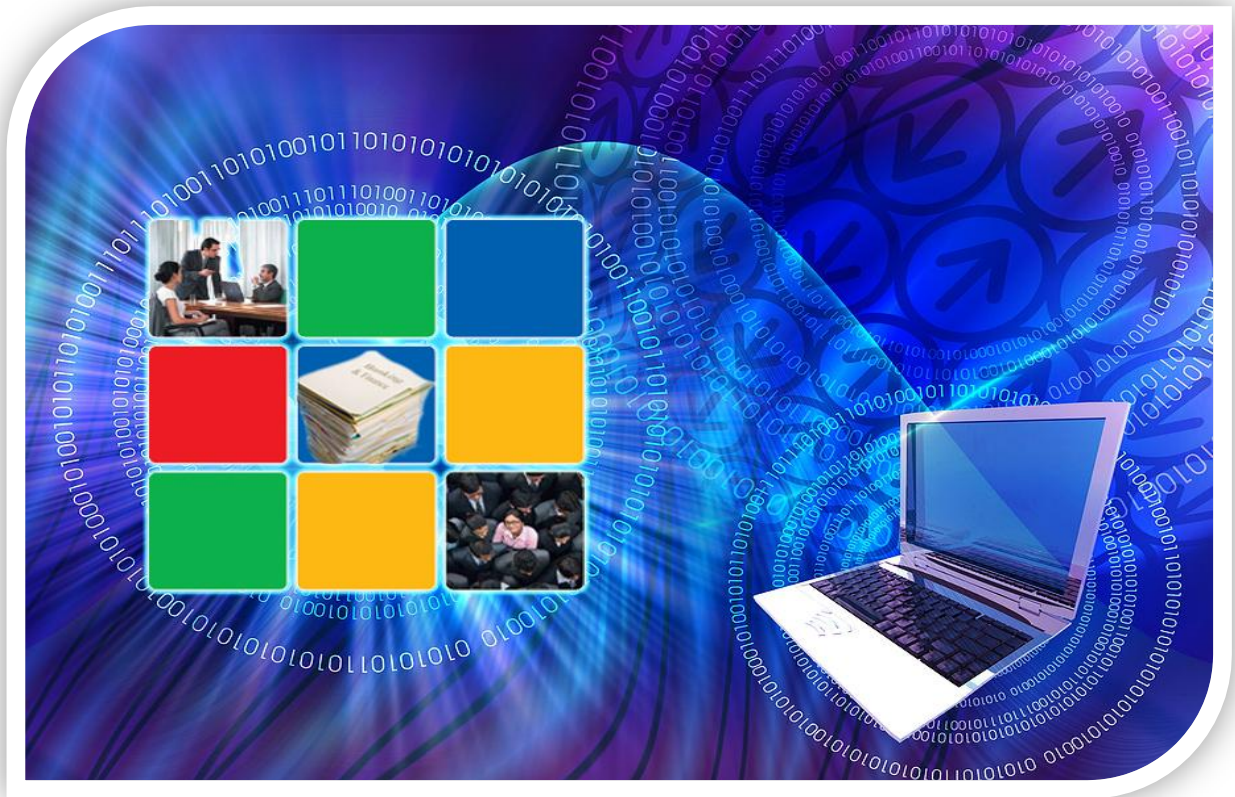


April 2, 2012

NIIT Technologies Limited



Initiating Coverage

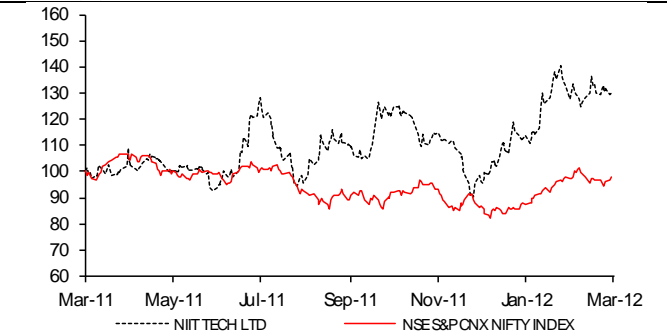
NIIT Technologies Ltd.

