

7 May 2010

Produced by: The Royal Bank of Scotland N.V., (India) Office

# NIIT Technologies

## Good execution continues

### Buy

**Target price**  
Rs246.00 (from Rs251.00)

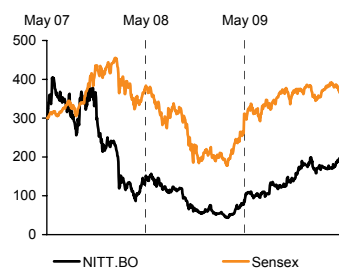
**Price**  
Rs195.30

**Short term (0-60 days)**  
n/a

**Market view**  
Underweight

#### Price performance

	(1M)	(3M)	(12M)
Price (Rs)	172.4	163.9	74.35
Absolute (%)	13.3	19.2	162.7
Rel market (%)	21.4	12.2	89.8
Rel sector (%)	20.1	15.9	78.9



**Market capitalisation**  
Rs11.48bn (US\$253.39m)

**Average (12M) daily turnover**  
Rs115.34m (US\$2.47m)

Sector: BBG AP Software  
RIC: NITT.BO, NITEC IN  
Priced Rs195.30 at close 6 May 2010.  
Source: Bloomberg

#### Analysts

**Srinivas Seshadri**  
India  
+91 22 6715 5320  
srinivas.seshadri@rbs.com

**Pankaj Kapoor**  
+91 22 6715 5315  
pankaj.kapoor@rbs.com

83/84 Sakhar Bhawan, Nariman Point,  
Mumbai 400 021, India

<http://research.rbsm.com>

**4Q10 results showed improving fundamentals - c4% volume growth and stable margins despite currency impact. With growth prospects looking more solid, we see valuation gap to peers narrowing over the next 12 months. However, this could be back-ended, as we anticipate a downward shift in margins in 1Q11.**

#### Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Rsm)	10,340	9,698	11,386	12,217	13,213
EBITDA (Rsm)	2,305	2,449	2,332 ▼	2,573 ▼	2,569
Reported net profit (Rsm)	1,148	1,263	1,605	1,656	1,654
Normalised net profit (Rsm) <sup>1</sup>	1,148	1,263	1,605	1,656	1,654
Normalised EPS (Rs)	19.4	21.3	26.9	27.7	27.4
Dividend per share (Rs)	6.5	7	8 ▲	8 ▲	8
Dividend yield (%)	3.33	3.58	4.1	4.1	4.1
Normalised PE (x)	10.1	9.17	7.25	7.06	7.14
EV/EBITDA (x)	4.44	4	4.11	3.39	3.19
Price/book value (x)	2.99	2	1.63	1.44	1.27
ROIC (%)	48.5	69.6	38.8	26.8	25.4

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

1. Post-goodwill amortisation and pre-exceptional items

Accounting standard: Local

Source: Company data, RBS forecasts

year to Mar, fully diluted

#### 4Q10 results – GIS revenues and tax adjustments drove PAT ahead of estimates

Top line grew 5.5% in US\$ terms to US\$54m (RBS estimate of US\$53m), driven by strong GIS revenues (+92% qoq) and IT services volumes (we estimate +4.4%) and net of a cross currency hit (we estimate 3%). A 16bp qoq decline in EBITDA margin was modest (RBS: 55bp decline) as the currency impact was mitigated by GIS and offshore shift (+100bp). FX losses of Rs174m (RBS: Rs121m) were up 12.3% qoq, but a negative tax provision of Rs3m (Rs48m in 3Q10) pushed PAT up 17% qoq to Rs413m (RBS: Rs356m).

#### Order book pick-up and hiring trends underscore increasing demand traction

Order intake of US\$124m (including a US\$50m BSF order) improved significantly from US\$57m in 3Q10. FY11 executable order book (57% of FY11F revenues) was comfortable relative to the pending order book of US\$97m at end-4Q09 (48% of FY10A revenues). Net headcount addition of 362 was significantly ahead of management guidance of about 200.

#### Realisation pressures and wage hikes should be mitigated by lower fx losses in FY11

We expect near-term margins to be impacted by: 1) continuing weakness in European currencies (GBP and EUR are down 2.4% and 7.0% vs USD qtd); 2) implementation of the Rs2.3bn BSF SI deal, largely with hardware revenues in the initial period; and, 3) wage normalisation and increments. However, lower FX losses (unrealised FX loss of Rs248m vs Rs746m FX loss booked in FY10) should help mitigate the impact on FY11F PAT.

#### Valuation gap to peers still considerable despite good execution; reiterate Buy

We broadly retain our FY11/12F US\$ revenues, but revise our FY11/12F EPS by +2%/-4%, building in 137/95bp lower margins due to currency movements and lower FX losses and tax rate in FY11. We expect the stock to show near-term strength on the back of good 4Q10 results, but it could weaken in 1Q11, due to a downward shift in margins (about 600bp). However, top-line traction over the next 12 months should help bridge the valuation gap to peers (21% discount on FY12F P/E). Reiterate Buy.

