NIIT Technologies

Buy

27 December 2006

CMP: **Rs291** Target: **Rs432** *Initiating Coverage*

Coming of age

NIIT Technologies has transformed itself into a focused player with over 80% of revenues coming from BFSI, transportation, and manufacturing and retail verticals. We expect the Room Solutions acquisition and the Adecco JV to drive 33% CAGR in EPS through FY09E. The stock is the cheapest among peers. **BUY**.

YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES (X)	EV/ EBITDA (X)
3/06A	6,075	640	16.5	10.8	17.6	4.2	25.6	19.5	1.4	7.5
3/07E	8,855	1,009	26.1	57.5	11.2	3.3	33.1	19.9	0.9	4.9
3/08E	11,233	1,240	32.0	22.9	9.1	2.7	32.4	26.3	0.6	3.5

Focused player in large verticals

Post demerger from NIIT in FY04, NIIT Tech has focused on BFSI, transportation, and manufacturing and retail verticals. This has begun to pay off with these verticals contributing over 80% of revenues in 2QFY07. Client additions are healthy and order intake is rising.

Beneficiary of Europe's rising IT spend

IT exports to Europe have registered a CAGR of 39% (FY03-FY06E). NIIT Tech has an early mover advantage in Europe with some relationships like British Airways dating back to 10 years. The recent acquisition of UK-based Room Solutions strengthens its presence. We believe NIIT Tech is well-placed to capitalise on Europe's rising IT spend.

Creating growth opportunities

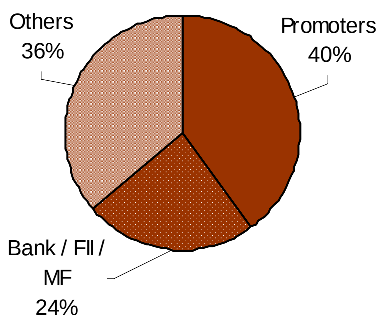
NIIT Tech is one of the few Tier II players offering integrated solutions including BPO and managed infrastructure services. We expect the Room Solutions acquisition and the Adecco JV to drive growth going forward. The Rs1b capex for Noida facility convinces us that NIIT Tech is gearing up for the next level of growth.

EPS CAGR of 33% through FY09E; cheapest among peers; Buy

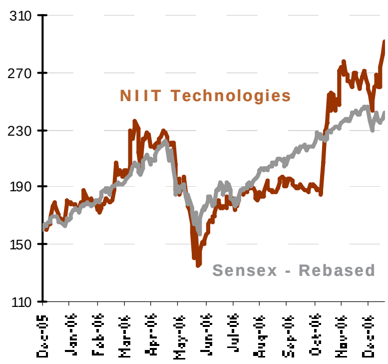
We expect EPS CAGR of 33% through FY09E. The stock is trading at a PE of 9.1x FY08E. It is the cheapest among peers but the highest on RoE, dividend yield, and per employee revenue and PAT. Our 12-month target price is Rs432 based on a current PE of 13.5 on its FY08E EPS of Rs32. **We recommend BUY.**

Sector	IT
Bloomberg	NITEC IN
Reuters	NITT.BO
BSE Sensex	13,708
S&P CNX	3,941
Equity Shares (m)	38.7
Face Value (Rs)	10
52-Week H/L (Rs)	296/131
1,6,12 Rel. Perf. (%)	10/37/31
M.Cap. (Rs b)	11.3
Avg. Daily Vol. ('000)	269.7

SHAREHOLDING PATTERN



NIIT TECHNOLOGIES vs SENSEX - SINCE LISTING



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Investment Argument

We initiate coverage on NIIT Technologies with a **Buy**. Our 12-month target price of Rs432 offers an upside of 48% from current levels.

Focused player in large verticals

Post demerger from NIIT in FY04, NIIT Tech has focused on BFSI, transportation, and manufacturing and retail verticals. This has begun to pay off with these verticals contributing over 80% of revenues in 2QFY07. Client additions are healthy and order intake is rising.

Focus verticals are large and growing

Focus verticals contributed 68% of FYO5 IT exports

The strategy to specialise in few verticals rather than compete with larger players in all segments has transformed NIIT Technologies into a focused player in the last three years. The company has restructured its business model to focus on the industry verticals of BFSI, transport, and manufacturing and retail.

