

3I INFOTECH(3IINFO)

RESULT UPDATE ✓

WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 41 to Rs 49
EPS (FY10E).....	From Rs13.6 to Rs 14.0
EPS (FY11E).....	Introduced at Rs16.0
RATING.....	Changed from Performer to Hold

Current Price Rs 45	Target Price Rs 49
Potential upside 10%	Time Frame 12 months

HOLD

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Decent show...

3i Infotech announced flat q-o-q top line at Rs 607 crore, which was in line with our expectation. EBITDA margin improved 157 bps sequentially driven by improvement in gross margins in the products and services segment. The company has also been able to maintain gross margin in the transaction services segment. Buy-back of FCCB and one time advisory and legal fee payment led to profits increasing to Rs 90.5 crore (profit removing these exceptional items increased 3.3% to Rs 67 crore).

Highlight of the quarter

The flat q-o-q performance by the company was primarily a result of the poor performance of the services segment which saw de-growth of 11% q-o-q. Transaction services segment was comparatively the best performing segment with sequential growth of 6.2%. Product revenue bounced back this quarter with 3.1% q-o-q growth in Q4FY09 (compared to q-o-q de-growth of 4.5% in Q3FY09. the company has bought back FCCB worth Rs 152 crore during the quarter.

For the full year FY09 the company grew 89.6% on the top line. More than 50% of this growth was contributed by the acquisitions made by the company during the year.

Valuations

3i-infotech has an outstanding order book of Rs 1445 crore which is 56% of FY09 revenue. The order book growth has slowed down in the recent past. The management has also refrained from giving guidance for FY10 due to the uncertain demand environment. We recommend a Hold rating on the stock with a revised price target of Rs 49.

Stock data....

Market Cap.	Rs580.5cr
Debt (Q3FY09):	Rs2202.04cr
Cash (Q3FY09):	Rs319.6cr
EV:	Rs2584.1cr
52 week H/L:	Rs 140/25
Equity capital:	Rs 130.7Cr
Face value:	Rs 10
MF Holding:	7.60%
FII Holding:	4.40%

Price performance (%)

	1M	3M	6M	12M
3i Info	39.2	37.9	8.7	-62.6
Rolta	42.6	0.3	-49.7	-74.8
KLG Systel	32.2	48.0	1.2	-85.2
NIIT	44.5	23.9	-6.8	-72.5

Exhibit 1: Key Financials

(Rs Crore)

	Q4FY09A	Q4FY09E	Q4FY08	Q3FY09	YoY Gr.	QoQ Gr.	FY09	FY10E	FY11E
Net Sales	606.8	608.9	349.9	608.8	73.4	-0.3	2285.6	2569.1	2977.5
EBIDTA	119.0	104.2	74.5	109.9	59.8	8.3	434.4	484.9	549.8
EBIDTA Margin (%)	19.6	17.1	21.3	18.1	168 bps dip	157 bps up	19.0	18.9	18.5
Interest	27.9	24.5	14.2	25.3	96.8	10.4	94.9	117.3	123.2
Depreciation	23.3	20.1	8.0	19.6	191.8	19.1	70.1	94.0	100.0
Other Income	3.8	5.5	2.2	6.8	75.0	-43.4	19.1	16.0	16.5
Reported Net Profit*	66.7	55.6	50.2	64.5	32.7	3.3	266.4	242.0	276.7
Diluted EPS (Rs)	4.8	4.0	3.6	4.6	33.0	3.3	16.3	14.0	16.0
Valuation									
PE (x)	-	-	-	-	-	-	-	3.2	2.8
Target PE (x)	-	-	-	-	-	-	-	3.5	3.1
EV to EBIDTA (x)	-	-	-	-	-	-	-	5.3	4.7
Price to book (x)	-	-	-	-	-	-	-	0.6	0.5
RoNW	-	-	-	-	-	-	-	27.0	29.0
RoCE	-	-	-	-	-	-	-	9.0	12.0

Note: * This doesn't include exceptional item. EPS calculated on base of fully diluted 17.3crore shares.

Source: ICICIdirect.com Research, Company

Result analysis

Product segment bounces back but services proves to be a laggard

The quarter saw a complete divergent performance from the products and services segment. Products business rebounded with a 3.1% q-o-q growth at Rs 209 crore in Q4FY09 (on the back of 4.5% q-o-q de-growth in Q3FY09). In complete contrast to such a improved performance services segment recorded a de-growth of 10.7% in Q4FY09 (on the back of 1.5% q-o-q increase in Q3FY09).

