

21 January 2008

**BUY**

Price	Target Price
<b>Rs187</b>	<b>Rs 255</b>

<b>Sensex</b>	<b>19,014</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(17)	(51)	(43)	(31)
Rel. to Sensex	(17)	(53)	(53)	(49)

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	NITT.BO
Bloomberg	NITEC@IN
Equity Capital(Rs mn)	587
Face Value(Rs)	10
52 Week H/L	425/182
Market Cap(Rs bn)	11.0
Daily Avg Volume (No of shares)	980423
Daily Avg Turnover (US\$)	7.3

**Shareholding Pattern (%)**

(31 <sup>st</sup> Dec.'07)	
Promoters	39.7
FII/NRI	13.7
Institutions	14.4
Private Corp.	11.6
Public	20.6

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# NIIT Technologies

Result  
Update**Muted quarter along expected lines**

NIIT Technologies reported a muted set of numbers along expected lines in Q3FY08. The revenues grew by 1.7% QoQ to Rs 2338 mn, while EBITDA came in at Rs 444 (mgn of 19%, an improvement of only 50 bps sequentially as against expectation of 100 bps increase). Net profits stood at Rs 347 mn, up 0.9% QoQ helped by higher other income, though came in line as effective tax rate was 13.7% ( V/s expectation of 12%). We have been concerned about muted growth rates exhibited by NTL during the past few quarters (revenue growth during 9MFY08 is ~8% YoY, EBITDA growth is only ~2%), partly on account of the platform transformation taking place for Room Solution's offering. The company had indicated that the growth would pick up post this transformation getting completed by the end of Q3FY08, however the company has now shifted the timeline for the platform transition to H1FY09, which would in effect indicate that revenues could remain muted for the next 2 quarters as well before accelerating. We have cut our FY09 and FY10 estimates by -6% and now base our 1 year forward target price at Rs 255, based on a rolling forward P/E multiple of 9x from Rs 301 earlier( based on 10x on FY10E earnings). The stock is currently trading at a EV/Sales of 0.8x and 0.6x on FY09E and FY10E.

**Revenues remain muted, Margin expansion below expectations**

In Rs mn	Q3FY08	Q2FY08	QoQ (%)	Q3FY07	YoY(%)
Net sales	2338	2299	1.7%	2315	1.0%
Total Income	2,338	2,299	1.7%	2,315	1.0%
Operating expenses	1894	1873	1.1%	1824	3.8%
EBITDA	444	426	4.2%	491	-9.6%
Margins (%)	19.0	18.5		21.2	
Depreciation	95	103		105	
EBIT	349	323	8.0%	386	-9.6%
Margins (%)	14.9	14.0		16.7	
Interest Paid					
Other income	60	69	-13.0%	33	
Pre-tax profit	409	392	4.3%	419	-2.4%
Tax provided	56	47		68	
Profit after tax	353	345	2.3%	351	0.6%
Minority Interest	6	1		5	
Emkay Net profit	347	344	0.9%	346	0.3%

**Other result highlights****Revenues remain sublime, lower than expectations**

NIIT Tech reported revenues of Rs 228 mn , up 1.7% QoQ which came in lower than our expectation of ~3.9% sequential growth. Volume growth during the quarter was 2.7% (and was better than reported in H1FY08) we would rate it below par. We would like to note that NTL's UK subsidiary Room Solutions is undergoing a platform transition, which has impacted revenue growth (**Revenue growth during 9MFY08 at a mere 8% with operating profits growing by a dismal 2% only with a similar muted growth for revenues ex Room Solutions as well**). The management had earlier indicated that the transformation would get over by Q3FY08 and growth would pick up from Q4FY08 onwards, however the company has now shifted the timeline for the same to H1FY09E.