These verticals are large and growing. According to the Nasscom Strategic Review 2006, the three verticals contributed nearly 68% of the total IT - ITES exports in FY05. The growth in these verticals has been faster than the overall IT exports.

62% growth in focus verticals vs 32% in overall IT exports

SHARE OF BFSI, TRANSPORT, MANUFACTURING & RETAIL IN FY05 IT EXPORTS ($m)

Particulars	FY04	FY05	% Growth YoY
Focus Verticals	**7,481**	**12,127**	**62**
BFSI	4,772	6,955	46
Transport	258	535	107
Manufacturing & Retail	2,451	4,637	89
Total Exports (IT-ITES)	**12,898**	**17,834**	**38**

Source: Nasscom Strategic Review 2006

According to Nasscom, the IT exports are expected to rise to $60b by 2010 (CAGR - 27%, FY05-10). We expect the focus verticals to grow at least in line with the overall growth in exports.

Company background

NIIT Technologies was formed by hiving off the global solutions business of NIIT in FY04. The demerger was part of a restructuring exercise by NIIT to provide strategic focus to its education and IT services business.

The shareholders of NIIT were allotted shares in NIIT Tech in the ratio of 1:1.5, as a result of which NIIT Ltd. holds a 25% stake in NIIT Tech.

The company is among the top 20 IT software and solutions provider from India and employs around 4,200 people.

It offers services in application development and maintenance, enterprise solutions including managed services, and business process management in banking, financial services and insurance (BFSI), transport, manufacturing and retail space.

Large clients include the ING group, British Airways, SEI Investments, Singapore Airlines, Toshiba, Toyota, Office Depot and the Ministry of Defence - Singapore.

NIIT Tech's focus verticals

Main focus on insurance

BFSI: This is the largest vertical contributing 42% of revenues in 2QFY07. It has grown at a CQGR (Compounded Quarterly Growth Rate) of 14.8% over the last six quarters (including Room Solutions). The growth is 6.8% excluding Room Solutions.

The largest client is the ING group which is served through a dedicated offshore software development Centre in Kolkata. Other clients include SEI Investments (US), Misys's subsidiary Sesame (UK), insurance major Generalli and Thrivent Financials.

In this space, the company mainly focuses on the insurance segment. The recent acquisition of UK-based Room Solutions strengthens NIIT Tech's presence in Europe, particularly in the Property & Casualty insurance space.

Third largest vendor in transportation

Transportation: This is the second largest vertical contributing 26% of revenues in 2QFY07. With a CQGR of 10% over the last six quarters, it is the fastest growing vertical (organically). NIIT Tech is the third largest vendor in the transportation space, next only to Infosys Technologies and Tata Consultancy Services.

The company has an early mover advantage in the transportation space and caters to a diverse client base of airlines (British Airways, Singapore Airlines), global distribution service providers (Saber), travel portals etc. British Airways is the largest client in this vertical with the relationship extending beyond 10 years.

It bagged a multi million dollar deal from a public transport department in Australia in 3QFY06.

Manufacturing and Retail: This vertical contributed 12% of revenues in 2QFY07 and has grown at a CQGR of 6.7%. Retail clients include Office Depot, Marks and Spencer and Channel 4.

In the manufacturing service line, NIIT Tech provides end-to-end SAP solutions, with a focus on supply chain and customer relationship management, to clients like Toyota Motor Corp and cement giant Holcim.

FOCUS VERTICALS REVENUE TREND (Rs m)

Particulars	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	CQGR (%)
BFSI	464	472	551	515	745	924	14.8
% to total	*34*	*32*	*35*	*31*	*39*	*42*	
Transport	355	369	394	449	478	572	10.0
% to total	*26*	*25*	*25*	*27*	*25*	*26*	
Manufacturing & Retail	191	207	283	299	229	264	6.7
% to total	*14*	*14*	*18*	*18*	*12*	*12*	

Focus on verticals paying off

We believe the strategy to focus on select industries has begun to pay off. Specialisation is seen as a differentiating factor by clients, which gives NIIT Technologies a competitive edge.

The company has a good client base and is the third largest vendor in the transportation space, next only to Infosys Technologies and Tata Consultancy Services.

The contribution of focus verticals to the total revenue has increased from 54% in FY04 to 75% in FY06. After the acquisition of UK-based insurance solutions firm Room Solutions, the contribution has jumped to 80% of revenues in 2QFY07.

The growth in focus verticals has been 31% CAGR FY06 over FY04 as against a 11% growth in overall revenues.