**Important disclosures can be found in the Disclosures Appendix.**

# 4Q10 results review

**Table 1 : Key financials**

	1Q09	2Q09	3Q09	4Q09	FY09	1Q10	2Q10	3Q10	4Q10	FY10	Comments
Cons. revenues (\$ m)	60	61	54	50	225	47	50	52	54	203	■ Reported revenues in Rs terms (including hedging losses were up 4.0% qoq; non-GIS revenues grew by 0.4% in US\$ terms)
Change (yoy/qoq)	-3.7%	1.4%	-11.7%	-7.7%	-2.6%	-4.6%	5.6%	3.0%	5.5%	-9.9%	
<b>Cons. revenues (Rs m)</b>	<b>2,504</b>	<b>2,672</b>	<b>2,674</b>	<b>2,491</b>	<b>10,341</b>	<b>2,335</b>	<b>2,417</b>	<b>2,429</b>	<b>2,517</b>	<b>9,698</b>	
<b>Change (yoy/qoq)</b>	<b>0.8%</b>	<b>6.7%</b>	<b>0.1%</b>	<b>-6.8%</b>	<b>9.8%</b>	<b>-6.3%</b>	<b>3.5%</b>	<b>0.5%</b>	<b>3.6%</b>	<b>-6.2%</b>	
Cost of revenues	1,549	1,653	1,536	1,429	6,167	1,345	1,314	1,324	1,404	5,387	■ We estimate ROOM solutions revenues were flat qoq in GBP terms; GIS revenues were up 92.4% in Rs terms
<b>Gross profit</b>	<b>955</b>	<b>1,019</b>	<b>1,138</b>	<b>1,062</b>	<b>4,174</b>	<b>990</b>	<b>1,103</b>	<b>1,105</b>	<b>1,113</b>	<b>4,311</b>	
<b>Gross margin</b>	<b>38.1%</b>	<b>38.1%</b>	<b>42.6%</b>	<b>42.6%</b>	<b>40.4%</b>	<b>42.4%</b>	<b>45.6%</b>	<b>45.5%</b>	<b>44.2%</b>	<b>44.5%</b>	
SG&A costs	453	475	503	437	1,868	443	490	470	459	1,862	■ Operating margin improved by 295bp yoy in FY10
<b>Operating profit (EBITDA)</b>	<b>502</b>	<b>544</b>	<b>635</b>	<b>625</b>	<b>2,306</b>	<b>547</b>	<b>613</b>	<b>635</b>	<b>654</b>	<b>2,449</b>	
<b>Operating margin</b>	<b>20.0%</b>	<b>20.4%</b>	<b>23.7%</b>	<b>25.1%</b>	<b>22.3%</b>	<b>23.4%</b>	<b>25.4%</b>	<b>26.1%</b>	<b>26.0%</b>	<b>25.3%</b>	
Depreciation & amortization	112	104	107	100	423	95	90	89	86	360	■ Depreciation costs have been trending down due to consolidation of facilities, according to management
<b>EBIT</b>	<b>390</b>	<b>440</b>	<b>528</b>	<b>525</b>	<b>1,883</b>	<b>452</b>	<b>523</b>	<b>546</b>	<b>568</b>	<b>2,089</b>	
<b>EBIT margin</b>	<b>15.6%</b>	<b>16.5%</b>	<b>19.7%</b>	<b>21.1%</b>	<b>18.2%</b>	<b>19.4%</b>	<b>21.6%</b>	<b>22.5%</b>	<b>22.6%</b>	<b>21.5%</b>	
Other income	17	-4	-290	-216	-493	-237	-139	-143	-150	-669	■ FX losses (including translation losses) of Rs174m (Rs155m in 3Q10); unrealised losses on balance sheet at Rs248m (down 57% qoq)
Profit before tax	407	436	238	309	1,390	215	384	403	418	1,420	
Income tax expense	51	65	69	40	225	37	62	48	-3	144	
<b>Net income from operations</b>	<b>356</b>	<b>371</b>	<b>169</b>	<b>269</b>	<b>1,165</b>	<b>178</b>	<b>322</b>	<b>355</b>	<b>421</b>	<b>1,276</b>	■ Tax negative due to creation of new deferred tax assets and higher income from tax-exempt units
Share of minority interest	4	4	2	6	16	2	1	2	8	13	
<b>PAT</b>	<b>352</b>	<b>367</b>	<b>167</b>	<b>263</b>	<b>1,149</b>	<b>176</b>	<b>321</b>	<b>353</b>	<b>413</b>	<b>1,263</b>	
<b>Change (yoy/qoq)</b>	<b>13.2%</b>	<b>4.3%</b>	<b>-54.5%</b>	<b>57.5%</b>	<b>-15.1%</b>	<b>-33.1%</b>	<b>82.4%</b>	<b>10.0%</b>	<b>17.0%</b>	<b>9.9%</b>	■ Ex forex loss, PBT was up 6.1% qoq, (8.3% above our estimates)
<b>Adjusted Basic EPS</b>	<b>5.99</b>	<b>6.25</b>	<b>2.85</b>	<b>4.48</b>	<b>19.56</b>	<b>3.00</b>	<b>5.47</b>	<b>6.01</b>	<b>7.03</b>	<b>19.56</b>	
<b>Change (yoy/qoq)</b>	<b>13.2%</b>	<b>4.3%</b>	<b>-54.4%</b>	<b>57.2%</b>	<b>-15.1%</b>	<b>-33.0%</b>	<b>82.3%</b>	<b>9.9%</b>	<b>17.0%</b>	<b>0.0%</b>	

