

## 3i Infotech

### Strapping up for growth

3i Infotech has completed its QIP placement to raise Rs180cr through issuance of 2.29cr equity shares at the floor price of Rs78.6 per share. This placement was the second leg of the company's Rs500cr Equity raising plan. The company had earlier raised Rs318cr in September 2009 at Rs84.8 per share.

The company plans to utilise the funds to retire debt and reduce its interest cost. Hence, the Debt/Equity ratio is expected to decline to 1.2x from 1.5x. As on 3QFY2010, total outstanding debt stood at Rs2,174cr.

The issue would result in Equity increasing by 13.6% and result in 2.8% dilution in the Promoter's holding. We estimate EPS dilution of 9.7% in FY2011E and 6.1% in FY2012E post the issue.

#### Exhibit 1: Dilution in Promoter's stake and Increase in Equity

	Apr'2010	Sep'2009	Mar'2009
Debt/Equity (x)	1.2	1.5	1.8
Promoter Stake (%)	20.8	23.6	39.5
No.of Shares (cr)	19.2	16.9	13.1

Source: Company, Angel Research

**Outlook and Valuation:** We expect 3i Infotech to gain strong traction in the Transaction Services Segment and clock 11.8% CAGR in Revenues over FY2009-12E. Moreover, the company has also achieved its desired Services Offerings portfolio and proposes to now focus on geographical expansion and cross selling opportunities. **Thus, in view of the high growth potential of its acquired businesses and with the stock available at attractive valuations at current levels, we maintain a Buy on the stock, with a Target Price of Rs129, which implies 7.5x FY2012E EPS of Rs17.3.**

#### Key Financials

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
<b>Net Sales</b>	<b>2,286</b>	<b>2,448</b>	<b>2,734</b>	<b>3,197</b>
% chg	89.6	7.1	11.7	16.9
<b>Adj. Net Profit</b>	<b>282</b>	<b>263</b>	<b>274</b>	<b>345</b>
% chg	59.7	(6.8)	4.3	25.9
OPM (%)	19.9	21.0	19.7	19.5
<b>EPS (Rs)</b>	<b>21.6</b>	<b>15.6</b>	<b>13.7</b>	<b>17.3</b>
P/E (x)	3.5	4.8	5.5	4.4
P/BV (x)	0.8	0.8	0.7	0.6
RoE (%)	28.8	18.4	14.2	14.9
RoCE (%)	14.4	11.5	11.6	13.8
EV/Sales (x)	1.3	1.1	0.9	0.7
EV/EBITDA (x)	6.2	5.3	4.6	3.5

Source: Company, Angel Research

## BUY

CMP	Rs75
Target Price	Rs129

Investment Period	12 Months
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#### Stock Info

Sector	IT
Market Cap (Rs cr)	1,269
Beta	1.1
52 Week High / Low	103/34
Avg Daily Volume	1085795
Face Value (Rs)	10
BSE Sensex	17,970
Nifty	5,375
Reuters Code	TIIN.BO
Bloomberg Code	III@IN

#### Shareholding Pattern (%)

Promoters	23.6
MF / Banks / Indian Fls	36.9
FII / NRIs / OCBs	10.8
Indian Public / Others	28.7

Note: \* Shareholding as on 31st dec. 2009

Abs. (%)	3m	1yr	3yr
Sensex	2.0	70.6	39.8
3i Infotech	(15.4)	113.1	(36.8)

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**Profit & Loss Statement (Consolidated)**
**Rs crore**