31% revenue CAGR (FY04-06) in focus verticals vs 11% in total revenue

CONSISTENT GROWTH IN FOCUS VERTICALS (Rs m)

Particulars	FY04	FY05	FY06	1HFY07
Focus Verticals	**2,664**	**3,802**	**4,557**	**3,211**
Growth %		*42.7*	*19.9*	
% to total	*54*	*70*	*75*	*78*
BFSI	1381	1,684	2,005	1,668
Growth %		*21.9*	*19.1*	*78.2*
% to total	*28*	*31*	*33*	*41*
Transportation	839	1,249	1,580	1,049
Growth %		*48.9*	*26.5*	*45.0*
% to total	*17*	*23*	*26*	*26*
Manufacturing & Retail	444	869	972	493
Growth %		*95.7*	*11.9*	*24.0*
% to total	*9*	*16*	*16*	*12*
Others	2,269	1,630	1,519	898
Growth %		*-28.2*	*-6.8*	*14.8*
% to total	*46*	*30*	*25*	*22*
Total Revenue	**4,933**	**5,432**	**6,076**	**4,109**
EBTIDA Margins %	15.0	17.7	18.6	18.9
PAT	**331**	**577**	**640**	**489**
Growth %		74.3	10.8	68.0

There has been consistent growth in both revenues and margins over the last six quarters. Revenues registered a CQGR of 7.1% while EBITDA grew at 8.9% mainly on the back of SG&A leverage and improved utilisation.

We expect the company to report a CAGR of 32% in revenues FY09 over FY06.

Client additions, order intake endorse optimism

31 million-dollar clients as on 2QFY07

NIIT Tech has lower revenues coming from top 10 clients as compared to peers. Top 10 clients contribute around 50% of revenues. ING and British Airways are the biggest clients contributing around 20% of revenues. With new additions, the client concentration is expected to decline going forward.

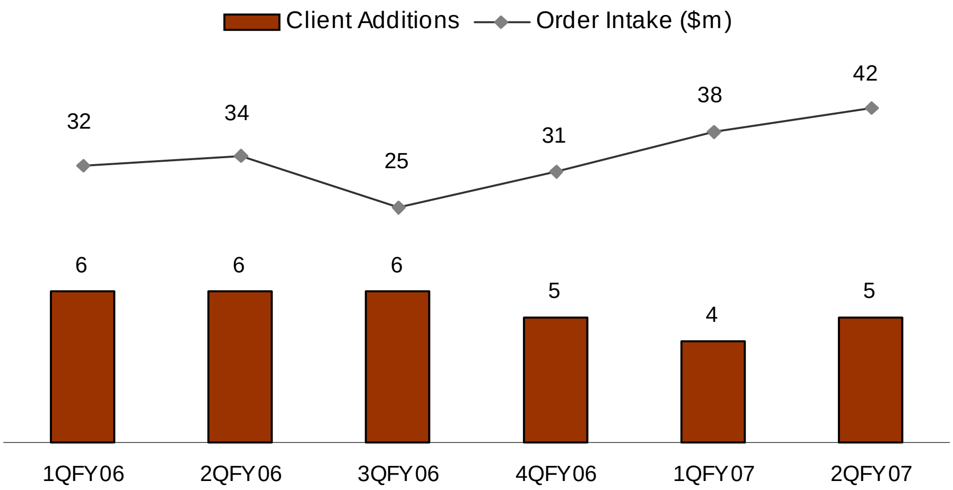
The company has improved its client base with consistent additions over the last six quarters. The number of million dollar clients has also improved from 23 in 2QFY06 to 31 in 2QFY07.

New orders worth $42m in 2QFY07

NIIT Tech has added on an average around $34m every quarter to its order book over the last six quarters, while in the latest quarter (2QFY07), order flow was $42m - the highest ever for the company. The executable order book over the next 12 months was $87m as on 2QFY07, with the focus verticals commanding around 70% share.

Healthy client additions and a rising order intake endorse our belief in the strong traction NIIT Tech is achieving in its focus verticals.

CONSISTENT CLIENT ADDITION, RISING ORDER INTAKE



Source: Company

Beneficiary of Europe's rising IT spend

NIIT Tech has an early mover advantage in Europe with some relationships like British Airways dating back to 10 years. The recent acquisition of UK-based Room Solutions strengthens its presence. We believe NIIT Tech is well-placed to capitalise on Europe's rising IT spend.

