.1%
Institutional	252	320	370	442	359	878
% to sales	9.7	10.3	13.3	14.7	13.8	24.4
YoY growth	42%	32%	74%	17%	42%	174%
Corporate including Element K	1400	1447	1461	1481	1345	1345
% to sales	53.9	46.8	52.4	49.2	51.5	37.4
YoY growth	0%	3%	7%	11%	-4%	-7%
New Business	90	104	87	50	50	63
% to sales	3.5	3.4	3.1	1.7	1.9	1.8
YoY growth	104.5%	36.8%	14.5%	-55.4%	-44.4%	-39.4%
Net sales	2596	3095	2788	3008	2610	3597
YoY growth	15.2%	14.5%	16.8%	10.4%	0.5%	16.2%

NIIT's operating margin expansion came in at 70 bps YoY V/s our expectations of ~60 bps increase.

Segmental EBITDA breakup	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Individual EBITDA	151	313	165	238	160	354
Individual EBITDA, %	17.7	25.6	19.0	23.0	18.7	27.0
Institutional EBITDA	34.6	44.0	55.0	80.0	66.0	78.0
Institutional EBITDA mgns, %	13.7	13.8	14.9	18.1	18.4	8.9
Corporate EBITDA	3	43	43	95	102	106
Corporate EBITDA mgns, %	0.2	3.0	2.9	6.4	7.6	7.9
New Business EBITDA	2	6	-33	-48	-42	-43
New Business EBITDA mgns, %	2.2	5.8	-37.9	-96.0	-84.0	-68.3
Company wide Operating profits	190.6	406.0	230.0	365.0	286.0	495.0
Company wide EBITDA margins, %	7.3	13.1	8.2	12.1	11.0	13.8

Source: Company, Emkay Research

NIIT has underperformed both broader markets and peer Educomp over the past 1 month and past 3 months.

	1M	3M	6M	12M
NIIT(%)				
Absolute	0	6	142	147
Rel to Sensex	0	(3)	65	28
Educomp(%)				
Absolute	6	13	82	165
Rel to Sensex	5	4	24	37

Source: Emkay Research

We are building ~7% YoY increase in ILS as compared to co outlook of ~10% YoY increase for FY10. To achieve per co guidance, ILS revenues would need to grow by ~16% YoY in H2FY10.

(in Rs mn, except EPS)	FY10E			FY11E		
	Old	New	change	Old	New	change
Revenues	11773	12154	3.2%	13020	13154	1.0%
EBITDA	1455	1500	3.1%	1654	1741	5.2%
Net Profits	657	657	0.1%	685	710	3.6%
EPS	4.0	4.0	0.1%	4.1	4.3	3.6%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E
Net Sales	10,068	11,487	12,154	13,154
Growth (%)	27	14	6	8
Total Expenditure	(9,033)	(10,295)	(10,653)	(11,413)
Growth (%)	26	14	3	7
EBIDTA	1,035	1,192	1,500	1,741
Growth (%)	34	15	26	16
EBIDTA %	10.3	10.4	12.3	13.2
Other Income	(7)	(46)	(339)	(380)
Depreciation	529	648	760	878
EBIT	506	544	740	863
Interest	-	-	-	-
EBT	833	806	700	797
Tax	(77)	(104)	(43)	(87)
EAT	756	702	657	710
Growth (%)	32	(7)	(6)	8
EAT (%)	7.5	6.1	5.4	5.4

Balance Sheet

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E
Equity share capital	329	330	330	330
Reserves & surplus	3,691	4,479	4,995	5,453
Minority Interest	15	6	6	6
Networth	4,035	4,815	5,331	5,789
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	9,613	10,371
Goodwill	2,192	2,192	2,192	2,192
Gross Block	3,622	5,879	7,049	8,287
Less: Depreciation	2,309	2,957	3,717	4,595
Net block	3,505	5,114	5,524	5,884
Capital WIP	476	476	476	476
Investment	892	1,066	1,066	1,066
Current Assets	4,578	5,688	6,619	7,984
Inventories	126	97	130	130
Sundry debtors	2,048	2,904	3,330	3,964
Cash & bank balance	799	747	798	1,082
Loans & advances	1,304	1,500	1,920	2,368
Other current assets	301	441	441	441
Current Liab & Prov	3,611	4,568	4,558	5,525
Current liabilities	3,190	4,122	4,011	4,867
Provisions	421	445	547	658
Net current assets	967	1,121	2,061	2,459
Misc exps	1	1	1	1
Deferred Tax	250	344	344	344
Total Assets	6,092	8,296	9,612	10,371

Cash Flow	FY08	FY09E	FY10E	FY11E
Net Profit after Tax	756	702	657	710
Add : Depreciation	(529)	(648)	(760)	(878)
Add : Misc exp w/off	(1)	(1)	-	-
Net changes in WC	(35)	(24)	(102)	(111)
Operational Cash Flows	1,518	1,049	529	1,560
Capital expenditure	(663)	(2,397)	(1,170)	(1,238)
Investments	-	-	-	-
Investing Cash Flows	(663)	(2,397)	(1,170)	(1,238)
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)	114	282
Opening balance	736	799	747	798
Closing balance	799	747	798	1,082

Key ratios	FY08	FY09E	FY10E	FY11E
EPS (Rs)	4.6	4.2	4.0	4.3
CEPS (Rs)	7.7	8.1	8.5	9.6
Book Value Per Share (Rs)	24.3	28.8	32.1	34.9
Dividend Per Share (Rs)	1.3	1.3	1.3	1.3
Valuations Ratios (x)				
PER	15.9	17.1	18.3	16.9
P/CEPS	14.0	13.3	12.6	11.3
P/BV	3.0	2.5	2.3	2.1
EV/EBIDTA	12.8	12.4	10.3	-
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	7.8	8.1
RoNW	21.1	15.9	13.0	12.8
EBITDA Margin	10.3	10.4	12.3	13.2
EBIT Margins	5.0	4.7	6.1	6.6
Net Profit Margin	7.5	6.1	5.4	5.4

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