Source: Company data, RBS

**Table 2 : How the margin drivers moved**

	4Q09	3Q10	4Q10	Change (%)		Comments
				QoQ	YoY	
Exchange rate (Rs/\$) (E)	50.08	47.10	47.10	0.0%	-6.0%	■ Overall currency losses negatively impacted top line by c3%, according to management
Consolidated revenues (Rs m)	2,491	2,429	2,517	3.6%	1.0%	
<b>A. EXECUTION METRICS</b>						
Utilization	81.0%	84.0%	82.0%	-200bp	100bp	■ Net hiring of 362 in 4Q10 was ahead of management's guidance of c200
<b>Average realization (\$/person-month) (E)</b>						
Onsite	9,665	9,813	9,619	-2.0%	-0.5%	
Offshore	2,924	3,376	3,284	-2.7%	12.3%	■ Pricing net of cross currency and offshore shift was stable, according to management
<b>Blended</b>	<b>4,788</b>	<b>5,211</b>	<b>5,014</b>	<b>-3.8%</b>	<b>4.7%</b>	
<b>Billed effort - Cons. IT services (person-month) (E)</b>						
Onsite	2,624	2,604	2,604	0.0%	-0.7%	■ Management expects a yoy improvement in 1Q11 margins (including hedging losses 1Q10)
Offshore	6,864	6,529	6,931	6.2%	1.0%	
<b>Total</b>	<b>9,487</b>	<b>9,132</b>	<b>9,536</b>	<b>4.4%</b>	<b>0.5%</b>	
<b>B. COST DRIVERS</b>						
Total operating expenses	1,429	1,324	1,393	5.2%	-2.5%	■ Wage hikes will be given in stages over the next 2-3 quarters; total hikes could be in the 8-9% range, based on peer group actions, according to management
As % of revenues	57.4%	54.5%	55.3%	84bp	-202bp	
SG&A Expenses	437	470	470	0.0%	7.6%	
As % of revenues	17.5%	19.3%	18.7%	-68bp	113bp	
<b>EBITDA</b>	<b>625</b>	<b>635</b>	<b>654</b>	<b>3.0%</b>	<b>4.6%</b>	
<b>EBITDA margin</b>	<b>25.1%</b>	<b>26.1%</b>	<b>26.0%</b>	<b>-16bp</b>	<b>89bp</b>	

Source: Company data, (E) - RBS estimates

**Table 3 : Key client metrics**

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	Comments
<b>Client wins and order book</b>									
New customer wins	6	5	2	5	4	3	4	6	■ Order booking of US\$73m (ex-US\$50m BSF deal) was a significant improvement over 3Q10
Fresh order intake	43	75	148	46	43	50	57	123	
<i>Change (yoy)</i>	7.5%	53.1%	150.8%	-43.2%	0.0%	-33.3%	-61.5%	167.4%	
Orders executable over next 12 months	100	95	99	97	98	105	106	147	■ Of the FY11 executable order book, US\$30m pertains to the BSF contract
<i>Change (yoy)</i>	-5%	-6%	-3%	-14%	-2%	11%	7%	52%	
Pending order book (E)	128	142	237	233	228	228	234	303	■ Management sees M&A integration opportunities from BA, one of its largest clients, which is currently in the process of acquiring Iberia
<i>Change (yoy)</i>	-3%	12%	86%	60%	78%	60%	-1%	30%	
<b>Revenue concentration</b>									
Top 5 clients	34.0%	34.0%	33.0%	31.0%	33.0%	33.0%	33.0%	32.0%	■ Management expects to Hitachi JV to sign the first deal for cloud computing services during the quarter
<i>Next 5 clients</i>	12.0%	12.0%	13.0%	13.0%	14.0%	12.0%	17.0%	16.0%	
Top 10 clients	46.0%	46.0%	46.0%	44.0%	47.0%	45.0%	50.0%	48.0%	
<i>Next 10 clients</i>	14.0%	14.0%	16.0%	14.0%	14.0%	15.0%	15.0%	14.0%	
Top 20 clients	60.0%	60.0%	62.0%	58.0%	61.0%	60.0%	65.0%	62.0%	
<i>Non Top 20 clients</i>	40.0%	40.0%	38.0%	42.0%	39.0%	40.0%	35.0%	38.0%	

Source: Company data, (E) – RBS estimates

# Reiterate Buy

**We broadly retain our revenue forecasts and build in margin impact of cross currency movements (-137bp/-95bp for FY11/12F). With valuations still at a 21% discount to peers, we retain Buy, though a re-rating could be back-ended due to 1Q11 margin pressures.**

**We broadly maintain our revenue forecasts and lower our margin forecasts by 137bp/95bp for FY11/12, building in currency pressures**

Our revenue forecasts are largely unchanged, as the scaling down of our realisation assumptions (-5% for FY11/12F) due to cross-currency swings are mitigated by our higher volume forecasts (+3%/+5% for FY11/12F), given an estimated 2% 4Q10 volume outperformance, strong order booking as well as strong hiring in 1Q11 (8.8% addition to 3Q10 base). We scale down our EBITDA margin forecasts by 137bp/95bp for FY11/12, given the downward revisions to our realisation assumptions. We also build in lower hedging losses of Rs137m in FY11 (a Rs282m loss previously), in line with our stronger rupee forecasts. We lower FY11F tax rates to c15% (from 17%), given company guidance of 13-14% and higher share of domestic revenues, which are subject to full tax. Consequently, we revise our EPS estimates for FY11/12F by +2%/-4%.