Europe - fastest growing export market

39% CAGR in exports to Europe

IT exports to Europe have grown at 39% CAGR over FY03-06E. The growth in US - the largest market - was 33%. The overall growth in IT exports was 36% during the same period.

As Europe is opening up to increased outsourcing of IT-ITES services, we believe growth in Indian exports to Europe will continue to be higher, although on a relatively lower base.

INDIAN IT - ITES EXPORTS BY MARKETS ($m)

Region	FY03	FY04	FY05	FY06E	CAGR (%)
Americas	6,590	8,884	12,107	16,344	35.4
Europe	2,123	2,894	4,093	5,649	38.6
Australasia	757	943	1,416	1,857	34.9
Others	74	81	90	150	26.6
Total	**9,544**	**12,898**	**17,834**	**24,000**	**36.0**

Source: Nasscom Strategic Review 2006; E: MOSt Estimates

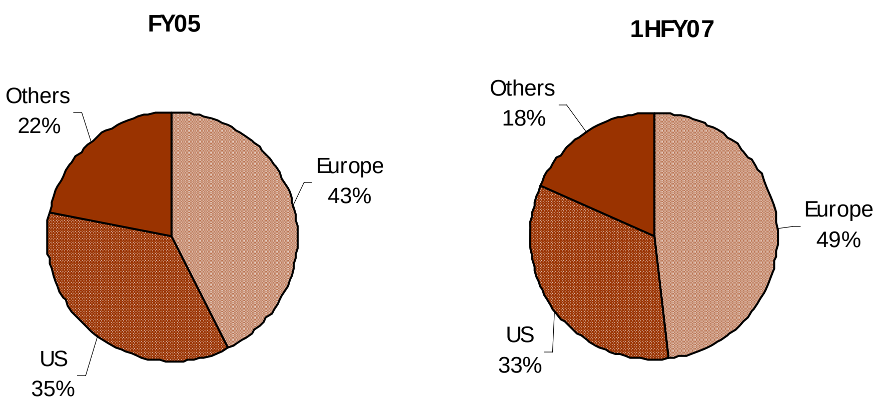
Strong foothold in Europe

48% revenues from Europe in 1HFY07

Europe accounted for more than 48% of the total revenues in 1HFY07, up from 43% in FY05. Revenues from Europe have grown at a CQGR of 13% (including Room Solutions) over the last six quarters.

NIIT Tech has an early mover advantage in the European market with some relationships like British Airways dating back to 10 years. Unlike most other software companies, it has been focusing on the emerging European market rather than face aggressive competition in the US. A larger presence in Europe helps NIIT Tech de-risk its business from a possible slowdown in the US.

REVENUE BREAK-DOWN BY REGION



Source: Company

The order intake over the last six quarters indicates 46% of incremental business came from Europe. NIIT Tech has added 10 new clients 1QFY06 onwards from the European market.

Room Solutions acquisition to strengthen presence in Europe

The acquisition of Room Solutions strengthens NIIT Tech's presence in Europe, particularly in the Property & Casualty insurance space. We believe NIIT Tech is well-placed to capitalise on Europe's rising IT spend.

ORDER INTAKE ($m)

Region	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	Total
Europe	16	10	13	13	24	17	93
% to total	*50*	*29*	*52*	*42*	*63*	*40*	*46*
USA	11	7	6	10	9	18	61
% to total	*34*	*21*	*24*	*32*	*24*	*43*	*30*
ROW	5	17	6	8	5	7	48
% to total	*16*	*50*	*24*	*26*	*13*	*17*	*24*
Total	**32**	**34**	**25**	**31**	**38**	**42**	**202**

Creating growth opportunities

We expect the Room Solutions acquisition and Adecco JV to drive growth going forward. The Rs1b capex for Noida facility convinces us that NIIT Tech is gearing up for the next level of growth.

