

**3i Infotech Ltd.****Rs. 17.3****KRChoksey**  
INTEGRATED FINANCIAL SOLUTIONS**Ratings on loans downgraded to Junk status****SELL****Crisil downgrades ratings on its bank facilities to Junk status**

The rating agency has downgraded ratings on 3i Infotech's debt to Junk status because of its inability to refinance maturing debt obligations (especially shorter maturity loans). As per the management, they are in discussions with all its lenders to clear its over-dues and overcome cash flow mismatches, largely by way of converting its short-term loans into loans with longer tenure. Moreover, they are in final stage of discussion with Dena Bank for raising around Rs.100 crore short-term loan. Further, its promoter i.e. ICICI Bank is working on loan syndication for a long-term loan of Rs 300 crore.

Loan type	Amount (in Rs. crore)	Latest Rating by Crisil	Previous Rating by Crisil
Indian Rupee Term Loan	974.8	D	A-/Stable
Cash Credit Limit	258.0	D	A-/Stable
Short-Term Loan	148.9	D	A1
Commercial Paper	100.0	D	A1

Source: Crisil, KRChoksey Research

**Planning to issue fresh equity in order to partly repay debt**

At current market price level it will be difficult for the company to raise huge amount without substantially diluting equities in the company. Moreover, any dilution at the current level will be EPS dilutive for shareholders of the company.

**Liquidity crunch is impacting salary payments and statutory obligations**

The company is witnessing severe liquidity crunch which is impacting its day-to-day operations. As per media reports, there was delay in salary payments in subsidiaries. Moreover, there were delays in payment of statutory obligations by the company.

**Winning new business and retaining employees will become challenging task**

We believe that liquidity crunch will make it tougher for the company in current challenging macro environment to win new business or renew existing contracts due to stringent norms observed by the clients (especially in BFSI space) in vendor selection process. Moreover, delay in salary payment will lead to disgruntlement among employees and in-turn will increase attrition rate, going forward.

**Junk status will significantly increase overall financing cost**

We believe, cost of re-financing for the company will increase drastically, going forward, due to downgrade in its rating to junk status. This in turn will adversely impact its ability to service debt in coming years.

**Valuation and view**

Taking into account, significant deterioration in financial position of the company and resultant adverse impact on its overall business, we downgrade our recommendation on the stock from "HOLD" to "SELL". We assign the company multiple of 5x to its FY13E EBITDA (around 20% discount to target multiple assigned to its peer group) and arrive at a target price of Rs. 15.9.

**Exhibit 1: Key Financial****(Rs. Crore)**

Particulars	FY10	FY11	FY12E	FY13E
Revenue	2,448.5	2,569.8	1,932.8	1,992.6
EBITDA Margin (%)	19.7%	19.6%	22.7%	21.6%
Net Profit Margin (%)	10.6%	9.5%	8.7%	6.8%
Adjusted EPS	13.2	12.5	8.5	6.9
P/E	1.3	1.4	2.0	2.5
EV/EBITDA	5.1	5.3	5.1	5.3

Source: Company data, KRChoksey Research

**Target Price (Rs): 15.9***Potential Upside/ (Downside): (8%)**Previous TP (Rs): 28*

Market Data	14 Dec, 2011
Shares outs (Cr)	19.2
Equity Cap (Rs. Cr)	192
Mkt Cap (Rs. Cr)	332
52 Wk H/L (Rs.)	64/17
Avg Vol (1yr avg)	1,611,959
Face Value (Rs.)	10
Bloomberg Code	III IN

**Market Info:**

SENSEX	15,925
NIFTY	4,773

**Price Performance****Share Holding pattern (%)**

Particular	Sep-11	Jun-11	Chg %
Promoter	20.3	20.3	0.0
FII	13.0	14.2	-1.2
DII	23.5	24.7	-1.2
Others	43.2	40.8	2.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

Source: BSE

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**Exhibit 2: Change in Estimates**
**(Rs. Crore)**

Particulars	FY12E		FY13E		Comments
	Old	New	Old	New	
Sales	2,008	1,933	2,210	1,993	Reducing our growth assumptions due to adverse impact on its ability to bid for new contracts
EBITDA	456	439	501	431	
Net Profit	205	167	228	135	Assuming higher interest cost due to downgrade of its rating to Junk status
EPS (in Rs.)	10.4	8.5	11.6	6.9	

Source: KRChoksey Research.

