

## Company

22 July 2010 | 7 pages

# NIIT (NIIT.BO)

 Equity 

## Inline Q1 Results

- Q1 inline with expectations** — Revenues at Rs2.8b in 1Q11 were up ~7% yoy (CIRA: Rs2.9b) while net profit at Rs130m was up ~31% yoy (CIRA: Rs140m). However, the EBITDA margin at 10.3% came in below our estimate of 12.6% – there was an impact of ~300bps due to salary hikes, increased rental costs and forex volatility. This was more than made up by the better-than-expected contribution from associates.
- Individual segment (ILS) disappoints** — Revenues grew ~6% yoy with a margin decline of ~200bps, below our expectations of ~12% yoy revenue growth and ~30bps margin expansion. The company has taken a price hike in mid-April, which is expected to impact FY11 positively by ~200-250bps. Management maintained its guidance of ~10-12% yoy revenue growth for FY11.
- Corporate segment (CLS) picked up** — Revenues grew ~2% yoy with a margin expansion of ~30bps vs. our expectations of a revenue decline of ~2% and margin expansion of ~140bps. At ~11% yoy CLS volumes picked up significantly. The company has won a contract of ~\$10m from a European telecom company for training outsourcing in Q1. It has also won another contract, again from Europe, in the last 20-days (i.e. in Q2).
- Schools segment (SLS) below expectations; New Businesses do well** — Revenues at ~Rs380m grew ~7% yoy with a margin decline of ~140bps – our expectation was for a significant pick up in revenues (to Rs531m) along with a margin decline of ~330bps. SLS had a strong order intake of ~Rs1.6b which bodes well for the future. New Businesses revenues at Rs110m came in ahead of our estimates and more than doubled, with the operating losses decreasing on a yoy basis.
- Maintain Buy** — NIIT added 68 sales people in Q1 (~9% of quarter ago base). Q1 is generally the weakest quarter and with trends expected to be clearer in Q2, historically the strongest quarter for NIIT, we maintain our Buy recommendation.

### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	673	4.08	-12.2	17.3	2.4	15.3	1.8
2010A	685	4.15	1.7	17.1	2.3	13.9	2.0
2011E	887	5.34	28.7	13.3	2.1	16.6	2.1
2012E	1,011	6.09	14.0	11.6	1.8	16.8	2.1
2013E	1,096	6.59	8.4	10.7	1.6	16.2	2.1

Source: Powered by dataCentral

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (21 Jul 10)	Rs70.75
Target price	Rs85.00
Expected share price return	20.1%
Expected dividend yield	2.1%
<b>Expected total return</b>	<b>22.3%</b>
Market Cap	Rs11,681M
	US\$247M

### Price Performance (RIC: NIIT.BO, BB: NIIT IN)



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## Result Tables

Figure 1. Key Financials

Rs m	1Q10	1Q11	YoY
<b>Revenues</b>	<b>2,610</b>	<b>2,780</b>	<b>7%</b>
Operating expenses	2,324	2,493	7%
<b>EBITDA</b>	<b>286</b>	<b>287</b>	<b>0%</b>
<b>EBITDA margin</b>	<b>11.0%</b>	<b>10.3%</b>	<b>-63bp</b>
Depreciation	168	203	21%
<b>EBIT</b>	<b>118</b>	<b>84</b>	<b>-29%</b>
<b>EBIT margin</b>	<b>4.5%</b>	<b>3.0%</b>	<b>-150bp</b>
Income from operations	43	25	-42%
Equity income	56	105	88%
Reported net profit	99	130	31%
<b>EPS (basic)</b>	<b>0.60</b>	<b>0.79</b>	<b>31%</b>
<b>EPS (fully diluted)</b>	<b>0.60</b>	<b>0.78</b>	<b>31%</b>

