

## BUY

Price	Target Price
<b>Rs63</b>	<b>Rs 132</b>
<b>Sensex</b>	<b>14,042</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(32)	(41)	(38)	(62)
Rel. to Sensex	(29)	(37)	(33)	(55)

Source: Capitaline

### Stock Details

Sector	IT Services
Reuters	NIIT.BO
Bloomberg	NIIT@IN
Equity Capital(Rs mn)	329
Face Value(Rs)	2
52 Week H/L	172/85
Market Cap(Rs bn//US\$ mn)	10/218
Daily Avg Volume (No of shares)	430636
Daily Avg Turnover (US\$)	0.8

### Shareholding Pattern (%)

(30 Jun '08)	
Promoters	30.1
FII/NRI	43.5
Institutions	6.8
Private Corp.	3.3
Public	16.3

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# NIIT Limited

## Management exudes confidence on prospects

Company  
Update

We met up with Mr Vijay Kumar, Group Executive Vice President, NIIT Limited to appraise ourselves on business developments and the company's financials going forward. NIIT continues to witness strong growth in the retail training business (**expects the 'to be concluded Bhavishya Jyoti Scholarship-08' to reaffirm the same**) while seeing improved performance from the Corporate training business (*co's Achilles heels given high exposure to US training market, co reported only breakeven in Q1FY09*) during subsequent quarters. We highlight that the company remains sound on achieving the earlier envisaged financial targets for FY09 (**our growth and margin assumptions for the business segments are lower than company's internal targets, for details please refer table**). We would look to review our ratings and target price post Q2FY09 results; however believe that there is little risk to our FY09 earnings estimates of Rs 5.4. Maintain BUY with a price target of Rs 132.

### Other Highlights

#### Retail IT training business continues to be on a strong wicket

NIIT's retail IT training business continues to do well, with no let up in enrollments (**management expects further confidence in growth prospects for the segment to be reaffirmed from registrations for the 'to be soon concluded' Bhavishya Jyoti Scholarship-08**). We note that we build in revenue growth of 28.4% and margin improvement of ~70 bps YoY to 21.2% for FY09 V/s Company's indication of 30%+ growth and margin expansion of 150-200 bps for the segment (*in Q1FY09, NIIT reported ~34% revenue growth and margin increase of 110 bps YoY in the retail training business*). Further we wish to highlight that the retail IT training business would be less adversely impacted as compared with early 2000's because the demand for 'IT as a career' still remains buoyant.

#### School business performance on track

NIIT management indicated that the performance in the School Business has been on track with company expecting to book some revenues post implementation on the AP govt school order (~2,005 school wins announced in Q1FY09) in the government schools business. Besides the company has done a soft launch for it's new product, an interactive learnings offering 'eGuru' (in 25 schools currently) and has received good response for the same. The company intends to launch this offering in a full fledged manner in October'08 with significant cross sell opportunities in the form of ~1,100 private schools and sees an opportunity of ~15-20k schools for eGuru over the next 3 years.

We highlight that we have built in ~30% revenue growth from the segment for FY09 with margin increase of ~150 bps YoY to 14.6% from 40%+ revenue growth being targeted by company with margin expansion of 100-150 bps YoY.

#### Corporate Training remains under pressure; co sticking to initial target for now

NIIT's corporate training business continues to be it's Achilles Heels albeit it continues to maintain it's initial target for the segment at ~8-10% growth in revenues with margins at 6/7% for FY09. The company maintained that custom content development budgets in the US remained under pressure. We note that corporate training budgets are seeing a greater shift towards e-learning and training outsourcing. NIIT remains confident of improving on Q1FY09 performance wherein it just broke even in the segment on account of greater SG& A expenses and salary hikes. We note that we have modeled in revenue growth of 4% for this segment with margins at 3.8% for FY09.

**Little downside risk to our earnings estimates for FY09; Maintain BUY**

We highlight that there is little downside risk to our earnings estimates as we build in lower than company management's indication on each of the segments. (please refer table below).