Allied initiatives to support growth

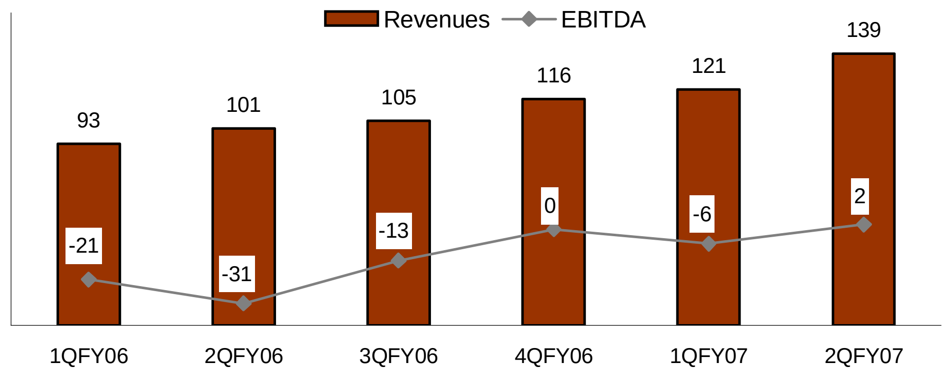
NIIT Tech is one of the few Tier II players offering remote infrastructure management and BPO services besides the traditional application development and maintenance (ADM) services.

One of the few Tier II players to offer BPO and managed infrastructure services in addition to ADM

BPO: NIIT Tech launched its business process outsourcing services in 2002 post the tech-bubble through its wholly owned subsidiary NIIT Smartserve Ltd. It offers regulatory compliance, research data collection, online ticketing and reservation, and online database updation and maintenance. The company has 15 clients including Data Locator, Misys and ING group.

BPO operations contributed 6.8% of revenues in FY06. While BPO operations have incurred losses till now, it declared Rs2m profit at the operating level in 2QFY07. The management has indicated operating break-even in the BPO business in FY07 and contribution to PAT from FY08 onwards on the back of increased utilisation and shift in product mix to non-voice contracts.

BPO OPERATIONS - FINANCIALS



Source: Company

Managed Infrastructure Services: NIIT Tech started offering managed infrastructure services in Feb 2006 with a data centre in Thailand. It has recently set up two additional data sites in Mumbai and Delhi.

With cement giant Holcim being the only big client, contribution from this strategic business unit is less than 5% of the total revenues. However, the management is confident of raking in good business from new as well as existing clients.

NIIT Tech has enhanced its service offerings with BPO and managed infrastructure services. This will enable it to offer integrated solutions to its clients in the focus verticals.

Acquisition of Room Solutions - a strategic fit

In May 2006, NIIT Tech acquired UK-based Room Solutions for a consideration of around $25m. 51% of Room has been acquired upfront while the balance will be acquired in equal proportion based on performance in June 2006 and June 2007.

Room is a leading UK-based insurance solutions provider in the Property & Casualty segment having clients both in the Lloyds and London market.

NIIT Tech's geographical reach to create a wider market for Room's P&C solutions

The company employs 120 professionals and is growing at a CAGR of 20%. It has a proprietary platform "Subscribe" for end-to-end administration of insurance policies.

While NIIT Tech is primarily into Life & Pension market, Room would give access to customers in the Property & Casualty space. This would throw up an opportunity to cross sell to existing customers. Further, NIIT Tech will be able to take advantage of its geographical reach and create a wider market for Room's P&C solutions.

Joint ventures and strategic alliances

Revenue from Adecco JV - $150-200m over 5 years

Adecco JV: In September 2006, NIIT Tech entered into a 50:50 joint venture with Switzerland-based human resources services firm Adecco SA. The joint venture company would initially cater to the internal IT requirements of Adecco and gradually scale up the services to its clients. The deal makes NIIT Tech an exclusive outsourcing partner for a period of five years.

The JV, based out of UK with an initial capital of $3m, will commence operations by 1QFY08. We expect revenues of $150-200m over the next five years from this venture.

DTSA tie-up: NIIT Tech has recently entered into a strategic tie-up with Defense Technology and Science Agency under the Ministry of Defence, Singapore for outsourcing development and maintenance of GeBiz, the e-procurement portal of Government of Singapore. At a later stage, it would also involve developing a product on the same platform.

Planned capex to gear up for the next level of growth

Noida facility to lower SG&A cost

NIIT Tech has received an approval for a SEZ in Noida, New Delhi spread across 26 acres. The facility, which would accommodate 10,000 people, would cost the company Rs1b. The first phase of expansion, which would accommodate 3,000 employees, is likely to be completed in FY08.

The expansion plan strengthens our belief that NIIT Tech is gearing up for the next level of growth. Further, the facility would also lead to a decrease in sales, general and administrative cost as the company currently operates from a leased facility.