**Table 4 : What has changed in our key assumptions and forecasts**

	FY11	FY12	FY13		FY11	FY12	FY13	Comments
<b>Exchange rate (Rs/US\$)</b>								
- OLD	45.50	44.36	43.25					■ We factor in our economists' latest currency forecasts that build in rupee appreciation going forward
- NEW	44.46	43.34	42.26					
Change	-2.3%	-2.3%	-2.3%					
<b>A. OPERATIONAL ASSUMPTIONS</b>								
<b>Total employees</b>				<b>Utilization - Offshore</b>				■ Our higher volume forecasts factor in c4% volume growth, strong order intake and hiring (8.8% addition to 3Q10 base)
- OLD	5,232	6,031	6,441	- OLD	78.2%	78.5%	76.0%	
- NEW	5,449	6,357	6,765	- NEW	77.7%	78.5%	77.2%	
Change	4.1%	5.4%	5.0%	Change	-43bp	0bp	116bp	■ We scale down our realisation assumptions by c5% on the sharp dip in European currencies in 4Q10 and 1Q11 qtd
<b>Total billed effort (person-months)</b>				<b>Billed effort share - onsite</b>				
- OLD	42,488	50,360	54,652	- OLD	26.4%	24.8%	25.0%	
- NEW	43,935	52,788	58,219	- NEW	25.7%	24.8%	25.3%	■ Our revenue forecasts are largely unchanged, as cross currency impact is mitigated by improving volume outlook
Change	3.4%	4.8%	6.5%	Change	-65bp	0bp	25bp	
<b>Average realization (\$/p-m) - Onsite</b>				<b>Average realization (\$/p-m) - Offshore</b>				
- OLD	9,892	10,040	10,191	- OLD	3,329	3,296	3,345	■ Our lower EBITDA margin forecasts factor in lower realisation assumptions
- NEW	9,427	9,521	9,616	- NEW	3,165	3,118	3,149	
Change	-4.7%	-5.2%	-5.6%	Change	-4.9%	-5.4%	-5.9%	
<b>B. FINANCIAL FORECASTS</b>								
<b>Revenue (US\$ m)</b>				<b>Revenue (Rs m)</b>				■ We build in Rs137m hedging losses in FY11 (Rs282m loss previously)
- OLD	258	280	306	- OLD	11,758	12,435	13,241	
- NEW	256	282	313	- NEW	11,386	12,217	13,213	
Change	-0.9%	0.6%	2.1%	Change	-3.2%	-1.8%	-0.2%	■ We lower FY11F tax rate to 15% (from 17%), given guidance of 13-14% and higher share of fully taxable domestic revenues
<b>EBITDA margin</b>				<b>EPS - basic</b>				
- OLD	21.9%	22.0%	20.2%	- OLD	26.7	29.4	28.8	
- NEW	20.5%	21.1%	19.4%	- NEW	27.3	28.2	28.2	■ We lower FY11F tax rate to 15% (from 17%), given guidance of 13-14% and higher share of fully taxable domestic revenues
Change	-137bp	-95bp	-80bp	Change	2.2%	-4.2%	-2.2%	

Source: RBS forecasts

## Reiterate Buy rating; target price of Rs246 (Rs251 previously)

**We see valuation gap to peers contracting over next 12 months, but 1Q11 margin headwinds could make the re-rating more back-ended**

Our target price is revised to Rs246 (from Rs251), valuing the stock at par with peer group consensus FY12 P/E valuations (FY11F P/E previously). We expect the stock to narrow its valuation gap (21% currently) versus peers, driven by improving top-line performance. At our target price, the stock is valued at 7x FY11F EPS. However, we expect 1Q11 results to see a downward reset of margins (c600bp), as a result of currency movements, wage adjustments/increases, hardware revenues from the BSF contract as well as lower qoq GIS revenues (which typically peaks in 4Q). Hence, we expect the re-rating to be more back-ended.

**Table 5 : Peer group valuation comparison**

	P/E		EV/EBITDA		EV/Sales		net cash / MCap	div yield (FY08)	P/BV (latest)
	FY11F	FY12F	FY11F	FY12F	FY11F	FY12F			
<b>NIIT Tech</b>	<b>7.3</b>	<b>7.1</b>	<b>4.0</b>	<b>4.2</b>	<b>0.9</b>	<b>0.8</b>	<b>14.5%</b>	<b>3.6%</b>	<b>2.3</b>
KPIT	9.4	8.1	5.2	4.6	1.1	0.9	10.8%	0.5%	4.4
Hexaware	12.4	8.4	6.4	4.9	0.8	0.7	34.6%	1.7%	1.4
Infotech	12.9	10.9	7.4	6.2	1.5	1.3	18.4%	0.5%	2.7
Mastek	9.2	9.0	5.7	5.2	0.8	0.8	18.7%	3.5%	1.4
Polaris	8.7	8.1	5.4	4.6	0.9	0.7	28.4%	1.9%	2.1
<b>Peer group average</b>	<b>10.5</b>	<b>8.9</b>	<b>6.0</b>	<b>5.1</b>	<b>1.0</b>	<b>0.9</b>	<b>22.2%</b>	<b>1.6%</b>	<b>2.4</b>