Y/E March	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>Gross sales</b>	<b>1,205.3</b>	<b>2,285.6</b>	<b>2,448.0</b>	<b>2,734.2</b>	<b>3,196.7</b>
Less: Excise duty	-	-	-	-	-
<b>Net Sales</b>	<b>1,205.3</b>	<b>2,285.6</b>	<b>2,448.0</b>	<b>2,734.2</b>	<b>3,196.7</b>
Other operating income	19.1	17.2	20.6	24.7	-
<b>Total operating income</b>	<b>1,223.6</b>	<b>2,304.7</b>	<b>2,465.2</b>	<b>2,754.8</b>	<b>3,221.4</b>
% chg	49.1	88.4	7.0	11.7	16.9
Total Expenditure	946.2	1,845.0	1,948.4	2,212.0	2,594.2
Cost of Services	516.2	1,036.4	1,091.8	1,244.1	1,462.5
SGA	155.9	261.8	281.3	318.5	372.4
Personnel	255.9	512.7	538.6	608.4	711.3
Others	18.2	34.1	36.7	41.0	48.0
<b>EBITDA</b>	<b>277.3</b>	<b>459.8</b>	<b>516.8</b>	<b>542.8</b>	<b>627.3</b>
% chg	81.8	65.8	12.4	5.0	15.6
(% of Net Sales)	23.0	20.1	21.1	19.9	19.6
Depreciation & Amortisation	24.4	70.1	108.5	112.0	120.3
<b>EBIT</b>	<b>252.9</b>	<b>389.7</b>	<b>408.3</b>	<b>430.8</b>	<b>507.0</b>
% chg	86.4	54.1	4.8	5.5	17.7
(% of Net Sales)	21.0	17.0	16.7	15.8	15.9
Interest & other Charges	54.5	100.6	142.2	126.1	114.6
Other Income	-	-	-	-	-
(% of PBT)	-	-	-	-	-
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>198.4</b>	<b>289.1</b>	<b>266.1</b>	<b>304.7</b>	<b>392.4</b>
% chg	80.4	58.4	(9.0)	6.6	28.8
Extraordinary Expense/(Inc.)	0.3	(24.9)	(19.7)	-	-
<b>PBT (reported)</b>	<b>198.2</b>	<b>314.0</b>	<b>285.8</b>	<b>304.7</b>	<b>392.4</b>
Tax	15.0	21.6	22.9	30.5	47.1
(% of PBT)	7.6	6.9	8.0	10.0	12.0
<b>PAT (reported)</b>	<b>183.2</b>	<b>292.4</b>	<b>262.9</b>	<b>274.2</b>	<b>345.3</b>
Add: Share of earnings of associate	-	-	-	-	-
Less: Minority interest (MI)	6.6	10.4	0.0	0.0	0.0
Prior period items	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>176.6</b>	<b>282.0</b>	<b>262.9</b>	<b>274.2</b>	<b>345.3</b>
<b>ADJ. PAT</b>	<b>176.8</b>	<b>257.1</b>	<b>243.2</b>	<b>274.2</b>	<b>345.3</b>
% chg	70.2	59.7	(6.8)	4.3	25.9
(% of Net Sales)	14.6	12.3	10.7	10.0	10.8
<b>Basic EPS (Rs)</b>	<b>13.5</b>	<b>21.6</b>	<b>15.6</b>	<b>13.7</b>	<b>17.3</b>
<b>Fully Diluted EPS (Rs)</b>	<b>13.5</b>	<b>21.6</b>	<b>15.6</b>	<b>13.7</b>	<b>17.3</b>
% chg	70.2	59.7	(6.8)	4.3	25.9

**Balance Sheet (Consolidated)**
**Rs crore**

Y/E March	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	130.5	130.8	168.2	199.5	199.5
Preference Capital	100.0	100.0	100.0	100.0	100.0
Reserves& Surplus	549.8	915.7	1,419.9	1,874.6	2,150.5
<b>Shareholders Funds</b>	<b>780.3</b>	<b>1,146.5</b>	<b>1,688.1</b>	<b>2,174.1</b>	<b>2,450.0</b>
Minority Interest	10.2	21.2	-	-	-
Total Loans	1,265.7	2,202.0	2,016.1	1,566.8	1,170.7
Deferred Tax Liability	(40.5)	(38.6)	-	-	-
<b>Total Liabilities</b>	<b>2,015.7</b>	<b>3,331.1</b>	<b>3,704.2</b>	<b>3,740.9</b>	<b>3,620.7</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	315.0	748.3	943.3	1,018.3	1,093.3
Less: Acc. Depreciation	152.5	233.0	341.5	453.5	573.8
<b>Net Block</b>	<b>162.5</b>	<b>515.3</b>	<b>601.8</b>	<b>564.8</b>	<b>519.5</b>
Capital Work-in-Progress	79.1	125.7	75.7	35.7	35.7
Others	1,054.6	1,751.9	1,751.9	1,751.9	1,751.9
<b>Investments</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>
<b>Current Assets</b>	<b>1,018.5</b>	<b>1,422.7</b>	<b>1,765.7</b>	<b>1,949.4</b>	<b>1,979.5</b>
Cash	266.6	319.6	540.7	587.4	455.4
Loans & Advances	253.1	331.5	366.5	396.5	421.5
Other	498.8	771.5	858.5	965.5	1,102.5
Current liabilities	302.3	488.0	494.4	564.4	669.4
<b>Net Current Assets</b>	<b>716.2</b>	<b>934.7</b>	<b>1,271.3</b>	<b>1,385.1</b>	<b>1,310.1</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>2,015.7</b>	<b>3,331.1</b>	<b>3,704.2</b>	<b>3,740.9</b>	<b>3,620.7</b>