Potential upside through inorganic growth

Acquisition of $10-15m company in transportation vertical likely

NIIT Tech has shown preference for inorganic growth by taking over four companies in the last few years - Osprey Systems, Data Executives International, AD Solutions and Room Solutions. The management has recently indicated another acquisition of $10-15m with front-end capabilities in the transportation vertical.

NIIT Tech has a healthy cash balance of Rs1b net of debt, which translates into cash per share of Rs26 as on September 30, 2006. We believe the management's aggressive stance towards inorganic growth and cash on the table would lead to more acquisitions going forward.

Financials & Projections

We expect profits to grow at a CAGR of 33% (FY06 -09E) to Rs1b in FY07E, Rs1.2b in FY08E and Rs1.4b in FY09E, which translates into an FY07E EPS of Rs26 and FY08E EPS of Rs32.

Short but steadily improving track record

24% EBITDA CAGR over FY04-06

NIIT Tech has a short track record of three years. Though revenues have grown at a CAGR of 11% from Rs.4.9b in FY04 to Rs6.1b in FY06, EBITDA has grown at a CAGR of 24% over the same period. The PAT increased from Rs331m in FY04 to Rs640m in FY06, a CAGR of 39%. The company has consistently maintained a 20% plus ROE and a 35% plus dividend payout since inception.

EPS CAGR of 33% through FY09E

We expect NIIT Tech to report revenues of Rs8.9b in FY07E, Rs11.2b in FY08E and Rs13.9b in FY09E (CAGR of 32% FY06-09E).

We have the following assumptions for our projections.

(Rs m)

Assumption	FY07E	FY08E	FY09E
Revenues			
IT Services	7,253	9,209	11,431
Growth %	*28*	*27*	*24*
Room	1,034	1,313	1,563
Growth %	-	*27*	*19*
BPO	569	711	861
Growth %	*37*	*25*	*21*
Total	8,855	11,233	13,856
Growth %	*46*	*27*	*23*
Employee Additions	1,091	1,150	1,300
EBITDA Margins %	18.8	18.6	18.0

E: MOSt Estimates

We have assumed EBITDA margins to fall 18.8% in FY07E and 18.6% in FY08E. Our assumption of a slight margin compression contrary to consensus arises from higher expected salary hikes and pressure on billing rates for Tier II companies.

However, we could also be surprised as there are multiple levers for NIIT Tech to improve margins going forward.

1. Increase in offshore revenue from the current 35%
2. Higher fresher intake in the total employee base
3. SG&A economies of scale
4. Higher than expected margins from the BPO operations.

We expect profits of NIIT Tech to grow at a CAGR of 33% (FY06 -09E) to Rs1b in FY07E, Rs1.2b in FY08E and Rs1.5b in FY09E, which translates into an FY07E EPS of Rs26 and FY08E EPS of Rs32.

1HFY07 numbers are in line with our expectations

NIIT Tech reported a 45% growth in its revenues for IHFY07, while EBITDA margins improved from 18.3% in IHFY06 to 18.9% in IHFY07. PAT for the same period has increased 68% YoY. This is in line with our expectations.

Valuation & Recommendation

The stock is trading at a PE of 9.1x FY08E, and is cheapest among peers. Our 12-month target price is Rs432 based on a current PE of 13.5 on its FY08E EPS of Rs32. BUY.

NIIT Tech cheapest among peers

We have compared NIIT Tech with other mid-cap IT companies as under:

Comparative Valuations	NIIT Tech		Mphasis BFL		Hexaware#		KPIT		Geometric^	
	FY07E	FY08E	FY07E	FY08E	CY06E	CY07E	FY07E	FY08E	FY07E	FY08E
Revenues (Rs m)	8,855	11,233	8,379	10,438	8,446	11,112	4,682	6,131	3,278	4,591
growth (%)	*45.8*	*26.8*	*30.49*	*24.6*	*24.4*	*31.6*	*47.1*	*30.9*	*46.7*	*40.0*
EPS (Rs)	26.1	32.0	7.3	10.8	9.6	12.0	33.5	40.7	6.3	9.1
growth (%)	*57.5*	*22.9*	*27.91*	*48.5*	*33.0*	*24.5*	*49.6*	*21.6*	*57.0*	*45.4*
ROE (%)	33.1	32.4	*27.2	*32.5	25.1	21.7	29.3	26.9	21.2	23.2
CMP (Rs)	291	291	288	288	180	180	599	599	112	112
P/E (x)	**11.2**	**9.1**	**39.6**	**26.7**	**18.7**	**15.0**	**17.9**	**14.7**	**17.9**	**12.3**
Dividend Yield (%)	2.7	3.4	0.8	0.8	1.1	1.3	0.6	0.8	1.1	1.1
Revenue / Employee (Rs m)	1.9	1.9	0.6	0.6	1.4	1.4	1.4	1.5	1.5	1.6
PAT / Employee (Rs m)	0.22	0.21	0.09	0.11	0.21	0.19	0.15	0.14	1.58	1.47

