

INDUSTRY	IT SERVICES		
CMP (as on 14 Jan 2014)	Rs 389		
Target Price	Rs 454		
Nifty	6,242		
Sensex	21,033		
KEY STOCK DATA			
Bloomberg/Reuters	NITEC IN/NITT.BO		
No. of Shares (mn)	61		
MCap (Rs bn) / (\$ mn)	24 / 384		
6m avg traded value (Rs mn)	34		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 399 / 234		
	3M	6M	12M
Absolute (%)	31.3	46.9	40.6
Relative (%)	29.2	41.6	35.0
SHAREHOLDING PATTERN (%)			
Promoters	31.08		
FIs & Local MFs	17.34		
FIIIs	32.35		
Public & Others	19.23		
Source : BSE			

Order book expansion, a key positive...

NIIT Tech's 3QFY14 results delivered a positive surprise on EBIDTA margin despite a miss on revenues (owing to weakness in hardware business). However, fresh order intake for the quarter was strong, which was key positive.

NIIT Tech cited lowering focus on India business (~11% of revenues as on 3QFY14) and continued tapering of hardware revenues (4.6% of revenues as on 3QFY14 vs 11% as on 1QFY14). Management guided for shift in focus towards developed markets (North America), core verticals (BFSI, Travel) and ramp up growth service lines (Infrastructure management services). We see these initiatives aiding EBIDTA margin trajectory for NIIT Tech (16.3% as on 3QFY14).

NIIT Tech currently trades at 25% discount to Mindtree (based on FY15 P/E x). We expect gradual improvement in margin trajectory which could drive EPS upgrades and rerating. Our TP is upgraded by 7% to Rs454/sh (9x FY16E EPS vs 8.5x earlier). Maintain BUY

- **3QFY14 Highlights :** Revenues for 3QFY14 were at USD 96.1mn down 1.1% QoQ below our estimates (USD 98mn). Revenues in INR at Rs5.87bn were up 0.1% on a sequential basis but below our estimates (Rs 6.02bn).EBIDTA margin at 16.3% was up 130bps QoQ, way above our estimates (15.4%). Shift in revenue mix in favor of developed markets has aided in margin expansion for the quarter. PAT at Rs 531mn was 8% below our estimates owing to lower other income.
- **Valuation and View :** We expect NIIT Tech's USD revenues to remain soft in FY14E. This is due to weakness in hardware revenues owing to the gradual completion of PFR component in CCTNS contracts. However, we expect ramp up in growth trajectory in FY15E aided by new deal wins in focus areas. We model 4/8% USD revenue growth for FY14/FY15E. We see strong scope for margin expansion in FY15 aided by improving revenue mix, traction in high margin contracts (AAI deal) and lower hedge losses. We model EBIDTA margin at 16/17/17.6% for FY14/FY15/FY16E. We expect 12.4% EPS CAGR (FY13-FY16E) predominantly aided by margin expansion. BUY with TP of Rs454/sh.

FINANCIAL SUMMARY(Rs mn)	3QFY14	2QFY14	QoQ (%)	3QFY13	YoY (%)	FY13	FY14E	FY15E	FY16E
Net Sales	5,873	5,870	0.1	5,144	14.2	20,213	23,167	25,613	27,542
EBITDA	957	883	8.4	813	17.7	3,296	3,703	4,363	4,853
PAT	531	621	(14.5)	561	(5.3)	2,134	2,348	2,717	3,048
Diluted EPS (Rs)						35.5	38.9	45.0	50.5
P/E (x)						10.9	10.0	8.6	7.7
EV / EBITDA (x)						6.2	5.5	4.6	3.9
RoE (%)						21.3	19.8	19.8	19.3

Source: Company, HDFC sec Inst Research

- Order book expands** : Order book executable over next 12 months came at USD 265mn up 7% QoQ and 9.5% YoY. Fresh order intake for the quarter was strong at USD 377mn. Company indicated signing a large deal worth USD300mn from an existing BFS client executable over a period of 10 years. The deal involves 10% new scope while the remaining business has been part of renewal. NIIT Tech indicated that this deal

win could enable a strong reference to drive further large deal wins.