Source: Company data, RBS forecasts

#### Risks to rating and target price

The key downside risks to our target price are: 1) weakness in IT spending, particularly among the Top 10 clients; 2) rupee appreciating more than we assume versus currencies in key markets; 3) potential termination of tax benefits under SEZ, which remain as yet unclarified under the draft Indian direct tax code; 4) NTL being unable to defend pricing levels that we assume; and 5) strong regulatory action against outsourcing in the company's key geographic markets. Upside could come from: 1) rupee depreciation exceeding the level assumed in our estimates; 2) acquisitions/deal wins not built into our model; and 3) potential 25% stake sale by parent, NIIT Ltd (given that management has in the past talked about its interest in selling to a strategic partner).

## Key assumptions and forecasts

**Table 6 : Key assumptions and forecasts**

(Rs m)	FY09A	FY10A	1Q11F	2Q11F	3Q11F	4Q11F	FY11F	FY12F	FY13F
Exchange rate (Rs/US\$)	41.65	47.65	45.00	44.75	44.30	43.85	44.45	43.34	42.26
<b>A. Key operating metrics</b>									
Total employees	4,238	4,476	4,687	4,963	5,228	5,449	5,449	6,357	6,765
Billed effort (person-months)	40,858	36,390	9,935	10,671	11,387	11,942	43,935	52,788	58,219
<i>Change (yoy/qoq)</i>	1.0%	-10.9%	4.2%	7.4%	6.7%	4.9%	20.7%	20.2%	10.3%
Avg realisation – onsite (US\$/person-month) (E)	10,044	9,690	9,427	9,427	9,427	9,427	9,427	9,521	9,616
<i>Change (yoy/qoq)</i>	-2.78%	-3.53%	-2.00%	0.00%	0.00%	0.00%	-2.72%	1.00%	1.00%
Avg realisation – offshore (US\$/person-month) (E)	3,170	3,303	3,218	3,194	3,146	3,115	3,165	3,118	3,149
<i>Change (yoy/qoq)</i>	0.3%	4.2%	-2.0%	-0.8%	-1.5%	-1.0%	-4.2%	-1.5%	1.0%
<b>B. Key financial forecasts (Rs m)</b>									
Revenue (US\$ m)	225	204	59	65	65	68	256	282	313
<i>Change (yoy/qoq)</i>	-2.6%	-9.4%	7.8%	10.1%	0.1%	5.7%	25.9%	10.0%	10.9%
<b>Revenue (Rs m)</b>	<b>10,341</b>	<b>9,698</b>	<b>2,640</b>	<b>2,889</b>	<b>2,862</b>	<b>2,995</b>	<b>11,386</b>	<b>12,217</b>	<b>13,213</b>
<i>Change (yoy/qoq)</i>	<b>9.8%</b>	<b>-6.2%</b>	<b>4.9%</b>	<b>9.5%</b>	<b>-0.9%</b>	<b>4.6%</b>	<b>17.4%</b>	<b>7.3%</b>	<b>8.2%</b>
Operating margin (%)	22.3%	25.3%	19.9%	19.1%	19.4%	23.4%	20.5%	21.1%	19.4%
<b>Net profit (Rs m)</b>	<b>1,149</b>	<b>1,263</b>	<b>343</b>	<b>364</b>	<b>386</b>	<b>512</b>	<b>1,605</b>	<b>1,656</b>	<b>1,654</b>
<i>Change (yoy/qoq)</i>	<b>-15.1%</b>	<b>9.9%</b>	<b>-17.0%</b>	<b>6.2%</b>	<b>6.0%</b>	<b>32.7%</b>	<b>27.1%</b>	<b>3.2%</b>	<b>-0.1%</b>
<b>EPS - Basic (Rs)</b>	<b>19.57</b>	<b>21.49</b>	<b>5.83</b>	<b>6.19</b>	<b>6.56</b>	<b>8.71</b>	<b>27.30</b>	<b>28.18</b>	<b>28.16</b>
Shares outstanding - basic (m)	58.72	58.76	58.79	58.79	58.79	58.79	58.79	58.76	58.76

Source: Company data, RBS forecasts

## Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	10340	9698	11386	12217	13213
Cost of sales	-6423	-5728	-7514	-7964	-8827
Operating costs	-1612	-1521	-1540	-1680	-1817
<b>EBITDA</b>	<b>2305</b>	<b>2449</b>	<b>2332</b>	<b>2573</b>	<b>2569</b>
DDA & Impairment (ex gw)	-421.7	-360.0	-375.5	-432.3	-496.1
<b>EBITA</b>	<b>1884</b>	<b>2089</b>	<b>1956</b>	<b>2141</b>	<b>2073</b>
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
<b>EBIT</b>	<b>1884</b>	<b>2089</b>	<b>1956</b>	<b>2141</b>	<b>2073</b>
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	-494.7	-669.0	-52.4	106.0	142.8
<b>Reported PTP</b>	<b>1389</b>	<b>1420</b>	<b>1904</b>	<b>2247</b>	<b>2216</b>
Taxation	-224.0	-144.0	-285.6	-575.2	-542.9
Minority interests	-16.6	-13.0	-13.2	-15.8	-18.7
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-0.15	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>1148</b>	<b>1263</b>	<b>1605</b>	<b>1656</b>	<b>1654</b>
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
<b>Normalised net profit</b>	<b>1148</b>	<b>1263</b>	<b>1605</b>	<b>1656</b>	<b>1654</b>