** Standalone ROE* *E: MOSt Estimates*

 # - Not inclusive of Focus Frame acquisition. With Focus Frame, we expect CY06E EPS of Rs9.6 and CY07E EPS of Rs12.

^ - Not inclusive of Modern Engg acquisition. With Modern Engg, we expect FY07E EPS of Rs6.4 and FY08E EPS of Rs10.1.

NIIT Tech ranks the highest on most parameters - RoE, dividend yield, and per employee revenue and PAT. At the same time, its stock is the cheapest based on FY08E PE.

Price target of Rs432, 48% upside; Buy

Our 12-month target price is Rs432 based on a current PE of 13.5 on its FY08E EPS of Rs32. We believe that the stock has high potential for rerating going forward. We recommend Buy with an upside of 48% from current levels.

Investment Concerns

Delay in ramping up BPO division and scarcity of economical and skilled resources are our major concerns.

Delay in ramping up BPO division could impact margins

The losses in the BPO division have been a drag on the margins for the last two years. While BPO operations have reported marginal operating profit in the last two quarters, completion of large contracts without subsequent renewal or acquisition of new clients could dampen the margins given the high operating leverage of this business.

Completion of large contracts without subsequent renewal or acquisition of new clients could impact margins

Mitigant: The management is confident of ramping up BPO operations by FY08. The move to offer integrated solutions in focus verticals may accelerate business acquisition.

Sector specific risks

Higher than expected appreciation of the rupee, shortage of skilled professionals and wage inflation could significantly affect the profitability.

Sectoral risks like rupee appreciation, attrition and wage inflation may affect profitability

Mitigant: NIIT Tech has the policy of hedging around 50-60% of its outstanding forex exposure, which will cushion the impact to a certain extent.

The company has an attrition rate of ~16-17%, which is in line with other Tier II players. However, it has taken various initiatives on the HR front to check attrition and has been consistently ranked as one of the Top 20 places to work in the annual BT- Hewitt survey. Another advantage is access to fresh talent through NIIT's education and training business.

Financials and Projections

INCOME STATEMENT					(Rs m)
Y/E MARCH	**2005**	**2006**	**2007E**	**2008E**	**2009E**
Net sales	**5,432**	**6,075**	**8,855**	**11,233**	**13,856**
Change (%)	*10.1*	*11.8*	*45.8*	*26.8*	*23.4*
EBITDA	**962**	**1,132**	**1,667**	**2,088**	**2,497**
Change (%)	*29.9*	*17.8*	*47.2*	*25.2*	*19.6*
Depreciation	369	390	470	589	678
EBIT	**593**	**743**	**1,197**	**1,499**	**1,819**
Interest	41	39	20	20	30
Other income	82	86	79	60	60
PBT	**634**	**790**	**1,256**	**1,539**	**1,849**
Tax	36	115	204	253	305
Tax / PBT	*5.7*	*14.5*	*16.3*	*16.5*	*16.5*
Minority Interest	12	12	42	45	45
Extraordinary Income / (Exp)	8	23	0	0	0
Adjusted PAT	**577**	**640**	**1,009**	**1,240**	**1,499**
Change (%)	*74.3*	*10.8*	*57.8*	*22.9*	*20.9*
EBITDA margin (%)	*17.7*	*18.6*	*18.8*	*18.6*	*18.0*
PAT margin (%)	*10.6*	*10.5*	*11.4*	*11.0*	*10.8*

E: MOSt Estimates

PAT CAGR of 33% through FY09E

Financials and Projections (contd...)