Segment	Co's target	Our assumptions
Retail IT Training business	30% + revenue growth, margin expansion of 150-200 bps YoY	28.4% revenue growth, margin expansion of 70 bps Y
School Learning Solutions	40%+ revenue growth, 100-150 bps increase in OPM's	28.8% revenue growth, margin expansion of 150 bps YoY
Corporate Training Business	8-10% revenue growth, OPM's of 6-7%	4% revenue growth, OPM's of 3.8%
New businesses	Revenues of Rs 700-800 mn, OPM's of 10%	Revenues of Rs 476 mn, OPM's of 6.9%

Source: Company, Emkay Research

Further we note that the company's retail training business is less cyclical as compared to early 2000's because the IT Industry has matured significantly with demand for 'IT as a career' remaining buoyant. Thus we believe the significant stock correction of ~30% over the past 1 month overly discounts the worst. We would watch out for company's performance during the September'08 results and review our rating and target price post then though appear confident that our estimates would be met.

Segmental Revenue Breakup	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
Individual	673	638	975	728	900	854
% to sales	26.2	28.3	36.1	30.5	33.0	32.9
YoY growth	52%	29%	31%	30%	34%	34%
Institutional	228	177	242	213	379	252
% to sales	8.9	7.9	9.0	8.9	13.9	9.7
YoY growth	-18%	4%	10%	-6%	66%	42%
Corporate including Element K	1631	1394	1409	1371	1334	1400
% to sales	63.5	61.9	52.1	57.4	49.0	53.9
YoY growth	279%	218%	34%	-5%	-18%	0%
New Business	35	44	76	76	112	90
% to sales	1.4	2.0	2.8	3.2	4.1	3.5
YoY growth	0.0%	0.0%	590.9%	204.0%	220.0%	104.5%
<b>Net sales</b>	<b>2567</b>	<b>2253</b>	<b>2702</b>	<b>2388</b>	<b>2725</b>	<b>2596</b>
YoY growth	123.4%	104.3%	33.1%	6.1%	6.2%	15.2%

Source: Company, Emkay Research

Segmental EBITDA breakup	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
Individual EBITDA	133	106	232	130	195	151
Individual EBITDA, %	19.8	16.6	23.8	17.9	21.7	17.7
Institutional EBITDA	24.6	23.0	35.0	30.0	44.0	34.6
Institutional EBITDA mgns, %	10.8	13.0	14.5	14.1	11.6	13.7
Corporate EBITDA	73	51	90	65	60	3
Corporate EBITDA mgns, %	4.5	3.7	6.4	4.7	4.5	0.2
New Business EBITDA	-26.1	-35	1	2	6	2
New Business EBITDA mgns, %	-74.6	-79.5	1.3	2.6	5.4	2.2
<b>Company wide Operating profits</b>	<b>204.5</b>	<b>145.0</b>	<b>358.0</b>	<b>227.0</b>	<b>305.0</b>	<b>190.6</b>
Company wide EBITDA margins, %	8.0	6.4	13.2	9.5	11.2	7.3