- Key metrics** : Exit headcount came at 8,610 with net addition of 143 employees for the quarter. Utilization rates dropped to 78.4% down 190bps QoQ. Net cash on balance sheet came at Rs 2.2bn as on 3QFY14 (vs Rs 1.89bn in 2QFY14).

Revenues at USD 96mn declined by 1.1% QoQ, were below our estimates (USD 98mn).

EBIDTA margin came at 16.3% up 130bps QoQ way above our estimate (15.4%). NIIT Tech's adjusted EBIDTA margins stand at 17.5% as on 3QFY14 (company reports hedging losses in revenues)

Lower proportion of revenues from hardware has led to strong margin expansion for the quarter

North America delivered strong traction on geographic front, while ROW was weak

QUARTERLY FINANCIALS SNAPSHOT

(Rs mn)	3QFY14	2QFY14	QoQ (%)	3QFY13	YoY (%)
USD Revenues	96.1	97.2	(1.1)	95.8	0.3
Net Sales	5,873	5,870	0.1	5,144	14.2
Cost of sales	3,758	3,893	(3.5)	3,383	11.1
SG&A Expenses	1,158	1,094	5.9	948	22.2
EBIDTA Profits	957	883	8.4	813	17.7
Depreciation	160	155		142	
Other Income	(70)	182		126	
PBT	727	910	(20.1)	797	(8.8)
Minority Interest	14	20		6	
Tax	182	269		230	
APAT	531	621	(14.5)	561	(5.3)

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

Margin Analysis (%)	3QFY14	2QFY14	QoQ (%)	3QFY13	YoY (%)
Cost of Software Development as a % Sales	64.0%	66.3%	(233)	65.8%	(178)
SG&A as a % of Sales	19.7%	18.6%	108	18.4%	129
EBIDTA Margin (%)	16.3%	15.0%	125	15.8%	49
Net Profit Margin (%)	9.0%	10.6%	(154)	10.9%	(186)
Tax Rate (%)	25.0%	29.6%	(453)	28.9%	(382)

Source: Company, HDFC sec Inst Research

GEOGRAPHICAL REVENUE MIX(%)

	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
Americas	37	37	37	36	38	37	38	39	41	44
EMEA	38	39	37	39	39	40	37	35	36	38
ROW	26	24	26	25	23	23	25	26	23	18

Source: Company, HDFC sec Inst Research

Core verticals (BFS, and travel) delivered traction

Traditional service lines(ADM) delivered traction on service line front

Net headcount grew by 143 employees QoQ

Order book executable over next twelve months came at USD265mn up by 7% QoQ

VERTICAL REVENUE MIX(%)

	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
BFS	15	13	13	13	13	12	12	12	14	17
Insurance	24	23	21	21	20	19	19	18	19	18
Transport	36	38	39	40	42	42	37	36	37	38
Manufacturing	8	7	6	7	6	6	6	7	6	7
Government	4	5	7	8	5	8	11	13	10	6
Others	13	14	14	11	15	13	15	14	14	14

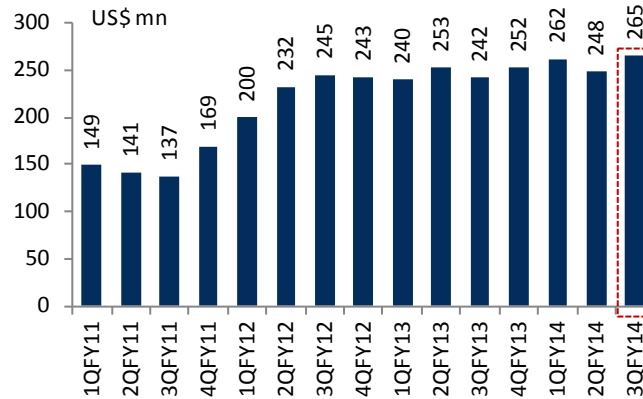
Source: Company, HDFC sec Inst Research

SERVICE LINE MIX (%)