For the full year FY09 the company recorded revenues of Rs 2286 crore representing a growth of 89.6% over FY08. 51% of this growth was inorganic while organic growth was restricted to around 39%. The company incurred expenses to the tune of Rs 46 crore towards new initiatives like Taxmile, Kiosk and Elegon which impacted margins negatively. (Gross margins declined 620 bps y-o-y to 40.2% whereas EBITDA margins declined 230 bps y-o-y to 19% in FY09).

Exhibit 2: Segmental performance

(Rs crore)	Q4FY09	Q3FY09	QoQ growth %	Q4FY08	YoY growth (%)	FY09	FY08	YoY growth (%)
Revenue								
Software Products	209.1	202.8	3.1	179.6	16.4	811.2	596.1	36.1
IT Services	176.1	197.3	-10.7	130.8	34.6	748.1	463.9	61.3
Transaction Services	221.6	208.7	6.2	39.4	462.4	726.2	145.3	400.0
Total	606.8	608.8	-0.3	349.85	73.4	2285.6	1205.3	89.6
Gross Profit								
Software Products	114.6	105.7	8.4	98.5	16.3	439.1	326.9	34.3
Margin (%)	54.8	52.1		54.8		54.1	54.8	
IT Services	64.0	69.2	-7.5	60.1	6.6	270.9	189.2	43.2
Margin (%)	36.4	35.1		45.9		36.2	40.8	
Transaction Services	62.9	61.2	2.8	5.4	1065.4	209.8	43.7	380.5
Margin (%)	28.4	29.3		13.7		28.9	30.1	
Total	241.5	236.1	2.3	163.9	47.3	919.9	559.8	64.3
Margin (%)	39.8	38.8		46.9		40.2	46.4	

Source: ICICIdirect.com Research, Company

Other Key highlights:

- BPO contribution increased from 12% in FY08 to 32% in FY09. In Q4FY09 BPO increased from 34% in Q3FY09 to 36% in Q4FY09.
- IT Services revenue contribution declined from 39% in FY08 to 33% in FY09 and to 30% in Q4FY09 from 33% in Q3FY09.
- Revenue from North America increased to 50% in Fy09 from 29% in FY08 driven largely by the USA based acquisition of Regulus done by the company during the year.
- Top customer (ICICI group) contributed 9% to revenues in FY09 whereas top 5 and top 10 customers excluding ICICI group contributed 11% and 17% respectively.

Risk & Concern

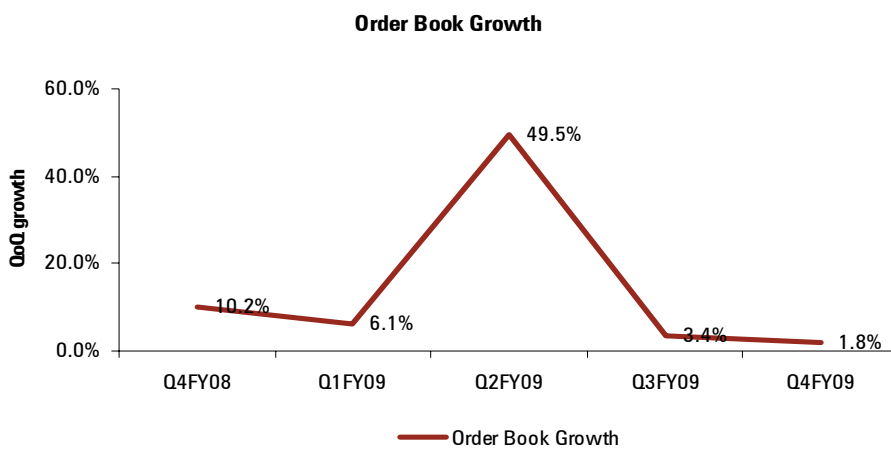
Order book showing significant slowdown: The company has seen significant slowdown in the recent past (especially Q3 and Q4 of FY09) in its order intake highlighted below. This includes the acquisitions made by the company. We believe that the global financial turmoil is having a significant impact on mid tier banks and hence 3i-infotech has seen contraction in demand.