Source: Company, Emkay Research

## Financials

Income Statement					Balance Sheet				
Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E	Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
<b>Net Sales</b>	7,950	10,068	11,666	13,723	Equity share capital	198	396	396	396
Growth (%)		27	16	18	Reserves & surplus	2,948	3,501	4,157	4,983
<b>Total Expenditure</b>	(7,176)	(9,033)	(10,343)	(11,973)	Minority Interest	4	4	4	4
Growth (%)		26	15	16	<b>Networth</b>	<b>3,149</b>	<b>3,901</b>	<b>4,557</b>	<b>5,383</b>
<b>EBIDTA</b>	775	1,035	1,324	1,750	Secured Loans	2,255	2,255	2,355	2,455
Growth (%)		34	28	32	Unsecured Loans	443	5	5	5
<b>EBIDTA %</b>	9.7	10.3	11.3	12.8	<b>Loan Funds</b>	<b>2,698</b>	<b>2,260</b>	<b>2,360</b>	<b>2,460</b>
Other Income	(54)	(7)	(85)	(120)	<b>Total Liabilities</b>	<b>5,847</b>	<b>6,161</b>	<b>6,917</b>	<b>7,843</b>
Depreciation	474	529	620	769	Goodwill	2,356	2,356	2,356	2,356
<b>EBIT</b>	<b>301</b>	<b>506</b>	<b>704</b>	<b>981</b>	Gross Block	3,346	4,229	5,133	6,175
Interest	-	-	-	-	Less: Depreciation	1,989	2,518	3,138	3,907
<b>EBT</b>	<b>576</b>	<b>833</b>	<b>970</b>	<b>1,260</b>	<b>Net block</b>	<b>3,713</b>	<b>4,067</b>	<b>4,352</b>	<b>4,625</b>
Tax	(4)	(77)	(67)	(129)	<b>Capital WIP</b>	<b>134</b>	<b>130</b>	<b>120</b>	<b>100</b>
<b>EAT</b>	<b>572</b>	<b>756</b>	<b>902</b>	<b>1,131</b>	<b>Investment</b>	<b>611</b>	<b>611</b>	<b>611</b>	<b>611</b>
Growth (%)		32	19	25	<b>Current Assets</b>	<b>4,511</b>	<b>5,380</b>	<b>6,746</b>	<b>8,367</b>
<b>EAT (%)</b>	<b>7.2</b>	<b>7.5</b>	<b>7.7</b>	<b>8.2</b>	Inventories	132	130	130	130
					Sundry debtors	2,204	2,758	3,516	4,512
					Cash & bank balance	736	390	652	849
					Loans & advances	1,137	1,510	1,808	2,168
					Other current assets	302	591	640	708
					<b>Current Liab &amp; Prov</b>	<b>3,203</b>	<b>4,108</b>	<b>4,993</b>	<b>5,942</b>
					Current liabilities	2,818	3,624	4,433	5,283
					Provisions	386	483	560	659
					<b>Net current assets</b>	<b>1,307</b>	<b>1,272</b>	<b>1,752</b>	<b>2,425</b>
					<b>Misc exps</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
					<b>Deferred Tax</b>	<b>81</b>	<b>81</b>	<b>81</b>	<b>81</b>
					<b>Total Assets</b>	<b>5,847</b>	<b>6,161</b>	<b>6,917</b>	<b>7,843</b>
Cash Flow					Key ratios				
FY07	FY08	FY09E	FY10E		FY07	FY08	FY09E	FY10E	
Net Profit after Tax	572	756	902	1,131	EPS (Rs)	3.7	4.6	5.4	6.8
Add : Depreciation	(474)	(529)	(620)	(769)	CEPS (Rs)	6.7	7.7	9.2	11.4
Add : Misc exp w/off	-	-	-	-	Book Value Per Share (Rs)	20.3	23.5	27.5	32.4
<b>Net changes in WC</b>	<b>(1,915)</b>	<b>(904)</b>	<b>(885)</b>	<b>(949)</b>	Dividend Per Share (Rs)	0.9	1.0	1.3	1.6
<b>Operational Cash Flows</b>	<b>1,527</b>	<b>973</b>	<b>1,304</b>	<b>1,424</b>	<b>Valuations Ratios (x)</b>				
<b>Capital expenditure</b>	<b>(2,934)</b>	<b>(879)</b>	<b>(895)</b>	<b>(1,022)</b>	PER	17.1	13.8	11.6	9.2
Investments	-	-	-	-	P/CEPS	16.1	14.0	11.8	9.4
<b>Investing Cash Flows</b>	<b>(2,934)</b>	<b>(879)</b>	<b>(895)</b>	<b>(1,022)</b>	P/BV	3.1	2.7	2.3	1.9
<b>Borrowings</b>	1,552	(438)	100	100	EV/EBIDTA	18.6	13.9	10.7	8.0
dividend paid	(167)	(201)	(247)	(305)	EV/Sales	1.8	1.4	1.2	1.0
Issue of shares	104	198	0	0	M-Cap/sales	1.6	1.2	1.1	0.9
Share Premium	97	-	-	-					
<b>Financing Cash Flows</b>	<b>1,493</b>	<b>(440)</b>	<b>(147)</b>	<b>(205)</b>	<b>Profitability Ratios (%)</b>				
changes in cash	<b>86</b>	<b>(346)</b>	<b>262</b>	<b>197</b>	RoCE	5.9	7.9	10.0	12.3
Opening balance	<b>650</b>	<b>736</b>	<b>390</b>	<b>652</b>	RoMW	19.7	21.4	21.3	22.8
<b>Closing balance</b>	<b>736</b>	<b>390</b>	<b>652</b>	<b>849</b>	EBITDA Margin	9.7	10.3	11.3	12.8
					EBIT Margins	3.8	5.0	6.0	7.1
					Net Profit Margin	7.2	7.5	7.7	8.2

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