Source: Company data, RBS forecasts

year to Mar

## Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	1585	1895	2018	2869	3396
Other current assets	3021	3101	4120	4152	4454
Tangible fixed assets	3157	3140	3300	3702	4195
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	435.0	107.0	98.0	98.0	98.0
<b>Total assets</b>	<b>8198</b>	<b>8243</b>	<b>9535</b>	<b>10821</b>	<b>12143</b>
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	3952	2200	2283	2443	2643
Long term debt (3)	348.0	217.0	114.0	114.0	114.0
Oth non-current liab	0.00	0.00	0.00	0.00	0.00
<b>Total liabilities</b>	<b>4300</b>	<b>2417</b>	<b>2397</b>	<b>2557</b>	<b>2757</b>
Total equity (incl min)	3898	5826	7139	8263	9387
<b>Total liab &amp; sh equity</b>	<b>8198</b>	<b>8243</b>	<b>9535</b>	<b>10821</b>	<b>12143</b>
Net debt	-1237	-1678	-1904	-2755	-3282

Source: Company data, RBS forecasts

year ended Mar

## Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	2305	2449	2332	2573	2569
Change in working capital	1624	-692.5	-691.0	131.4	-103.1
Net interest (pd) / rec	-494.7	-669.0	-52.4	106.0	142.8
Taxes paid	-591.6	184.0	-276.6	-575.2	-542.9
Other oper cash items	n/a	n/a	n/a	n/a	n/a
<b>Cash flow from ops (1)</b>	<b>2843</b>	<b>1271</b>	<b>1312</b>	<b>2236</b>	<b>2066</b>
Capex (2)	-1201	-343.0	-535.8	-834.2	-988.6
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-44.1	-7.00	0.00	0.00	0.00
<b>Cash flow from invest (3)</b>	<b>-1245</b>	<b>-350.0</b>	<b>-535.8</b>	<b>-834.2</b>	<b>-988.6</b>
Incr / (decr) in equity	-1239	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-298.8	-131.0	-103.0	0.00	0.00
Ordinary dividend paid	-446.6	-481.5	-550.2	-550.2	-549.9
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	0.00	0.00	0.00	0.00	0.00
<b>Cash flow from fin (5)</b>	<b>-1985</b>	<b>-612.5</b>	<b>-653.2</b>	<b>-550.2</b>	<b>-549.9</b>
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>-387.0</b>	<b>309.0</b>	<b>122.7</b>	<b>851.1</b>	<b>527.5</b>
Equity FCF (1+2+4)	1642	928.5	776.0	1401	1077

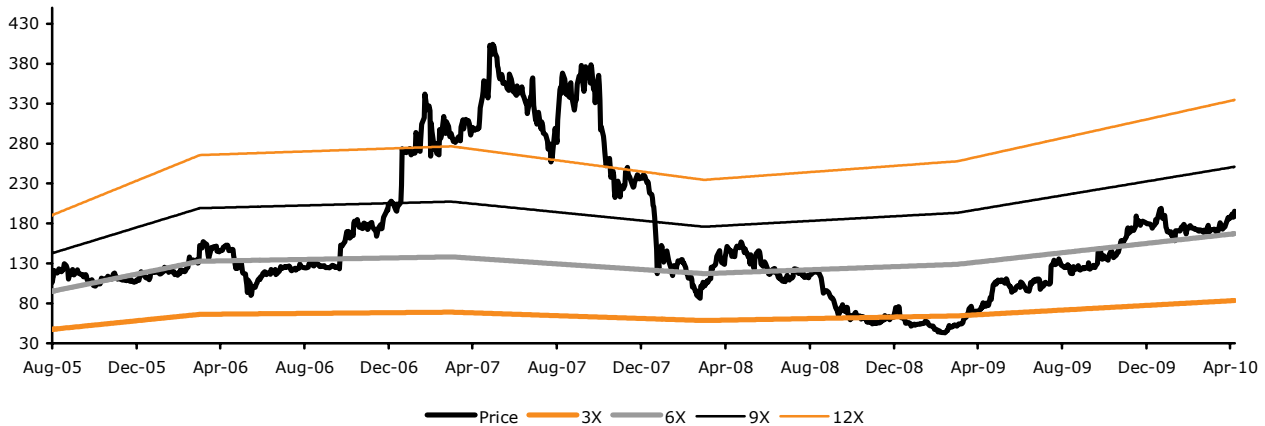
Lines in bold can be derived from the immediately preceding lines.  
Source: Company data, RBS forecasts