Exhibit 3: Pending Order Book

(Rs crore)	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Pending Order Book	864.7	917.8	1372	1419	1445

Source: ICICIdirect.com Research, Company

Exhibit 4: Sequential Order Book growth



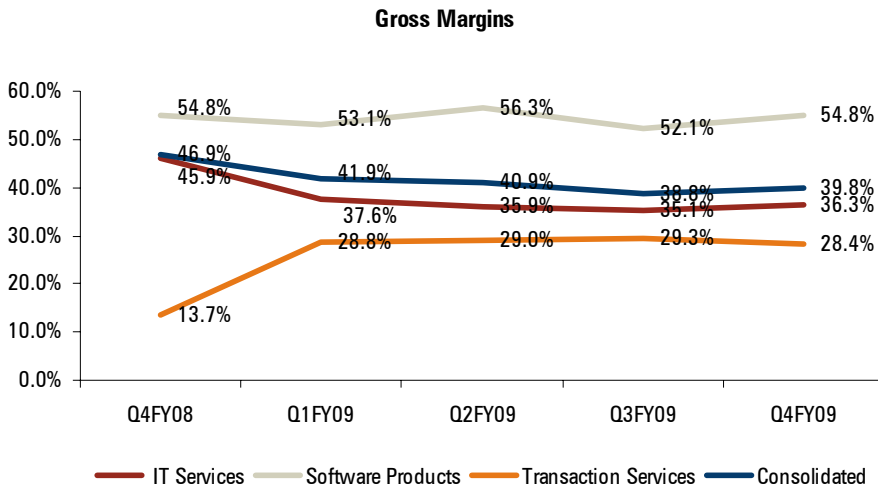
The company managed to grow its order book marginally as compared to previous quarter despite uncertain macro environment.

Source: ICICIdirect.com Research, Company

High debt in spite of buy back of FCCB: The company has significant debt to the tune of Rs 2200 crore. The company has recently bought back Rs 152 crore worth of FCCB but still has outstanding FCCB worth Rs 650 crore on books. The current D/E ratio is at 2x which we believe is fairly high. The management has cash of Rs 320 crore which it intends to utilise partly to further buy back FCCB.

Key Metrics:

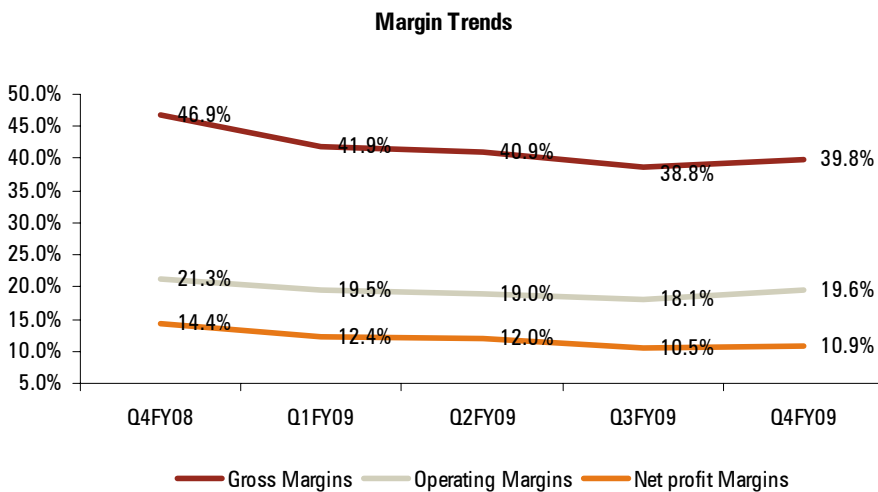
Exhibit 5: Gross Margins segment wise



The company managed to pull up its margins in IT services and IT products business in this quarter but showed dip in Transaction services.

Source: ICICIdirect.com Research, Company

Exhibit 6: Profitability margins



Source: ICICIdirect.com Research, Company

Exhibit 7: Revenue Mix by segment

(%)	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
IT Services	39	38	33	33	30
BPO	12	22	32	34	36
ERP	8	3	3	3	3
Insurance	13	10	9	9	9
Banking	14	13	12	12	12
Capital Markets	14	14	11	9	10

The company has successfully achieved the targeted revenue mix of 1:1:1 from IT services, BPO and IT products respectively post acquisition of Regulus.

Source: ICICIdirect.com Research, Company

Exhibit 8: Revenue Mix by geography

(%)	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
USA	29	40	49	54	55
Asia Pacific	8	6	5	5	3
Western Europe	15	10	8	6	6
South Asia	34	33	29	25	25
MEARC	14	11	9	10	11

Source: ICICIdirect.com Research, Company

The company has more than 50% of revenue from USA post acquisition of Regulus.

Valuations

The company has refrained from giving guidance for FY10 citing a difficult demand environment the prime reason for the same. The company has been witnessing gradual decline in its order book position over the last 6 months which has reduced the revenue visibility going ahead. At 3.2x and 2.8x FY10E and FY11E the stock is trading at attractive valuations, however increasing debt on books would act as a impact growth going ahead. We recommend a Hold rating on the stock.

