

## VISIT NOTE

### Share Data

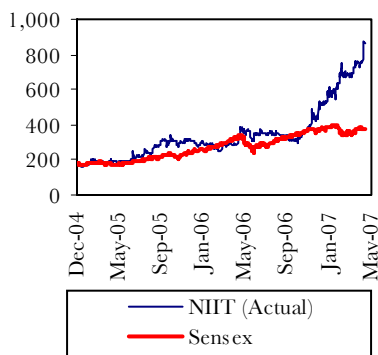
Reuters code	NIIT.BO
Bloomberg code	NIIT IN
Market cap. (US\$ mn)	431
6m avg. daily turnover (US\$ mn)	1.3
Issued shares (mn)	19.8

Performance (%)	1m	3m	12m
Absolute	11	22	165
Relative	5	23	129

### Major shareholders (%)

Promoters	34
FII's	39
MFs	4
Institutions	1
Public & Others	22

### Relative performance



## NIIT Ltd.

Not Rated

Price: Rs. 891

BSE Index: 14127

17<sup>th</sup> May 2007

### “IT” trains like no other

**We recently met the management of NIIT Ltd. and key takeaways of the meetings were as under:**

- NIIT Limited provides learning solutions to its clients through three business segments i.e. Individual (37%), Institutional (26%) and Corporates (37%).
- The company plans to expand capacity by ~12% each year, through addition of new capacities, both in the existing centres and by setting up new centres.
- NIIT has recently launched high level professional courses like IFBI (Institutes of Finance, Banking & Insurance) and Imperia in association with ICICI Bank and 3 IIMs (Kolkata, Ahmedabad and Indore), respectively. These courses are expected to contribute significantly in the growth of individual business in future.
- NIIT has planned a capex of Rs. 600-800 mn each year for the next two years towards upgradation of infrastructure in individual businesses, enhancement of offshore development capacity in corporate business and increasing the penetration level of its courses in two new businesses (Imperia & IFBI). Capex will be funded mainly from internal accruals.

### Outlook

NIIT is expanding both organically and inorganically. It has taken extensive measures to add new courses in individual business, increasing its penetration in private schools in institutional business and consolidating its position in corporate business through Element-K. The capacity expansion and increased utilisation of the same would drive the turnover and the margins in the next two-three years.

NIIT Ltd.'s bottomlines are highly dependant on the performance of its associate – NIIT Technologies Ltd. – (53% of net profits) where the company holds 25% stake through its wholly owned subsidiary Scantech.

The corporate segment revenues are sensitive to forex fluctuations. 5% variation in Rupee to Dollar will lead to 2-3% change in revenues. EBITDA margins would be affected by 50-150 bps depending on the share of US\$ denominated expenditure to total expenditure. This would culminate into 10-22% impact on net profits of the company.

### Valuations

At the current market price of Rs. 891, the stock is trading at 33x FY07 annualised EPS of Rs. 27.

We do not have a rating on the stock.

*Leader in IT education***Background**

The company was incorporated as Pace Education (P) Ltd. in 1981 and renamed as NIIT Ltd. in 1989. NIIT, the pioneer and trend setter in the field of IT education has made a significant presence in global IT education industry with its two segments of learning solutions and software solutions. However, with the growth witnessed in both the segments, the software business was hived off to form a separate company “NIIT Technologies” in June 2004 (w.e.f. April 2003). The future growth is expected to be driven by its policy of moving ahead of its times.

The founders Mr. Rajendra S. Pawar (CMD) and Mr. Vijay K. Thadani (CEO-cum-Whole time director) are IIT graduates with requisite expertise in the field of IT industry.

**Business mix**

- **Individual business:** In individual business it has 458 centres and derives 60% of its revenues from domestic market, 20% from China and remaining from ROW. Of the total 458 centres, 10% are owned by the company (40% of the capacity) while the remaining centres are run through franchisees. The company has launched short-term courses in 3QFY07 targeting new areas like hardware & networking, gaming & animation and infrastructure management, as demand from this section of the industry is increasing rapidly.
- **Institutional business:** NIIT commands a leadership position with presence in 3,500 government schools (BOOT model) and more than 800 private schools. The company is concentrating more on private schools, as there is no need for investments (as infrastructure in computer laboratory are self-owned) and also debtor realisation is shorter.
- **Corporate business:** It acquired Element-K (of USA at US\$ 83 mn in FY05) a leader in providing comprehensive training and owner of 2<sup>nd</sup> largest IPR library in the world in August 2006. This inorganic acquisition has enhanced both the size of revenues and products accessibility of the company. Litmus, an assessment and testing service under corporate business has secured two prestigious clients namely Convergys and Income Tax Department within 6 months of its launch.

*Multi-dimensional growth tactics by the company***Financial highlights****Revenues**

For 9MFY07, the company's revenues have grown by 60% y-o-y from Rs. 3.4 bn to Rs. 5.4 bn, on account of revenue contribution from Element-K and new businesses (IFBI and Imperia) amounting to Rs. 1.5 bn and Rs. 36 mn, respectively. The company had organic growth of 16% y-o-y while inorganic growth was 44% y-o-y.