Source: Company Reports

Figure 2. Segmental Financials

Rs m	1Q10	1Q11	YoY
<b>ILS</b>			
Net revenue	856	908	6.0%
Operating expenses	696	758	8.9%
Operating profit	160	150	-6.5%
Operating margin	18.7%	16.5%	-221bp
<b>SLS</b>			
Net revenue	359	384	6.9%
Operating expenses	293	319	8.7%
Operating profit	66	65	-1.4%
Operating margin	18.3%	16.9%	-142bp
<b>CLS</b>			
Net revenue	1,345	1,377	2.4%
Operating expenses	1,243	1,269	2.1%
Operating profit	102	108	5.9%
Operating margin	7.6%	7.8%	26bp
<b>New Businesses</b>			
Net revenue	50	110	120.1%
Operating expenses	92	147	60.1%
Operating profit	-42	-37	-11.6%
Operating margin	-84%	-34%	5008bp
<b>Consolidated</b>			
Net revenue	2,610	2,780	6.5%
Operating expenses	2,324	2,493	7.3%
Operating profit	286	287	0.3%
Operating margin	11.0%	10.3%	-63bp

Source: Company Reports

## NIIT

### Company description

NIIT, an acknowledged leader in IT and IT-enabled training, provides learning and knowledge solutions in more than 40 countries. IDC brackets NIIT among the top 20 global IT training market leaders. Dataquest has conferred upon NIIT, the 'Top IT Training Company' award successively for the past 15 years. NIIT's Knowledge Solutions Practice is a leading offshore vendor in knowledge management and e-Learning. NIIT offers integrated learning solutions ranging from strategy and design to development, implementation and administration.

### Investment strategy

We rate NIIT as Buy/Medium Risk (1M) given its leverage to the recovery in the macro economy. NIIT feeds into the IT industry and hiring has picked up once again. This, along with increased attrition, will necessitate a pickup in revenue momentum for players like NIIT. Corporate business is ~45% of revenue and ~90% of this is US exposure; training budgets which were under pressure in the slowdown are making a slow comeback. Institutional and New Businesses are the bright spot, with good growth expected in the future. NIIT's margins across businesses are improving and expected to continue to do so in the foreseeable future.

### Valuation

We value NIIT at Rs85 based on 15x Sep'11E EPS. This is towards the lower end of the historical trading band of 3-38x over the past three years and is lower than the average of ~17x over the same period. With complete recovery still uncertain, we believe that NIIT will trade towards the lower end of its historical trading band. Further, we expect revenue and EBITDA CAGR of ~7% and ~15% respectively over FY10-13E (slower than the ~15% and ~25% CAGR witnessed over FY07-10A).

### Risks

We rate NIIT Medium Risk inline with other Educational Services companies that we cover, despite our quantitative risk rating system suggesting High Risk. Key downside risks to our target price include: (1) lower enrollment in IT courses; (2) lower price realization in the retail training business; (3) higher inflation in fixed costs; (4) slower fresh orders in the institutional business; (5) lower fresh orders in the corporate business; (6) lower growth in new businesses.

# Appendix A-1

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Covered since June 18 2010

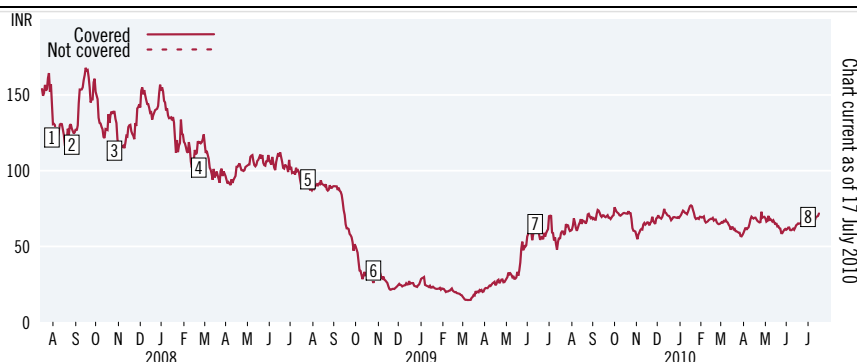


Chart current as of 17 July 2010

Date	Rating	Target Price	Closing Price
1 31-Jul-07	*3M	*153.33	143.77
2 28-Aug-07	3M	*153.33	127.85
3 26-Oct-07	3M	*144.00	138.90
4 22-Feb-08	*3H	*117.00	118.50
5 25-Jul-08	3H	*90.00	88.80
6 27-Oct-08	3H	*27.00	25.90
7 11-Jun-09	3H	*50.00	62.35
8 1-Jul-10	*1M	*85.00	63.65

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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