Recommendation	BUY
Target price(Rs.)	Rs.379
Sector	IT/Software

Stock Details

BSE Code	532541
Bloomberg Code	NITEC IN
Market Cap (Rs. cr)	1610
Free Float (per cent)	60.8
52- wk HI/Lo (Rs)	285/166
Avg. Volume BSE (Monthly)	11,309
Face Value (Rs)	10.0
Dividend (FY 11)	75%
Shares o/s (Crs)	5.96

Relative Performance	1Mth	6Mth	1Yr
NIIT Tech(%)	1.7	18.0	28.9
NIFTY(%)	(0.7)	5.5	(7.3)



Shareholding Pattern as of December 31, 2011

Promoter Holding	39.2%
Institutional (Incl. FII)	36.9%
Corporate Bodies	6.5%
Public & others	17.4%

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Snapshot

NIIT Technologies (NIIT Tech) is a leading IT solutions organization, servicing customers in North America, Europe, Asia, Japan and Australia.

Investment Rationale

- **Robust order book:** NIIT Technologies has registered an order inflow to the tune of USD361 million during 9MFY'12 compared to USD150 million during the corresponding period last year, an increase of 141 per cent y-o-y. The present order book of USD245 million provides strong revenue visibility to the company.
- **High focus on non-linear revenues:** The strategy of the company to transform itself from a generic service provider to a specialized domain-focused player, with an increasing component of non-linear revenues has paid off well. Management's guidance is to increase the weightage of non-linear revenues to 30 per cent (from the present level of 25 per cent) should augur well for the company, going forward.
- **Well-diversified business model:** The company's business model is well-diversified not only in terms of geography but also in terms of verticals. The slowdown in the BFSI segment is more than compensated by higher contribution from the travel, transportation and logistics segment.
- **Decent dividend yield and superior ratios:** NIIT Technologies has an excellent dividend-payment track record and RoE in excess of 25 per cent and we expect this trend to continue in future also. We expect the company to distribute a dividend of Rs.8 per share for this financial year.

Valuation & Recommendation

We expect NIIT Technologies to post a net profit of Rs.210.5 crore on net sales of Rs.1566 crore in FY'12E. On the back of robust order inflows leading to strong earnings visibility, we expect the company to post net sales of Rs.1930.3 crore and PAT of Rs.227.6 crore in FY'13E, translating into an EPS of Rs.37.9. The net cash and cash equivalent is expected to be around Rs.300 crore, equivalent to Rs.50 per share. We value the company at 10x FY'13E earnings (along with the cash) to arrive at a price target of Rs.379 over the next 12 to 15 months (upside of 40%).

Particulars (Rsmn)	Net Sales	Growth (%)	EBITDA	PAT	EPS (Rs)	P/E (x)
FY'10	913.7	-5.9%	179.7	127.7	21.7	12.4
FY'11E	1232.3	34.9%	251.4	179.3	30.3	8.9
FY'12E	1566.0	27.1%	316.2	210.5	35.3	7.6
FY'13E	1930.3	23.3%	353.0	227.6	37.9	7.1

(Source: Company, Nirmal Bang Research)

INVESTMENT RATIONALE

Robust financial performance expected going forward

We expect NIIT Technologies to report excellent set of numbers going forward. The company's total order intake during 9MFY'12 stood at USD361 million, resulting in an order book of USD245 million executable over the next 12 months. The company has witnessed an improved traction in the travel and transportation segments. The strong growth in this segment which contributed 38 per cent to the total revenues during 9MFY'12, has more than compensated for the decline in the BFSI segment.

Business transformation strategy paying off well

One of the key elements of the company's strategy has been to transform itself from a generic service provider to a specialized domain-focused player with an increasing component of non-linear revenues. In the first phase, the company scaled up itself to be the best in domain verticals and become relevant to the clients in the delivery of its key offerings.

The company's next phase of transformation involves making the business non-linear by involving new service offerings (managed services, platform based solutions, cloud services) has to provide higher value to its global clientele. NIIT Technologies aims to derive close to 30 per cent of its consolidated revenues from the non-linear segment, going forward(from the present 25 per cent levels).

The company's strategy of focusing on select industry segments should do well. A brief description of the various business segments that the company is catering to has been given below:

Banking and Financial Services: The company's range of offerings service the needs of banking and financial services institutions across the world, for whom the company specializes in solutions around investment management, credit and operational risk.

Insurance: NIIT Technologies has built expertise in the areas of life insurance, pensions, annuity, non-life insurance, policy administration, claims management and reinsurance, working with top global insurance providers. Through its wholly owned subsidiary – NIIT Insurance Technologies, the company has strengthened its presence in the commercial insurance space by providing customers a unique value through its IP based solutions.