year to Mar

**Standard ratios**

	NIIT Tech					Patni Computer Systems			Tech Mahindra		
	FY09A	FY10A	FY11F	FY12F	FY13F	FY10F	FY11F	FY12F	FY10F	FY11F	FY12F
<b>Performance</b>											
Sales growth (%)	9.83	-6.21	17.4	7.30	8.15	2.95	24.0	16.1	-4.37	0.56	9.45
EBITDA growth (%)	30.8	6.23	-4.79	10.4	-0.15	13.1	15.1	6.26	-11.5	-6.14	5.80
EBIT growth (%)	37.1	10.9	-6.36	9.45	-3.16	17.6	18.0	4.92	-13.0	-7.46	5.31
Normalised EPS growth (%)	-15.3	10.1	26.4	2.65	-1.08	11.8	3.34	5.87	-37.6	2.70	10.2
EBITDA margin (%)	22.3	25.3	20.5	21.1	19.4	21.0	19.4	17.8	25.2	23.5	22.7
EBIT margin (%)	18.2	21.5	17.2	17.5	15.7	17.2	16.4	14.8	22.5	20.7	19.9
Net profit margin (%)	11.1	13.0	14.1	13.6	12.5	16.4	13.6	12.4	13.8	14.1	14.2
Return on avg assets (%)	14.9	15.5	18.2	16.4	14.6	12.0	10.9	10.2	19.4	14.4	14.2
Return on avg equity (%)	27.7	26.1	24.9	21.6	18.9	14.3	13.0	12.3	26.6	21.9	20.1
ROIC (%)	48.5	69.6	38.8	26.8	25.4	32.2	29.2	27.1	82.0	18.2	18.3
ROIC - WACC (%)	34.3	55.4	24.6	12.6	11.2	18.0	15.0	12.9	68.1	4.32	4.43
				year to Mar			year to Dec			year to Mar	
<b>Valuation</b>											
EV/sales (x)	0.99	1.01	0.84	0.71	0.62	1.61	1.23	0.99	2.48	2.34	2.04
EV/EBITDA (x)	4.44	4.00	4.11	3.39	3.19	7.67	6.31	5.55	9.84	9.96	8.98
EV/EBITDA @ tgt price (x)	5.74	5.22	5.39	4.55	4.35	8.29	6.85	6.05	7.43	7.39	6.55
EV/EBIT (x)	5.44	4.69	4.90	4.08	3.95	9.34	7.49	6.67	11.0	11.3	10.2
EV/invested capital (x)	3.85	2.36	1.83	1.58	1.34	3.21	2.69	2.27	2.57	2.43	2.25
Price/book value (x)	2.99	2.00	1.63	1.44	1.27	1.92	1.75	1.56	3.83	3.13	2.63
Equity FCF yield (%)	14.2	8.02	6.67	12.0	9.12	5.49	4.84	5.36	3.85	6.19	5.79
Normalised PE (x)	10.1	9.17	7.25	7.06	7.14	14.7	14.2	13.4	16.1	15.7	14.2
Norm PE @tgt price (x)	12.7	11.5	9.13	8.90	8.99	15.5	15.0	14.2	11.5	11.2	10.1
Dividend yield (%)	3.33	3.58	4.10	4.10	4.10	0.51	0.68	0.68	0.41	0.54	0.82
				year to Mar			year to Dec			year to Mar	
<b>Per share data</b>						<b>Solvency</b>					
Tot adj dil sh, ave (m)	59.3	59.3	59.6	59.9	60.5	Net debt to equity (%)	-31.7	-28.8	-26.7	-33.3	-35.0
Reported EPS (INR)	19.4	21.3	26.9	27.7	27.4	Net debt to tot ass (%)	-15.1	-20.4	-20.0	-25.5	-27.0
Normalised EPS (INR)	19.4	21.3	26.9	27.7	27.4	Net debt to EBITDA	-0.54	-0.69	-0.82	-1.07	-1.28
Dividend per share (INR)	6.50	7.00	8.00	8.00	8.00	Current ratio (x)	1.17	2.27	2.69	2.87	2.97
Equity FCF per share (INR)	27.7	15.7	13.0	23.4	17.8	Operating CF int cov (x)	7.94	2.63	31.3	-25.5	-17.3
Book value per sh (INR)	65.3	97.8	119.7	135.7	153.9	Dividend cover (x)	2.57	2.62	2.92	3.01	3.01
				year to Mar						year to Mar	

Priced as follows: NITT.BO - Rs195.30; PTNI.BO - Rs587.40; TEMPL.BO - Rs734.20  
 Source: Company data, RBS forecasts

**NIIT Technologies - 12-month forward P/E band chart**


Source: Bloomberg, Company data, RBS forecasts

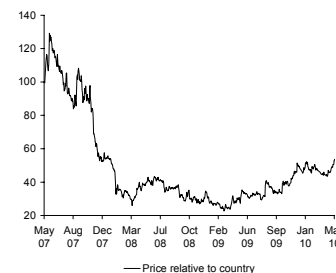


## Company description

Buy

Price relative to country

NIIT Technologies, an IT services firm, offers application development and maintenance, enterprise integration and business process management to organisations in the financial services, transportation, retail and government sectors. It also offers GIS solutions through its subsidiary, NIIT GIS Limited. Its fully-owned subsidiary ROOM Solutions, UK, offers a platform for processing commercial insurance transactions on the Lloyds of London market. Its major global customers include British Airways, Channel 4, DB Systems, Emirates, Holcim Group, ING Group, SEI Investments, Singapore Airlines, Toyota Motors.



## Strategic analysis

Average SWOT company score:

3

Shareholding - Mar 2010

### Strengths

2

Established marquee client base in insurance and transportation verticals and an early-mover advantage in the European market.