Exhibit 9: Valuation table for 3i Infotech

	Sales(Rs Cr)	Sales Growth (%)	EPS	EPS Growth (%)	PE	EV/EBITDA	RoNW (%)	RoCE (%)
FY09	2285.6	89.6	16.3	59.8	2.7	5.9	30.1	10.8
FY10E	2569.1	12.4	14	-14.1	3.2	5.3	27.0	9.0
FY11E	2977.5	15.9	16	14.3	2.8	4.7	29.0	12.0

Source: ICICIdirect.com Research, Company

ICICIdirect.com Coverage Universe

Exhibit 10: Valuation table

Infosys				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	INFTEC	CMP(Rs)	1432.6	FY09	21693.5	104.4	13.7	9.4	32.8	37.9
		Target(Rs)	1260	FY10E	21649.4	96.9	14.8	9.8	25.6	30.0
Mcap(crore)	81945	% Upside	-12.0	FY11E	22163.7	92.8	15.4	9.5	21.3	26.5
TCS				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	TCS	CMP(Rs)	603.45	FY09	27813	52.8	11.4	8.0	33.3	39.4
		Target(Rs)	593	FY10E	28463	53.7	11.2	8.2	27.1	30.5
Mcap(crore)	59054	% Upside	-1.7	FY11E	29228	55.2	10.9	8.1	23.2	26.0
HCL Tech				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	HCLTEC	CMP(Rs)	126.9	FY08	7562.8	16.5	7.7	6.7	25.6	24.0
		Target(Rs)	118	FY09E	10550	17.5	7.3	5.0	23.0	14.0
Mcap(crore)	8456	% Upside	-7.0	FY10E	11381	16.8	7.6	4.8	21.0	13.0
Tech Mahindra				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	TECHM	CMP(Rs)	328.35	FY08	3766.1	25.2	13.0	3.2	30.4	67.2
		Target(Rs)	344	FY09E	4459.6	74.3	4.4	1.8	62.2	69.2
Mcap(crore)	3986.2	% Upside	4.8	FY10E	4905	66.1	5.0	1.8	41.4	46.3
Wipro				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	WIPRO	CMP(Rs)	324.75	FY09	25456.5	25.6	12.7	9.5	28.1	21.0
		Target(Rs)	300	FY10E	26729.4	26.2	12.4	9.1	24.5	21.0
Mcap(crore)	47462	% Upside	-7.6	FY11E	28600.3	27	12.0	8.8	23.1	19.8
Rohta				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	ROLIND	CMP(Rs)	82.8	FY08	1072.2	14.3	5.8	5.2	20.6	14.8
		Target(Rs)	100	FY09E	1381	17.2	4.8	4.5	22.1	16.3
Mcap(crore)	1332.3	% Upside	20.8	FY10E	1519	16.6	5.0	4.1	19.8	15.7
KLG Systel				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	KLGSYS	CMP(Rs)	99.15	FY08	268.9	48.2	2.1	1.1	27.5	26.2
		Target(Rs)	96	FY09E	276.2	26.1	3.8	1.1	25.0	23.0
Mcap(crore)	116.6	% Upside	-3.2	FY10E	357.5	40.1	2.5	0.9	23.0	21.0
NIIT				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)	
Idirect Code	NIIT	CMP(Rs)	28.2	FY08	1006.8	4.6	6.1	4.8	21.3	17.3
		Target(Rs)	23	FY09E	1147.4	4.2	6.7	4.4	16.1	18.0
Mcap(crore)	463.89	% Upside	-18.4	FY10E	1319.5	5.1	5.6	3.4	17.3	19.6

Source: ICICIdirect.com Research, Company

Peer Valuation

	M Cap			EPS			P/E (x)			EV/EBIDTA (x)			ROCE(%)			RONW(%)		
	CMP	TP	Rs Cr.	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
Rohta	82.8	100	1332.3	14.3	17.2	16.6	5.8	4.8	5.0	5.2	4.5	4.1	14.8	18.2	17.0	20.6	25.1	21.7
3i Infotech	44.4	49	580.5	16.3*	14**	16***	2.7*	3.2**	2.8***	5.9*	5.3**	4.7***	10.8*	9.0**	12.0***	30.1*	27.0**	29.0***
Klg	99.15	96	116.6	48.2	26.1	40.1	2.1	3.8	2.5	1.1	1.1	0.9	26.2	23.0	21.0	27.5	25.0	23.0
NIIT	28.2	23	463.9	4.6	4.2	5.1	6.1	6.7	5.6	4.8	4.4	3.4	17.3	18.0	19.6	21.3	16.1	17.3

Note: * denotes values are for FY09, ** denotes values for FY10, *** denotes value for FY11.

Source: Company, ICICIdirect.com Research

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

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