Travel, Transportation and Logistics (TTL): NIIT Technologies has garnered extensive experience working with some of the world's largest carriers, airports, travel distribution and surface transportation companies.

This experience combined with domain knowledge, has helped the company address business challenges, improve customer responsiveness, minimize operational costs and maximize efficiency through the effective use of Information Technology. Its wholly-owned subsidiary – NIIT Airline Technologies GmbH, provides unique revenue accounting and operations management platforms for small and medium airlines.

Manufacturing and distribution: The company has a deep understanding of the manufacturing and distribution businesses and has helped clients across the world make sound decisions regarding the deployment of automated, transparent and integrated information management systems across their value chain. The company's unique web-based e-Procurement platform, Procure-Easy, and mobile based mKconnect is a simple and user-friendly application, that supports the complete sourcing value chain involving requisitioning, demand aggregation, bid publishing, response evaluation and purchasing.

Government: NIIT Technologies has vast experience in executing turnkey projects for various Government departments. The company has successfully implemented the "Intranet Prahari" project for the Border Security Force (BSF). In February 2012, the company has bagged the CCTNS contract valued at Rs.300 crore from various state governments.

Excellent Balance Sheet

The company is debt-free with net cash and cash equivalent of Rs.208.3 crore on December 31, 2011. This translates into cash per share of Rs.35, which is equivalent to ~13 per cent of the present price.

Cash & Cash equivalent totaling to 13 per cent of the market-cap of the company

We expect the cash position to improve significantly going forward on the back of improvement in financial performance of the company.

In July 2011, NIIT Technologies announced a strategic partnership with Morris Communications, a privately-held leading media company based out of Georgia. This partnership provides for integrated IT & BPO services to Morris Communications for an aggregate amount of USD85 million over a period of five years. NIIT Technologies has a controlling interest in the joint venture. The contribution of Morris to the topline during Q3FY'12 stood at Rs.24.3 crore.

NIIT Technologies acquired Proyecta Sistemas, based out of Spain, in August 2011. The company can not only utilize this cash but also leverage the Balance Sheet, if needed, for pursuing inorganic growth opportunities. The integration of Proyecta is moving in-line with the company's expectation with the contribution towards Q3FY'12 revenues standing at Rs.15.1 crore.

Strong order inflow

The company had a strong order intake during 9MFY'12 at USD361 million, registering a 141 per cent y-o-y increase compared to USD150 million during 9MFY'11. This figure is significant considering the fact that the order inflow during FY'11 stood at USD266 million. The order intake during Q3FY'12 stood at USD75 million compared to USD50 million during the corresponding quarter last year, registering a growth of 50 per cent y-o-y. This provides significant revenue visibility over the next 12 months.

Decent dividend yield and superior return ratios

NIIT Technologies has a decent dividend yield of approximately ~3 per cent. The company has had an excellent dividend payment track record. The dividend ratio for FY'11 stood at 75 per cent and payout ratio stood in excess of 25 per cent over the last five years. We expect this payout policy to continue in future also, with the dividend for FY'12E expected to be around Rs.8 per share.

Particulars	FY07	FY08	FY09	FY10	FY11
Reported EPS (Rs.)	21.3	21.9	18.45	20.3	29.5
Dividend (%)	65	65	65	70	75
Payout (%)	30.5%	29.7%	35.2%	34.5%	25.4%

(Source: Company, Nirmal Bang Research)

The company has had maintained superior return ratios over the past several years. The RoE of the company has been in excess of 25 per cent during the FY'05-11.

Well-diversified business model

The company has a well-diversified business model not only in terms of verticals but also in terms of geography also.

The contribution from India stood at 11 per cent during Q3FY'12. The contribution from Emerging Markets and America put together stood at 76 per cent of the consolidated revenues, with the balance 13 per cent coming from Asia-Pacific operations.

The individual contribution from every vertical has been given below in a tabular form.

Particulars	Contribution (%)		
	FY'10	FY'11	9MFY'12
Travel, Transportation & Logistics	29	31	38
Banking & Financial Services	37	43	36
Retailing & Manufacturing	8	11	7
Other segments	26	15	19
Total	100	100	100

(Source: Company, Nirmal Bang Research)

The top five clients now contribute to 29 per cent of revenues, top 10 contribute around 44 per cent and top 20 about 58 per cent of the revenues.