BALANCE SHEET					(Rs m)
Y/E MARCH	**2005**	**2006**	**2007E**	**2008E**	**2009E**
Net worth	**2,301**	**2,696**	**3,396**	**4,249**	**5,265**
Equity share capital	387	387	387	387	387
Reserves	1,915	2,309	3,009	3,862	4,878
Minority Interest	51	63	106	151	196
Loans	540	420	785	420	120
Net deferred tax	-19	-46	-46	-46	-46
Capital employed	**2,873**	**3,134**	**4,241**	**4,775**	**5,535**
Gross fixed assets	2,391	2,700	3,730	4,380	5,030
Less: Depreciation	1,437	1,781	2,251	2,840	3,518
Net fixed assets	**954**	**919**	**1,479**	**1,540**	**1,512**
Capital WIP	1	30	0	0	0
Investments	438	649	1,016	1,105	1,720
Curr. assets	**2,655**	**2,933**	**3,848**	**4,931**	**5,924**
Inventory	6	6	6	6	6
Debtors	1,189	1,201	1,747	2,308	2,847
Cash & bank balance	928	924	900	1,100	1,200
Loans & advances	532	802	1,195	1,516	1,871
Current liab. & prov.	**1,177**	**1,398**	**2,102**	**2,801**	**3,621**
Creditors	797	902	1,320	1,679	2,085
Provisions	380	496	783	1,123	1,536
Net current assets	**1,479**	**1,535**	**1,746**	**2,129**	**2,302**
Misc. exp. (not w/o)	2	0	0	0	0
Application of funds	**2,873**	**3,134**	**4,241**	**4,775**	**5,535**

E: MOSt Estimates

Cash balance to aid expansion and inorganic growth

Financials and Projections (contd...)

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**14.9**	**16.5**	**26.1**	**32.0**	**38.7**
Growth (%)	*74.3*	*10.8*	*57.5*	*22.9*	*20.9*
Cash EPS	24.5	26.6	38.2	47.2	56.3
Book value	58.2	68.1	85.0	105.9	131.0
DPS	5.5	6.0	8.0	10.0	12.5
Payout (incl. Div. Tax.) (%)	35.6%	34.4%	29.5%	30.1%	31.3%
Valuation (x)					
P/E			11.2	9.1	7.5
Cash P/E			7.6	6.2	5.2
Price/Book value			3.3	2.7	2.1
EV/Sales			0.9	0.6	0.4
EV/EBITDA			4.9	3.5	2.2
Dividend yield (%)			2.7	3.4	4.3
Profitability ratios (%)					
RoE	29.4	25.6	33.1	32.4	31.5
RoCE	14.7	19.5	19.9	26.3	28.8
Turnover ratios					
Debtors (days)	80	72	72	75	75
Inventory (days)	0	0	0	0	0
Creditor (days)	65	67	67	67	67
Asset turnover (x)	1.9	1.9	2.1	2.4	2.5
Leverage ratio					
Debt/Equity (x)	0.2	0.2	0.2	0.1	0.0

E: MOSt Estimates

Robust Profitability

Financials and Projections (contd...)

CASH FLOW STATEMENT					(Rs m)
Y/E MARCH	**2005**	**2006**	**2007E**	**2008E**	**2009E**
PBT before EO items	**634**	**790**	**1,256**	**1,539**	**1,849**
Add : Depreciation	369	390	470	589	678
Interest	41	39	20	20	30
Less : Direct taxes paid	66	142	204	253	305
(Inc)/Dec in WC	-167	-61	-235	-183	-73
CF from operations	**810**	**1,016**	**1,306**	**1,711**	**2,179**
EO, misc. & other items	8	23	0	0	0
CF from oper. incl. EO items	**818**	**1,039**	**1,306**	**1,711**	**2,179**
(Inc)/Dec in FA	-206	-441	-1,000	-650	-650
(Pur)/Sale of investments	-104	-211	-367	-89	-615
CF from investments	**-310**	**-652**	**-1,367**	**-739**	**-1,265**
Inc/(Dec) in networth	296	0	0	0	0
Inc/(Dec) in debt	-61	-119	365	-365	-300
Less : Interest paid	-41	-39	-20	-20	-30
Dividend paid	-213	-232	-310	-387	-484
CF from fin. activity	**-19**	**-390**	**35**	**-772**	**-814**
Inc/Dec in cash	**489**	**-4**	**-25**	**200**	**100**
Add: Beginning balance	438	928	924	900	1,100
Closing balance	**928**	**924**	**900**	**1,100**	**1,200**

E: MOSt Estimates

Consistent growth in cash flow from operations

N O T E S

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