	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
ADM	65	62	61	61	64	63	61	60	62	66
IP assets	14	13	11	12	10	9	8	9	9	8
Managed services	13	12	13	12	11	12	12	13	12	13
SI and PI	5	7	9	9	9	10	13	13	12	7
BPO	3	6	6	6	6	6	6	5	5	6

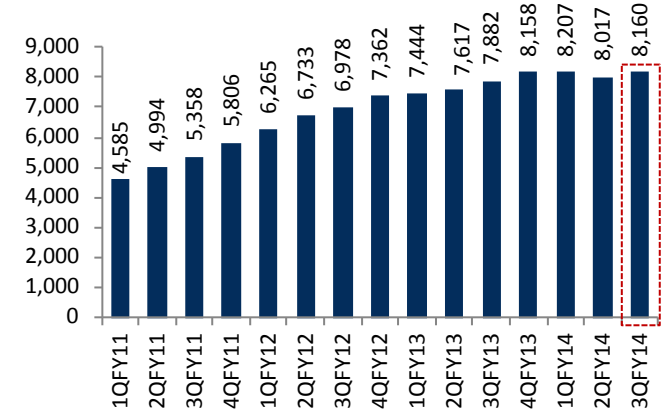
Source: Company, HDFC sec Inst Research

Order book executable over the next 12 months



Source : Company, HDFC sec Inst Research

Headcount



Source : Company, HDFC sec Inst Research

FRESH ORDER INTAKE

Fig in USD mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
Fresh Order Intake	60	50	116	86	200	75	92	83	93	83	110	145	84	377
USA	10	14	52	14	99	17	35	25	43	31	42	44	16	320
Europe	21	21	31	47	31	56	17	30	44	34	30	26	51	43
ROW	29	14	33	25	70	2	40	28	17	18	38	75	17	14

Source : Company, HDFC sec Inst Research

Fresh order intake remained muted at USD 377mn. This was driven a large deal worth USD300mn from a banking client in the USA

PEER VALUATION

	CMP (Rs)	Mcap (Rs bn)	EPS				P/E				EV/EBIDTA				ROE(%)			
			FY13	FY14	FY15E	FY16E	FY13	FY14	FY15E	FY16E	FY13	FY14	FY15E	FY16E	FY13	FY14	FY15E	FY16E
Mphasis	422	89	35.4	17.8	41.6	42.0	11.9	NA	10.1	10.0	6.7	13.5	5.5	5.1	15.9	17.9	16.5	15.4
Eclerx	1,110	33.6	57.0	85.1	96.8	110.9	19.5	13.0	11.5	10.0	12.0	8.3	7.3	6.1	44.0	51.0	45.0	41.0
Hexaware	143	42.4	12.4	13.5	16.1	NA	11.5	10.6	8.9	NA	7.3	6.6	5.4	NA	28.6	26.8	27.7	NA
NIIT Tech	384	23.1	35.5	39.0	45.2	50.5	10.8	9.9	8.5	7.6	6.1	5.4	4.6	3.8	21.3	19.8	19.7	19.0
Mindtree	1,500	62.2	81.7	118.6	130.8	153.4	18.4	12.6	11.5	9.8	11.7	9.1	7.1	5.8	29.9	32.7	28.1	26.3
KPIT Tech	181	34.9	10.6	12.9	17.3	20.2	17.1	14.1	10.5	9.0	9.4	7.6	6.1	5.0	22.5	21.8	23.6	22.4
Infotech	350	39.0	20.8	24.3	28.5	32.4	16.8	14.4	12.3	10.8	9.8	7.8	6.6	5.5	18.6	19.1	19.4	19.1

Source : Company, HDFC sec Inst Research, Hexaware's EPS projections are for CY12, CY13E and CY14E respectively , Mphasis FY14 EPS is for 5months only owing to change in year ending

CHANGE IN ESTIMATES

(Rs mn)	FY14E			FY15E		
	New	Old	% Change	New	Old	% Change
Sales	23,167	23,602	-1.8%	25,613	26,407	-3.0%
EBIDTA	3,703	3,740	-1.0%	4,363	4,396	-0.8%
PAT	2,348	2,441	-3.8%	2,717	2,736	-0.7%