Government orders execution on track

The company's revenues from the Government stood at 5 per cent during Q3FY'12. This figure was muted on account of completion of the BSF's 'Intranet Prahari' project. During February, 2012 the company bagged a Rs.300-crore deal to implement a Union Home Ministry project – Crime and Criminal Tracking Network System (CCTNS), which will be a part of the proposed Natgrid.

NIIT Technologies has been selected as the system integrator in Tamil Nadu, Jharkhand and Uttar Pradesh. It is in active pursuit of similar opportunities in other states as well. The system is expected to connect and share real-time information and data on crime and criminals from across the country, thereby strengthening the information base of Investigating Officers.

IP/Platform based services

The company has also made investments into reworking its frameworks and products (both owned and in partnership) into Platform-based Solutions. NIIT Insurance Technologies, which is a wholly-owned subsidiary of NIIT Technologies, has its Insurance Platform "Subscribe," which has a sizeable share in Lloyds insurance market. On similar lines, the German subsidiary, NIIT Airline Technologies Limited, owns a revenue accounting platform "Monalisa" which is deployed across over 30 airlines. It has entered into a partnership with SATS to offer a cargo ground handling platform "Cosys" that has been implemented in many airports across the world.

Cloud Computing

NIIT Tech has in partnership with Hitachi (Asia) Thailand introduced cloud services around Infrastructure-as-a-service. Further, it has entered into a partnership with many organizations and re-engineered their solutions to offer Software-as-a-Service.

Marquee client base

NIIT Technologies has a marquee client base with names like ING, British Airways and Sabre Group to name a few. The company has established domain expertise in verticals like travel, transportation, logistics and the BFSI space. These segments contribute to a significant portion of the revenues of the company.

Recent Developments

During February 2012, NIIT Technologies has deployed its Cargo Operations Intelligent System (COSYS), a complete cargo management platform to manage cargo handling operations by Tan Son Nhat Cargo Services at the International Airport, Vietnam.

Recently, the company implemented an automated Content Management and Delivery system at Singapore Parliament. This system enables the recording and archiving of parliament proceedings.

COMPANY BACKGROUND

NIIT Technologies is a leading IT solutions organisation, servicing customers in North America, Europe, Middle East, Asia and Australia. The company offers services in Application Development and maintenance, Managed Services, Cloud Computing and Business Process Outsourcing to organizations in the Financial Services, Insurance, Travel, Transportation and logistics, Manufacturing, Healthcare and Government sectors.

The company's domain knowledge and new approaches to customer experience management with robust outsourcing capabilities coupled with a dual shore delivery model, have made NIIT Technologies a preferred IT partner for global majors in these chosen industries.

NIIT Technologies has 22 sales offices in 14 countries with 10 delivery centres across North America, Europe, Asia and Australia.

RISKS & CONCERNS

Any adverse policy on outsourcing by the developed economies

Any adverse policy on outsourcing by the developed economies does not augur well for the sector as well as the company. However, 34 per cent of the onsite staff of NIIT Technologies consists of local people.

Significant cut in IT budgets by clients/prospects

Any significant cut in IT budgets by existing clients/prospects does not augur well for the company. The scenario, as of now, is that the velocity in decision-making process has come down but there is no significant evidence or hint of any cut in the IT budgets.

VALUATION AND RECOMMENDATION

NIIT Technologies registered net sales of Rs.1232.2 crore in FY'11, registering an increase of 34.9 per cent y-o-y. EBITDA for the year stood at Rs.249.9 crore compared to Rs.178.7 crore, registering an increase of 39.8 per cent y-o-y. The net profit of the company for the year stood at Rs.182.2 crore compared to Rs.126.4 crore during FY'10.

The company has posted net sales of Rs.1132.9 crore during 9MFY'12 compared to Rs.916.6 crore during the same period last year, registering an increase of 23.6 per cent y-o-y. The company posted an EBITDA of Rs.226.6 crore compared to Rs.182.3 crore during the same period last year. During 9MFY'12, the net profit of the company registered a 14.3 per cent y-o-y increase to Rs.151 crore.

