

RESULT UPDATE ✓

3i Infotech (3IINFO)

WHAT'S CHANGED...

PRICE TARGET.....Changed to Rs 43 from Rs 178
 EPS (FY09E).....Changed to Rs 14.1 from Rs 15.1
 EPS (FY10E).....Changed to Rs 16.9 from Rs 19.8
 RATING.....Changed to Hold from Outperformer

Current Price Rs 39	Target Price Rs 43
Potential upside 10%	Time Frame 12 months

HOLD

Yash Gadodia

yash.gadodia@icicidirect.com

Srishti Anand

srishti.anand@icicidirect.com

Yet another stellar performance...

3i Infotech's Q2FY09 results were ahead of our expectations with revenues growing 28.4% QoQ to Rs 602 crore. This quarter saw the full impact of the Regulus acquisition done in Q109. This resulted in an inorganic growth of 20.2%. Organically the company grew at a robust 8.5%. The company has achieved its targeted one-third business from each of its business segment namely products, services and transactions. This has resulted in EBITDA margins falling by 50 bps QoQ to 19% due to higher contribution from the low margin transaction services business. Net profit grew 16.5% QoQ to Rs 68 crore.

Growth on track

3i Infotech's higher-than-expected growth was driven by the transaction services segment, which saw a 92% QoQ growth driven primarily by the impact of the consolidation of Regulus done in Q109. Products grew at a robust 13.7% while services growth was comparatively muted at 7.8%. Gross margins were down by 100 bps at 40.9% compared to 41.9% in Q109. On the positive side, products margins improved 3.3% QoQ. However, services margins declined by 1.7% QoQ whereas the transaction services margins remained relatively flat. On the EBITDA front, margins were down by 50 bps QoQ due to higher contribution of the transaction services business and also consolidation of acquisitions done in the past, which have lower than company average EBITDA margins. Net profits grew 16.5% to Rs 68 crore. If we exclude the impact of the inorganic growth the company has maintained its net profit margins in a narrow range (Exhibit 3).

FCCB the only downside

The company has outstanding FCCBs worth \$120 million and €30 million. The conversion price for the same is in the range of Rs 115-Rs 166, with maturity latest by July 2012. Given the recent slump in the stock price this could act as a drag on the future profitability of the company.

Exhibit 1: Key Financials

(Rs Crore)	Q2FY09	Q1FY09	Q-o-Q Growth %	Q2FY08	Y-o-Y growth %	FY09E	FY10E
Revenues	601.6	468.5	28.4	277.9	116.5	2188.9	2875.9
Operating expenses	487.4	377.3	29.2	219.0	122.5	1769.4	2326.2
EBIDTA	114.2	91.1	25.3	58.8	94.2	419.5	549.7
EBIDTA margin	19.0%	19.5%		21.2%		19.2%	19.1%
Other income	5.3	3.2	67.5	6.1	-13.1	14.4	14.0
Depreciation	15.3	11.8	29.6	5.2	196.2	58.5	85.0
Interest	23.6	18.0	30.9	13.1	80.7	90.2	102.9
PBT	80.6	64.4	25.1	46.7	72.7	285.3	375.8
Tax	8.6	6.3	36.5	3.6	138.3	33.1	56.4
PAT	71.9	58.1	23.8	43.0	67.1	252.2	319.4
Share of profit from associates	3.6	-0.6	-749.8	3.0	21.1	8.6	26.7
Net profit	68.4	58.7	16.5	40.1	70.5	243.5	292.8

Source: Company, ICICIdirect.com Research

Valuations

The management has raised its full year revenue target to Rs 2200-2300 crore from the earlier estimate of Rs 1600-1700 crore. This includes the Rs 500 crore from the Regulus acquisition. On the EPS front, the management has increased its full year guidance from Rs 13-13.5 to Rs 14-14.5. The company has an outstanding order book worth Rs 1372 crore executable over the next 12 months. Although the recent stock underperformance has made valuations fairly attractive, the high debt exposure of the company (including FCCBs) would cap the upside. Hence, we have changed our rating on the stock to **HOLD**.

Exhibit 2: Segmental Break-up

(Rs crore)	Q2FY09	Q1FY09	growth %	Q2FY08	growth %
Revenue					
Software Products	212.5	186.9	13.7	129.8	63.6
IT Services	194.4	180.4	7.8	108.9	78.5
Transaction Services	194.8	101.2	92.4	39.1	397.6
Total	601.6	468.5	28.4	277.9	116.5
Gross Profit					
Software Products	119.7	99.2	20.7	71.1	68.3
Margin	56.3%	53.1%		54.8%	
IT Services	69.8	67.9	2.8	44.9	55.3
Margin	35.9%	37.6%		41.2%	
Transaction Services	56.5	29.2	93.7	12.5	351.2
Margin	29.0%	28.8%		32.0%	
Total	246.0	196.2	25.4	128.5	91.4
Margin	40.9%	41.9%		46.3%	

Source: Company, ICICIdirect.com Research

Exhibit 3: Organic and Inorganic break-up

(Rs Crore)	Revenue	Gross Profit	NPM
Consolidated	1078.5	130.0	12.1%
Regulus Group LLC	185.6	6.2	3.4%
Taxsmile & Citizen Services	0.9	-4.7	
Normal Business	892.0	128.5	14.4%

Source: Company, ICICIdirect.com Research

Exhibit 4: Order Book

GEOGRAPHIES\ BUSINESS LINES	BANKING		CAPITAL		SERVICES	TOTAL
	ERP	INSURANCE	PRODUCTS	MARKETS		
SOUTH ASIA	11.8	20.9	12.5	12.9	526.9	585.0
USA	13.0	5.2	72.1	-	420.4	510.6
MEARC	41.6	59.5	34.8	13.4	16.0	165.2
APAC	3.0	13.8	11.7	3.2	4.6	36.2
WE	-	-	0.6	74.2	0.6	75.4
TOTAL	69.3	99.3	131.7	103.6	968.5	1372.4

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

Pankaj Pandey

Head – Research

pankaj.pandey@icicidirect.com

**ICICIdirect Research Desk,
ICICI Securities Limited,
Gr. Floor, Mafatlal House,
163, HT Parekh Marg,
Backbay Reclamation
Churchgate,
Mumbai – 400 020**

research@icicidirect.com

ANALYST CERTIFICATION

We /I, Yash Gadodia MA Srishti Anand MBA (Finance) research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that Yash Gadodia MA Srishti Anand MBA (Finance) research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Yash Gadodia MA Srishti Anand MBA (Finance) research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.