**Cash Flow Statement (Consolidated)**
**Rs crore**

Y/E March	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	198.2	314.0	285.8	304.7	392.4
Depreciation	24.4	70.1	108.5	112.0	120.3
Change in Working Capital	(560.3)	(663.2)	(115.3)	(68.0)	(58.0)
Less: Other income	18.1	45.0	38.2	20.6	24.7
Direct taxes paid	15.0	21.6	22.9	30.5	47.1
<b>Cash Flow from Operations</b>	<b>(370.7)</b>	<b>(345.8)</b>	<b>217.9</b>	<b>297.7</b>	<b>382.9</b>
Inc./ (Dec.) in Fixed Assets	192.3	479.8	145.0	35.0	75.0
Inc./ (Dec.) in Investments	3.3	0.3	-	-	-
Inc./ (Dec.) in loans and advances	-	-	-	-	-
Other income	18.1	45.0	38.2	20.6	24.7
<b>Cash Flow from Investing</b>	<b>177.5</b>	<b>435.1</b>	<b>106.8</b>	<b>14.4</b>	<b>50.3</b>
Issue of Equity	130.9	(72.0)	317.8	269.6	-
Inc./ (Dec.) in loans	618.3	936.3	(164.8)	(449.3)	(396.1)
Dividend Paid (Incl. Tax)	31.7	30.4	39.0	57.9	69.4
Others					
<b>Cash Flow from Financing</b>	<b>717.5</b>	<b>833.9</b>	<b>114.0</b>	<b>(237.5)</b>	<b>(465.6)</b>
Inc./ (Dec.) in Cash	169.2	53.1	225.1	45.7	(132.9)
<b>Opening Cash balances</b>	<b>97.4</b>	<b>266.6</b>	<b>319.6</b>	<b>540.7</b>	<b>587.4</b>
<b>Closing Cash balances</b>	<b>266.6</b>	<b>319.6</b>	<b>540.7</b>	<b>587.4</b>	<b>455.4</b>

### Key Ratios

Y/E March	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	5.6	3.5	4.8	5.5	4.4
P/CEPS	4.9	2.8	3.4	3.9	3.2
P/BV	1.2	0.8	0.8	0.7	0.6
Dividend yield (%)	2.8	2.6	2.7	3.3	4.0
EV/Sales	1.6	1.3	1.1	0.9	0.7
EV/EBITDA	7.1	6.2	5.3	4.6	3.5
EV/Total Assets	0.9	0.8	0.7	0.6	0.5
<b>Per Share Data (Rs)</b>					
EPS (Basic)	13.5	21.6	15.6	13.7	17.3
EPS (fully diluted)	13.5	21.6	15.6	13.7	17.3
Cash EPS	15.4	26.9	22.1	19.4	23.3
DPS	2.1	2.0	2.0	2.5	3.0
Book Value	60.6	89.3	100.3	109.0	122.8
<b>Dupont Analysis</b>					
EBIT margin	21.0	17.0	16.7	15.8	15.9
Tax retention ratio	92.4	93.1	92.0	90.0	88.0
Asset turnover (x)	0.6	0.7	0.7	0.7	0.8
RoIC (Post-tax)	11.6	10.5	10.4	10.5	11.7
Cost of Debt (Post Tax)	0.4	0.4	0.5	0.7	1.0
Leverage (x)	1.6	1.9	1.2	0.7	0.5
Operating RoE	8.6	7.6	6.6	7.3	9.5
<b>Returns (%)</b>					
RoCE (Pre-tax)	15.8	14.4	11.6	11.6	13.8
Angel RoIC (Pre-tax)	33.3	29.8	22.9	21.9	26.3
RoE	27.4	28.8	18.4	14.2	14.9
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	3.8	3.1	2.6	2.7	2.9
Inventory / Sales (days)	-	0.0	0.0	-	-
Receivables (days)	151.1	121.4	126.1	126.9	123.9
Payables (days)	69.1	57.8	71.1	67.6	66.1
Working capital cycle (ex-cash) (days)	148.4	60.9	108.9	106.5	97.6
<b>Solvency ratios (x)</b>					
Net debt to equity	1.6	1.9	1.2	0.7	0.5
Net debt to EBITDA	4.6	4.8	3.9	2.9	1.9
Interest Coverage (EBIT / Interest)	4.6	3.9	2.9	3.4	4.4

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Disclosure of Interest Statement	3i Infotech
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.*

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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