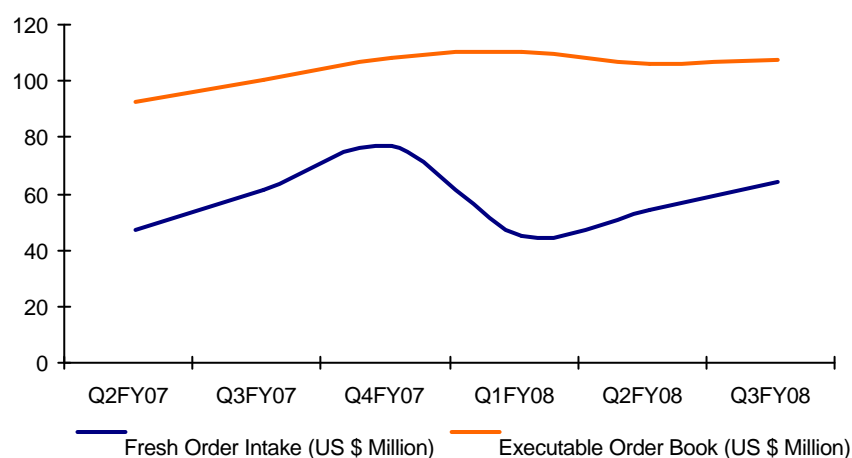
### Top client continue to drag growth

We would like to note that we have been concerned on the growth in the top 5, top 10 and top 20 client accounts over the past few quarters (the top 5, top 10 and top 20 accounts had been degrowing over the 3 quarters prior to Q3FY08, as shown in the exhibit below). Though the top 5 client revenues grew by -1.7% QoQ after three successive quarters of de growth, we would rate the performance within the top clients below par given the high dependency put on the top clients. The company added 2 new US\$ 1 mn + customers taking the total number of US\$ 1 mn+ accounts to 39 (from 37 at the end of Q2FY08)

	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Top 5 clients , Top 5 client revenues( in Rs mn)	40%	36%	38%	36%	36%
QoQ growth, %		-5%	-1%	-5%	1.7%
Top 10 clients Top 10 client revenues( in Rs mn)	51%	49%	49%	47%	46%
QoQ growth, %		1%	-6%	-4%	0%
Top 20 clients Top 20 client revenues( in Rs mn)	65%	65%	63%	60%	58%
QoQ growth, %		5%	-9%	-5%	-2%

### New order wins at US\$ 59 mn during the quarter, order book remains flat

NIIT Tech reported new order wins of US\$ 59 mn during the quarter up from US\$ 49 mn during Q2FY08. However the order book (executable over the next 12 months) remained flat at US\$ 102 mn.



### EBITDA margin expansion restricted to 50 bps sequentially

NIIT Tech reported operating margins of 19% during Q3FY08, an expansion of 50 bps sequentially (V/s expectation of ~100 bps). The company indicated that it may not be able to keep it's initial guidance of touching 20%+ operating margin by Q4FY08E.

### Net profits increase by 0.9% QoQ

NIIT Tech reported net profits of Rs 347 mn, up 0.9% QoQ. The net profits came in line with our expectations despite the lower than expected revenues and margin expansion helped by lower depreciation and higher other income.

### Cut estimates further, Target price lowered to Rs 255

The management has indicated that the platform transition for Room's offerings which was expected to be completed by Q3FY08 would now get completed only by H1FY09 which we believe could lead to lower ramp up over the next few quarters as well. We are

lowering our FY09E and FY10E earnings estimates by ~6% to factor in the same. We also reduce our 1 year forward price target at Rs 255, based on 1 yr forward P/E multiple of 9x (from 10 x earlier on account of lower earnings growth projections).

	FY09E			FY10E		
(in Rs mn, except EPS)	Old	New	change	Old	New	change
Revenues	11225	10992	-2.1%	13270	13017	-1.9%
EBITDA	2193	1992	-9.2%	2594	2353	-9.3%
Net Profits	1595	1501	-5.9%	1763	1662	-5.7%
EPS	27.3	25.7	-6.0%	30.1	23	-23.6%

Though valuations have cooled down significantly, with the stock now trading at a P/E of 7.2x and 6.6x on FY09E and FY10E earnings of Rs 25.7 and Rs 28.4 respectively as well as an EV/Sales of 0.8x on FY09E and 0.6x on FY10E respectively, we believe that that stock price performance could continue to suffer on the lack of any immediate triggers. ( as stake sale by the promoter NIIT has been lingering for more than 6 months now)

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