Considering the robust order flows leading to strong revenue visibility, we expect significant improvement in earnings, going forward. We expect the company to register net sales of Rs.1566 crore in FY'12E, an increase of 27.1 per cent y-o-y. The net profit of the company should be around Rs.210.5 crore for FY'12E, translating into an EPS of Rs.35.3. We expect the company to post net sales of Rs.1930.3 crore for FY'13E and net profit of Rs.227.6 crore, translating into an EPS of Rs.37.9. The net cash and cash equivalent should be around Rs.300 crore by the end of FY'13E. This is equivalent to Rs.50 per share (18 per cent of the present price). We value the company at 10x FY'13E earnings to arrive at a price target of Rs.379, providing an upside of 40 per cent from the present levels, over the next 12 to 15 months.

Initiating Coverage
NIIT Technologies Ltd.

Profit & Loss Account	FY'10	FY'11	FY'12E	FY'13E	Balance Sheet (Rs. Cr.)	FY'10	FY'11	FY'12E	FY'13E
Net Sales	913.7	1232.3	1566.0	1930.3	Equity Capital	58.8	59.3	59.6	60.0
Other Income	8.5	13.6	50.2	60.0	Reserves & Surplus	521.0	688.6	845.1	990.5
Total Income	922.2	1245.9	1616.2	1990.3	Networth	579.8	747.8	904.7	1050.5
Operating expenses	84.9	229.64	292.0	372.3	Secured loans	21.4	11.0	11.0	40.0
Employee Expenses	503.7	601.4	835.0	1030.0	Unsecured loans	0.3	0.0	0.0	0.0
Other expenses	153.9	163.5	173.0	235.0	Total loan funds	21.7	11.0	40.0	40.0
Total Expenses	742.5	994.5	1300.0	1637.3	Total Liabilities	601.5	758.8	944.7	1090.5
PBIDT	179.7	251.4	316.2	353.0	Net Block	314.0	333.0	413.0	433.6
Depreciation	35.8	31.5	35.6	49.5	Investments	46.5	44.3	46.0	50.0
Interest	1.8	2.2	0.0	0.0	Sundry Debtors	185.1	287.1	390.0	410.0
Profit before tax	142.1	217.7	280.7	303.5	Cash & Bank	143.0	119.4	150.0	250.0
Taxes	14.4	32.3	70.2	75.9	Loans & Advances	124.5	215.2	246.5	276
Extra-ordinary item	0.0	6.1	0.0	0.0	Current Assets	499.0	666.0	832.5	986.0
Net Profit	127.7	179.3	210.5	227.6	Less: Provisions & liabilities	211.5	240.8	300.8	329.0
Quarterly	Mar.11	Jun.11	Sep.11	Dec.11		287.5	425.2	531.7	657.0
Net Sales	315.7	328.8	371.1	433.0	Total Assets	601.6	758.3	944.7	1090.6
Other Income	2.1	3.9	11.5	17.4	Cash flow (Rs. Cr.)	FY'10	FY'11	FY'12E	FY'13E
Total Income	317.8	332.7	316.1	450.4	Profit before tax	142.1	217.7	280.7	303.5
Total Expenses	251.0	268.0	36.5	355.0	Net cash from operations	137.7	68.7	106.1	240.5
PBIDT	66.8	64.7	66.5	95.4	Net cash from investments	(92.5)	(37.4)	(46.6)	(74.5)
Interest	0.0	0.0	0.0	0.0	Net cash from financing activities	(60.7)	(54.9)	(28.9)	(66.0)
Depreciation	9.2	7.8	8.3	9.2	Net change in cash	(15.5)	(23.6)	30.6	100.0
Taxes	7.6	15.7	12.4	22.2					
Minority Interest	0.0	0.0	0.0	0.0	Valuation Ratios	FY'10	FY'11	FY'12E	FY'13E
PAT	50.0	41.2	45.8	64.0	Marketcap/Sales	1.7	1.3	1.0	0.8
Profitability Ratios	FY'10	FY'11	FY'12E	FY'13E	EPS	21.7	30.3	35.3	37.9
EBITDA margin	19.7%	20.4%	20.2%	18.3%	P/E	12.4	8.9	7.6	7.1
PAT margin	14.0%	14.6%	13.4%	11.8%					
Growth Ratios	FY'10	FY'11	FY'12E	FY'13E					
Net Sales growth	-5.9%	34.9%	27.1%	23.3%					
EBITDA growth	-3.1%	39.9%	25.8%	11.6%					
PAT growth	11.2%	40.4%	17.4%	8.1%					

Note

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