NIIT expects to grow at ~32% for FY08 and ~24% for FY09 with major growth to be derived from individual business. The demand in future would be driven by increase in penetration level of new business, increasing demand of skilled IT professionals and Element-K.

**Margins**

Though, there has been a y-o-y decline in overall operating margins from 13% to 11% in 9MFY07 on account of expansion, the company has shown improvement in EBITDA margin from 13% to 15% from its old business.

*Substantial growth due to Element-K and new businesses*

The company achieves break-even in individual business at 40-45% capacity level; any further increase in the capacity utilisation will positively impact through operating leverage. It has already achieved 62% capacity utilisation level in 9MFY07 and is expected to be in the range of 70-75% for the next two years. Margins will also be driven by the effective capacity utilisation of new products launched and operational efficiency of Element-K.

### Financial highlights

(Rs. mn)	3QFY06	3QFY07	YoY (%)	9MFY06	9MFY07	YoY (%)	FY06	FY07*	YoY(%)
Net Sales	1,052	2,251	114.0	3,357	5,384	60.4	4,507	7,179	59.3
EBITDA	118	178	50.8	437	571	30.7	601	761	26.7
EBITDA Margin (%)	11.2	7.9	–	13.0	10.6	–	13.3	10.6	–
Other Income	9	4	(55.6)	99	38	(61.6)	85	51	(40.2)
Interest	(14)	(50)	257.1	(43)	(84)	95.8	(46)	(112)	141.4
Depreciation	(96)	(125)	30.2	(272)	(344)	26.5	(374)	(459)	22.8
PBT	17	7	(58.8)	221	181	(18.1)	266	241	(9.1)
Tax	(9)	9	(200.0)	(23)	7	(130.4)	(24)	9	(138.4)
Reported PAT	8	16	100.0	198	188	(5.1)	241	251	3.9
Associate profit	45	92	104.4	118	213	80.5	164	284	72.8
PAT (including associate profits)	53	108	103.8	316	401	26.9	406	535	31.8
Adj. PAT margin (%)	5.0	4.8	–	9.4	7.4	–	9.0	7.4	–
EPS (Rs.)	2.7	5.5	–	16.0	20.3	–	21.0	27.0	–
P/E (x)	–	–	–	–	–	–	42	33	–

\*Annualised

### Segment-wise performance

**Corporate business:** Contribution increased mainly due to inclusion of Element-K revenues. Element-K had an operating margin of (2.5%) in FY05 prior to acquisition, which has improved to 4.9% on account of reduction in general and administrative cost.

**Individual business:** Margin from this segment increased significantly from 6.3% to 16.6% y-o-y during 9MFY07 due to better capacity utilisation.

### Proportion and Growth (Revenue and Margins)

Business mix	Revenues			EBITDA margins (%)		
	Proportion (%)		Growth (%)	Proportion (%)		Growth (%)
	9MFY07	9MFY06	YoY	9MFY07	9MFY06	
Old business	33.4	36.6	46.6	16.6	6.3	73.9
New business (IFBI, Imperia and Litmus)	0.7	–	–	(233.3)	–	–
<b>Individual</b>	<b>34.1</b>	<b>36.6</b>		<b>12.1</b>	<b>6.3</b>	
<b>Institutional</b>	<b>11.5</b>	<b>26.8</b>	<b>(31.2)</b>	<b>12.0</b>	<b>18.6</b>	<b>(55.7)</b>
Old business	26.6	36.7	16.3	14.9	15.7	10.9
New business (Element-K)	27.8	–	–	4.9	–	–
<b>Corporate</b>	<b>54.4</b>	<b>36.7</b>	<b>–</b>	<b>9.6</b>	<b>15.7</b>	<b>–</b>
<b>Overall</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>11.0</b>	<b>13.0</b>	<b>–</b>

### Business break-up

***New profit includes 53% from  
NIIT Technologies***

**Dependence on associate company**

NIIT Technologies Ltd. (NTL), an associate of the company (NIIT having 25% stake through its wholly owned subsidiary Scantech) is contributing a significant portion to the bottomline of the company. The contribution of Rs. 213 mn (53%) by NTL to the total net profits of Rs. 400 mn in 9MFY07 shows the dependence of the company. Net margin with and without associates profit was 7.4% and 3.5%, respectively, in the same period.

***Higher revenues share of  
Private schools to lower  
debtor turnover***

**High debtor period**

Debtor turnover ratio was 153 days in FY06 mainly on account of higher participation of government schools in institutional business. It is expected to decline in future, as the company is concentrating more on private schools which will help achieve timely collection of revenues.