Source : HDFC sec Inst Research

ASSUMPTIONS

	FY11	FY12	FY13	FY14E	FY15E	FY16E
USD Revenue Growth	39.2%	21.1%	14.6%	4.1%	7.6%	9.3%
Average Exchange Rate(USD vs INR)	45.64	48.21	53.93	59.37	61.0	60.0
Cost of Sales	63.0%	62.7%	65.1%	65.2%	65.2%	65.2%
SG&A/ Sales	17.5%	20.3%	18.6%	18.8%	17.7%	17.2%
EBIDTA Margin (%)	19.5%	17.0%	16.3%	16.0%	17.0%	17.6%

Source : Company, HDFC sec Inst Research

INCOME STATEMENT

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
USD Revenues	327.0	374.8	390.2	419.9	459.0
Growth (%)	21.1	14.6	4.1	7.6	9.3
Average Exchange Rate	48.2	53.9	59.4	61.0	60.0
Revenues	15,764	20213	23,167	25,613	27,542
Growth %	27.9	28.2	14.6	10.6	7.5
Cost of Development	9,877	13,159	15,103	16,705	17,966
S&G&A Expenses	3,204	3,758	4,361	4,545	4,723
EBIDTA	2,683	3,296	3,703	4,363	4,853
EBIDTA Margin %	17.0	16.3	16.0	17.0	17.6
EBIDTA Growth %	11.6	22.9	12.3	17.8	11.2
Depreciation	364	567	625	682	716
EBIT	2,319	2,729	3,078	3,681	4,136
Other Income	282	207	338	160	180
PBT	2601	2936	3416	3841	4316
Tax	638	751	1010	1075	1209
PAT	1,963	2,185	2,406	2,765	3,108
Minority Interest / Adj	(7.98)	52	58.0	48.0	60.0
APAT	1,971	2,133	2,348	2,717	3,048
NPM(%)	12.50	10.55	10.13	10.61	11.07
EPS	33.2	35.5	38.9	45.0	50.5
EPS Growth (%)	7.4	7.0	9.4	15.7	12.2

Source: Company, HDFC sec Inst Research

BALANCE SHEET

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
SOURCES OF FUNDS					
Share Capital	596	602	604	604	604
Reserves	8,503	10,339	12,180	14,102	16,259
Total Shareholders' Funds	9,099	10,941	12,784	14,706	16,863
Minority Interest	123	173	231	279	339
Long Term Debt	122	60	60	60	60
Short Term Debt	423	-	-	-	-
Total Debt	545	60	60	60	60
Long Term Provisions	3	279	279	279	279
TOTAL SOURCES OF FUNDS	9,770	11,453	13,353	15,324	17,540
APPLICATION OF FUNDS					
Net Block	4,233	4,661	5,435	5,954	6,138
Investments	549	820	820	820	820
Deferred Tax Assets	207	122	122	122	122
LT Loans & Advances	395	369	479	589	699
Inventories	7	4	4	4	4
Trade Receivables	3,314	4,538	5,522	6,175	6,640
Cash & Equivalents	2,223	2,329	2,233	2,566	3,874
ST loans & Advances	988	933	1,083	1,233	1,383
Other Current Assets	1,345	1,612	1,712	2,012	2,312
Current assets	7,869	9,413	10,550	11,986	14,209
Trade Payables	1,284	1,798	1,777	1,614	1,886
Other Current Liabilities	1,257	1,172	1,390	1,537	1,515
Provisions	949	965	890	1,000	1,050
Current Liabilities	3,490	3,935	4,057	4,150	4,451
Net Current Assets	4,379	5,478	6,493	7,836	9,758
TOTAL APPLICATION OF FUNDS	9,770	11,453	13,353	15,324	17,540