### Weaknesses

2

Lack of credible global brand/presence as well as in full-service capabilities, due to NIIT Tech's limited skill sets, hinders entry into bidding for medium-large (US\$50m-100m+) multi-service deals.

### Opportunities

3

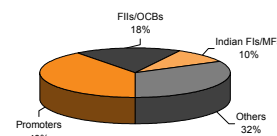
Long-term growth opportunity for offshore IT services relatively unaffected; near-term expectations of slower volume growth are largely a factor of slow client decision-making in an uncertain business environment.

### Threats

3

Global vendors' scaling capacities in India, potential demand-supply mismatch and significant cross-currency volatility, due to high exposure to Europe could affect revenue growth and profitability.

Scoring range is 1-5 (high score is good)



Source: Company data

## Market data

### Headquarters

8, Balaji Estate, Sudarshan Munjal Marg, Kalkaji, New Delhi 110 019 India.

### Website

<http://www.niit-tech.com>

### Shares in issue

58.8m

### Freefloat

60%

### Majority shareholders

Promoters (40%), Blackrock India Equity Fund (4%), Unit Trust of India (3%)

## Country view: India

## Country rel to Asia Pacific

Valuations have run ahead of regional counterparts, while the market also looks expensive relative to where it traded in the past. Another concern is the market seems to believe that policy reform will act as a catalyst for a never-ending re-rating of risky assets. Meanwhile, it appears that monetary policy might turn sooner than the market is anticipating, due to possible rising inflationary pressure. Recent statements from the central bank (RBI) suggest it may be steering the country down a tighter policy path going forward.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



## Competitive position

Average competitive score:

3+

Broker recommendations

### Supplier power

3-

Recent pick up in demand is putting pressure on companies to raise salaries, particularly of experienced staff.

### Barriers to entry

3+

Moderate in enterprise applications support services and high in product design and support services. MNCs are ramping up capacities and headcount. However, for large deals, size is a differentiator.

### Customer power

2+

Moderate to high given limited differentiation among offshore vendors. However, mature clients have high exit barriers due to interdependence. However, pricing pressure is on the rise.

### Substitute products

3+

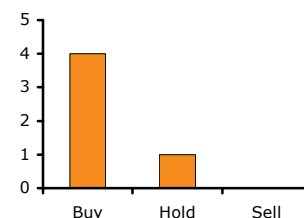
Other low-cost locations such as Eastern Europe, the Philippines and China. However, none except China offer scale comparable to India.

### Rivalry

3-

Moderate to high in services where players have little differentiation. Low in services such as product design and support that require expertise in specific product lines.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

## Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, a Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

### Long term recommendations (as at 07 May 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	702 (0)	431 (0)
Add	0 (0)	0 (0)
Hold	427 (0)	236 (0)
Reduce	0 (0)	0 (0)
Sell	96 (0)	57 (0)
Total (IB%)	1225 (0)	724 (0)

Source: RBS

### Trading recommendations (as at 07 May 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (0)	1 (0)
Rec	00 (00)	00 (00)
Trading Sell	0 (0)	0 (0)
Total (IB%)	1 (0)	1 (0)

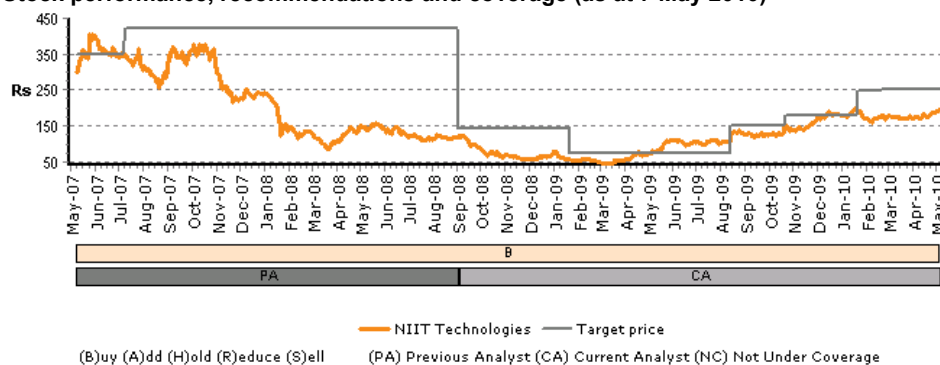
Source: RBS

## Valuation and risks to target price

**NIIT Technologies (RIC: NITT.BO, Rec: Buy, CP: Rs195.30, TP: Rs246.00):** The key downside risks to our PE-based target price are: 1) rupee appreciating more than we assume; 2) a further slowdown in the global economy affecting corporate IT spending; 3) NIIT Tech being unable to defend prices at the levels we assume; and 4) strong regulatory action against outsourcing in the company's key geographic markets. Upside could come from: 1) rupee depreciating more than we assume; 2) acquisitions/deal wins not built into our model; and 3) a potential 25% stake sale by parent, NIIT Ltd.

## NIIT Technologies coverage data

### Stock performance, recommendations and coverage (as at 7 May 2010)



### Trading recommendation history (as at 07 May 2010)

Date	Rec	Analyst
	n/a	

Source: RBS

Srinivas Seshadri started covering this stock on 2 Sep 08

Source: RBS

## Regulatory disclosures

## Global disclaimer

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