**Income Statement**

Yr. ended 31 Mar. (Rs. mn)	FY02*	FY04**	FY05	FY06
Net sales	6,556	7,076	3,984	4,507
Growth (%)		(28.0)	(15.6)	13.1
Operating expenses	(6,116)	(6,594)	(3,495)	(3,906)
<b>EBITDA</b>	<b>440</b>	<b>483</b>	<b>489</b>	<b>601</b>
Growth (%)	–	(26.8)	51.9	22.8
Depreciation	(714)	(648)	(345)	(374)
Other income	111	273	246	249
<b>EBIT</b>	<b>(162)</b>	<b>109</b>	<b>390</b>	<b>476</b>
Interest paid	(94)	(80)	(23)	(46)
Pre-tax profit	(256)	29	366	430
(before non-recurring items)				
Non-recurring items	(174)	598	–	–
Tax on non-recurring items				
Pre-tax profit	(430)	628	366	430
(after non-recurring items)				
Tax (current + deferred)	64	24	(10)	(24)
<b>Net profit</b>	<b>(367)</b>	<b>652</b>	<b>356</b>	<b>406</b>
Adjusted net profit	(194)	50	356	405
Growth (%)		–	964.0	13.6
Prior period adjustments	(7)	19	–	(5)
Minority interests	(1)	(3)	–	(1)
<b>Net income</b>	<b>(375)</b>	<b>668</b>	<b>356</b>	<b>400</b>

**Balance Sheet**

Yr. ended 31 Mar. (Rs. mn)	FY02*	FY04**	FY05	FY06
Current assets	6,202	2,417	2,386	3,583
Investments	635	740	424	400
Net fixed assets	2,887	1,383	1,238	1,387
Other non-current assets	19	–	–	20
<b>Total assets</b>	<b>9,742</b>	<b>4,539</b>	<b>4,048</b>	<b>5,389</b>
Current liabilities	1,843	2,104	1,231	1,574
Total debt	1,186	259	412	1,090
Other non-current liabilities	93	–	–	–
<b>Total liabilities</b>	<b>3,122</b>	<b>2,363</b>	<b>1,643</b>	<b>2,664</b>
Share capital	386	227	249	269
Reserves & surplus	6,242	1,952	2,156	2,456
Less: Misc. expenditure	(33)	(3)	0	0
Shareholders' funds	6,595	2,176	2,405	2,724
Minorities interests	25	0	–	1
<b>Total equity &amp; liabilities</b>	<b>9,742</b>	<b>4,539</b>	<b>4,048</b>	<b>5,389</b>
<b>Capital employed</b>	<b>7,874</b>	<b>2,435</b>	<b>2,817</b>	<b>3,815</b>

\*FY02-September ending. \*\*FY04-18mn-March ending.

**Cash Flow Statement**

Yr. ended 31 Mar. (Rs. mn)	FY02*	FY04**	FY05	FY06
Pre-tax profit	(430)	628	366	430
Depreciation	2,340	(1,252)	245	271
Chg in working capital	(2,818)	2,552	(907)	(607)
Total tax paid	574	(255)	0	4
Other operating activities	(7)	19	–	(5)
<b>Cash flow from oper. (a)</b>	<b>(341)</b>	<b>1,692</b>	<b>(295)</b>	<b>92</b>
Capital expenditure	(5,227)	2,756	(100)	(419)
Chg in investments	(635)	(105)	315	25
Other investing activities	6,414	(4,644)	(8)	14
<b>Cash flow from inv. (b)</b>	<b>552</b>	<b>(1,993)</b>	<b>207</b>	<b>(381)</b>
<b>Free cash flow (a+b)</b>	<b>211</b>	<b>(300)</b>	<b>(88)</b>	<b>(289)</b>
Equity raised/(repaid)	430	(143)	25	20
Chg in minorities	23	(27)	(0)	–
Debt raised/(repaid)	1,186	(927)	153	678
Dividend (incl. tax)	–	(168)	(101)	(135)
Other financing activities	301	(191)	(22)	18
<b>Cash flow from fin. (c)</b>	<b>1,939</b>	<b>(1,458)</b>	<b>55</b>	<b>581</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,150</b>	<b>(1,758)</b>	<b>(34)</b>	<b>292</b>

**Key Ratios**

Yr. ended 31 Mar. (%)	FY02*	FY04**	FY05	FY06
EPS (Rs.)	(10.0)	1.7	18.4	21.0
EPS growth	–	–	964.0	13.6
EBITDA margin	6.7	6.8	12.3	13.3
EBIT margin	(2.5)	1.5	9.8	10.6
ROCE	(4.1)	1.4	14.8	14.4
Net debt/Equity	(14.6)	(6.1)	2.2	16.2

**Valuations**

Yr. ended 31 Mar. (x)	FY02*	FY04**	FY05	FY06
PER	–	514.1	48.3	42.5
PCE	33.1	37.0	24.5	22.1
Price/Book	2.6	7.9	7.2	6.3
Yield (%)	1.0	0.4	0.6	0.7
EV/Net sales	2.5	3.7	4.4	4.0
EV/EBITDA	37.8	54.3	36.1	30.0

**Du Pont Analysis – ROE**

Yr. ended 31 Mar. (x)	FY02*	FY04**	FY05	FY06
Net margin (%)	(3.0)	0.7	8.9	9.0
Asset turnover	1.3	0.7	0.9	1.0
Leverage factor	1.5	1.1	1.9	1.8
Return on equity (%)	(5.9)	0.5	15.6	15.8



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