Source: Company, HDFC sec Inst Research

CASH FLOW

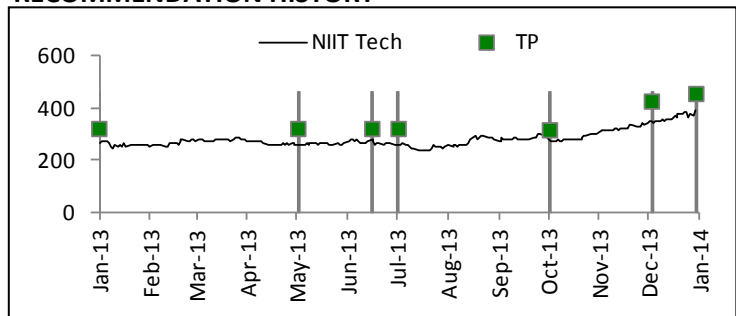
(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Reported PAT	1,963	2,186	2,406	2,765	3,108
Non operating & Int. Income	(52)	(22)	(120)	(120)	(120)
Other EO Items	120	75	0	0	0
Depreciation	364	567	625	682	716
Working Capital Change	(752)	(453)	(1,222)	(1,120)	(725)
OPERATING CASH FLOW (a)	1,643	2,353	1,689	2,208	2,979
Capex	(1,197)	(969)	(1,400)	(1,200)	(900)
Free cash flow (FCF)	446	1,384	289	1,008	2,079
Investments	212	(164)	120	120	120
INVESTING CASH FLOW (b)	(985)	(1,133)	(1,280)	(1,080)	(780)
Share capital Issuance	54	87	181	-	-
Debt Issuance	311	(414)	-	-	-
Interest expenses	(21)	(21)	-	-	-
Dividend	(511)	(566)	(687)	(795)	(891)
FINANCING CASH FLOW (c)	(167)	(914)	(505)	(795)	(891)
NET CASH FLOW (a+b+c)	491	306	(96)	333	1,308
Effect of chg in Exchange rates	118	65	-	-	-
Closing Cash & Equivalents	2,222	2,329	2,233	2,566	3,874

Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY12	FY13	FY14E	FY15E	FY16E
PROFITABILITY (%)					
Gross Margin	37.3	34.9	34.8	34.8	34.8
EBITDA Margin	17.0	16.3	16.0	17.0	17.6
EBIT Margin	14.7	13.5	13.3	14.4	15.0
APAT Margin	12.5	10.6	10.1	10.6	11.1
RoE	23.7	21.3	19.8	19.8	19.3
RoCE	23.1	20.8	19.5	19.5	19.1
ROIC	27.3	26.9	23.3	24.2	24.4
EFFICIENCY					
Tax Rate %	24.5	25.6	29.6	28.0	28.0
Asset turnover (x)	1.63	1.79	1.77	1.70	1.60
Unbilled Revenues	30	22.08	22.08	22.08	0.00
Debtor (days)	77	82	87.0	88.0	88.0
Payables (days)	30	32	28	23	25
Cash conversion cycle (days)	77.7	71.6	81.1	87.1	63.0
Debt/EBITDA (x)	0.20	0.02	0.02	0.01	0.01
Net D/E	(0.25)	(0.28)	(0.23)	(0.23)	(0.27)
VALUATION					
EPS (Rs/sh)	33.2	35.5	38.9	45.0	50.5
CEPS (Rs/sh)	39.2	44.8	49.2	56.3	62.3
BV (Rs/sh)	152.6	181.6	211.7	243.5	279.2
DPS (Rs/sh)	8.0	8.5	9.7	11.2	12.6
P/E	8.2	7.6	10.0	8.6	7.7
P/BV	1.8	1.5	1.8	1.6	1.4
EV/EBITDA	5.2	4.0	5.5	4.6	3.9
Dividend Yield (%)	3.0%	3.1%	2.5%	2.9%	3.2%
FCFE/Mcap(%)	2.8%	8.5%	1.2%	4.3%	8.9%
OCF/EV(%)	11.8%	17.8%	8.2%	10.9%	15.8%
FCF/EV(%)	3.2%	10.5%	1.4%	5.0%	11.0%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
16-Jan-13	269	BUY	320
18-May-13	261	BUY	320
1-Jul-13	277	BUY	320
17-Jul-13	259	BUY	320
17-Oct-13	278	BUY	315
18-Dec-13	350	BUY	425
15-Jan-14	389	BUY	454

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel,

Mumbai - 400 013

Board : +91-22-6171 7330

www.hdfcsec.com