**Exhibit 3: Profit and Loss Statement**
**(Rs. Crore)**

8.5	FY10	FY11	FY12E	FY13E
Revenue	2,448.5	2,569.8	1,932.8	1,992.6
Expenditure				
Cost of revenue	1,455.4	1,516.3	1,091.8	1,131.2
SGA expenses	510.2	550.9	401.5	430.8
Total Expenditure	1,965.6	2,067.2	1,493.3	1,562.0
EBITDA	482.9	502.6	439.5	430.6
Other Income & expenses	20.2	19.3	9.6	8.0
Profit before depreciation, interest & tax	503.1	521.9	449.0	438.6
Depreciation	81.4	100.5	65.3	69.3
EBIT	421.7	421.4	383.8	369.2
Interest	144.8	160.1	191.0	218.6
PBT	276.9	261.2	192.8	150.7
Taxes	11.0	7.6	18.1	15.5
Profit After Tax	266.0	253.6	174.7	135.2
Minority interest	-0.1	1.1	0.0	0.0
Net Profit before exceptional item	266.1	252.5	174.7	135.2
Exceptional income (net)	-232.6	-	-	-
Net Profit after exceptional item	33.5	252.5	174.7	135.2
Net Profit (after preference dividend)	258.6	245.1	167.3	135.2

Source: Company data, KRChoksey Research

**Exhibit 4: Cashflow Statement**
**(Rs. Crore)**

Particulars	FY10	FY11	FY12E	FY13E
Operating Profit Before Working Capital changes	507	524	439	431
Net Cash from Operations	342	288	165	393
Net Cash from investing	-415	-133	482	-42
Net Cash from Financing	8	-142	-664	-409
Net change in Cash Equivalents	-64	14	-18	-58
Cash at the beginning of the year	245	181	194	176
Cash at the end of the year	181	194	176	118

Source: Company data, KRChoksey Research

**Exhibit 5: Balance Sheet**
**(Rs. Crore)**

Particulars	FY10	FY11E	FY12E	FY13E
<b>Share Capital</b>				
Equity	169	192	196	196
Preference	100	100	0	0
Warrants/Application money	0	0	0	0
Reserves and Surplus	725	998	1,100	991
<b>Total Shareholders' Funds</b>	<b>993</b>	<b>1,290</b>	<b>1,296</b>	<b>1,187</b>
Total Loan Funds	2,283	2,535	2,199	2,246
Minority Interest	8	1	3	3
<b>Total Funds Employed</b>	<b>3,284</b>	<b>3,826</b>	<b>3,499</b>	<b>3,436</b>
Goodwill arising on consolidation	1,811	1,834	1,341	1,341
Gross Block	660	695	599	649
Less: Accumulated Depreciation	270	353	327	396
<b>Net Block</b>	<b>389</b>	<b>341</b>	<b>272</b>	<b>253</b>
Capital work-in-progress	39	61	66	66
Investments	10	29	29	29
Deferred tax asset (net)	113	120	121	121
Net Current Assets	922	1,441	1,671	1,627
<b>Total Funds utilized</b>	<b>3,284</b>	<b>3,826</b>	<b>3,499</b>	<b>3,436</b>

Source: Company data, KRChoksey Research

**Exhibit 6: Ratio**

Particulars	FY10	FY11	FY12E	FY13E
<b>Profitability Ratios</b>				
Operating Profit Margin (%)	19.7%	19.6%	22.7%	21.6%
Net Profit Margin (%)	10.6%	9.5%	8.7%	6.8%
ROCE (%)	12.8	11.0	11.0	10.7
RONW (%)	26.8	19.6	13.5	11.4
<b>Per Share Data</b>				
Adjusted EPS (INR)	13.2	12.5	8.5	6.9
BV Per Share (INR)	52.9	62.0	66.0	60.4
<b>Growth Ratios</b>				
Revenue (%)	7.1	5.0	-24.8	3.1
Operating profit (%)	11.2	4.1	-12.6	-2.0
Adjusted Net profit (%)	3.9	-5.1	-30.8	-22.6
<b>Turnover Ratios</b>				
Debtors Turnover (x)	4.5	4.0	3.0	3.0
Fixed Asset Turnover (X)	3.7	3.7	3.2	3.1

Source: Company data, KRChoksey Research

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**3i Infotech**

	CMP (Rs)	TP (Rs)	Recommendation
14-Dec-11	17	16	SELL
25-Oct-11	25	28	HOLD
27-Jul-11	42	47	HOLD
5-Apr-11	46	51	HOLD

**Rating Legend**

Our Rating	Upside
<b>Buy</b>	More than 15%
<b>Hold</b>	5% - 15%
<b>Reduce</b>	0 – 5%
<b>Sell</b>	Less than 0%

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