

CMP : Rs.286

Reco : BUY

Target : Rs.345

STOCK INFO

BSE	532541
NSE	NIITTECH
Bloomberg	NITEC IN
Reuters	NITT.BO
Sector	IT-Software
Face Value (Rs)	10
Equity Capital (Rs mn)	596
Mkt Cap (Rs mn)-Full	16,697
52w H/L (Rs)	324/166
Avg Daily Vol (BSE+NSE)	174,267

SHAREHOLDING PATTERN

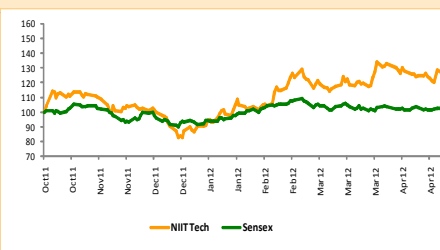
	%
<i>(as on 30th Sep. 2012)</i>	
Institutions	45.0
Others, Incl Public	24.0
Promoters	31.0

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
NIIT TECH	-2.8	-3.3	34.5
SENSEX	0.5	12.2	9.3

Source: Capitaline, IndiaNivesh Research

NIIT TECH v/s SENSEX



Source: Capitaline, IndiaNivesh Research

Daljeet S. Kohli
Head of Research

Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Amar Mourya
Research Analyst

Tel: +91 22 66188836
amar.mourya@indianivesh.in

Q2 FY13 Result Highlights

NIIT Technologies (NIIT Tech) Q2FY13 result was largely in-line with street estimates; however slightly below our expectations. During the quarter, reported revenue grew by 6.5%qoq and 34.8%yoy to Rs.5,001 mn (INSPL/Bloom est: Rs.5,164mn/Rs.4,976mn). The revenue growth was lead by higher volumes from U.S. (+6.0%qoq) and Europe (+3.5%qoq), partially offset by RoW. EBITDA margin went up 96bps qoq (INSPL est: 91bps expansion) to 17%, on account of moderation in employee cost after salary hike in last quarter and forex benefit. However, due to increase in competitive intensity, management expect some pressure on EBITDA margin front going-ahead. As a result, during FY13, we estimate nearly 45bps yoy (to 16.6%) contraction in EBITDA margin. During the quarter, NIIT Tech reported forex loss of Rs.151 mn v/s Rs.174 mn and Rs.90mn of forex gain in Q1FY13/Q2FY12. Resultant, net profit de-grew by 25.2%qoq and 5.9% yoy to Rs.431mn (INSPL est: Rs512mn). Ex forex losses, adj.net profit increased 44.8% qoq and 58.2% yoy to Rs.582 mn v/s Rs.402mn in Q1FY13 and Rs.368 mn in Q2FY12. Tax rate during the quarter went down to 24.5% from 29.5% in Q1FY13 and 25.9% in Q2FY12. Management estimate tax rate to be in the range of 26-27% for current fiscal.

Key Takeaway

Fresh order intake - highest over past four quarters

- NIIT Tech demonstrated health fresh order intake of \$93 mn v/s \$83mn in Q1FY13, highest over past four quarters and historical average range. During the quarter, the company added three new clients one in BFSI/ Transport/ IMS, respectively. The fresh order intake also includes \$20 mn deal from Morris, which will be largely onsite initially. NIIT Tech's 12M executable order book stood at \$253mn (v/s \$240mn in Q1FY13), up 5.4% qoq and 9.1% yoy. Given the current order book and deal pipeline, we do not see any material pressure over revenue growth and margin in medium-term. Top5/Top10/20 clients (Top20 64% of overall revenue) demonstrated healthy growth 13.6%/16.4%/13.6% qoq, respectively. During the quarter, the company hired 173 employees (net) v/s 82 in Q1FY13 and 468 in Q2FY12. Net hiring includes 61 employees of Saber Holding Philippines, Development Center acquired during the quarter. LTM attrition rate was at 12.7% (v/s 12.4% in Q1FY13 and 13.4% in Q2FY12). Utilization level during the quarter inched up to 79.8% v/s 79% in Q1FY13 and 82% in Q2FY12. The company's intention to hire large number of fresher during 2HFY13 could resist the utilization at current levels.

Growth Delivered by Key Geography/Vertical/Practice

- Revenue growth in Q2FY13 was from key geography, vertical and practice. Transportation, BFSI and others grew by 11.8% qoq, 3.4% qoq and 35.5% qoq, respectively. However, Manufacturing (down 8.7% qoq) and Government (down 33.4% qoq) delivered negative performance. Despite concerns over pickup in ROOM solution business BFSI vertical posted favourable performance. In term of geography, baring India (down 11.3% qoq), rest all performed well (US +12.4% qoq, APAC +6.5% qoq and EMEA +6.5% qoq). NIIT Tech's key practice ADM (64% of Rev) grew by 11.7% qoq followed by System Integration and BPO to 6.5% each, partially offset by IP Assets and Managed Services down 11.3% and 2.4% qoq, respectively.

Morris, Proyecta, ROOM, and GIS Update

- Morris/Proyecta/ROOM contributed 5.3% (to Rs264mn v/s Rs230mn in Q1FY13), 2.5% (to Rs127 mn v/s Rs142 mn in Q1FY13) and 7.3% (to Rs366 mn v/s Rs415mn in Q1FY13) to overall revenue. GIS revenue during the quarter was Rs2.29 mn with mere 1% margin (v/s 13% in Q1FY13). Management expect

GIS margin to turnaround during 2HFY13. ROOM solution margin was 19% (v/s 23% historical average) due to less traction in new license registration. Morris JV currently had 230 employees, offshore 100 (v/s 92 in Q1FY13) and 123 onsite. Going forward, management intend to increase the offshore employee base in order to expand the margin from JV. Proyecta acquisition integrated well and could see some cross-selling benefits going-ahead. Increase demand for healthcare and risk platform we expect healthy non-linear revenue growth over medium-to-long-term. During the quarter, non-linear contribution was 21% (v/s 24% in Q1FY13) of overall revenue.

Other Key Details of Q2 FY13 Results

- The proportion of fixed price contracts was at 42.0% (v/s 41.0% in Q1 FY13).
- Added 173 employees (net), taking its total employee base to 7,617.
- New client additions for the quarter was 3 v/s 5 in the previous quarter.
- Cash balances stood at 2,320 mn (v/s 2,669mn-Q1FY13) due to repayment of GBP denominated loan.
- Total outstanding hedge position stood at \$48.4 mn v/s \$41 mn at the end of the Q1 FY12.
- DSO stood at 75 days in the quarter as compared to 84 days in the last quarter.

Valuation & Outlook

At the CMP of Rs.286, the stock is trading at 7.8x FY13E and 6.6x FY14E earnings estimates, which is at 22%/34% discount relative to 10.0x TIRE-II IT companies average. We like the company's current quarter performance aided by sizeable fresh order intake and strong 12M executable order book. In addition, company is also seeing a good traction in winning large size deals (won large deal from Morris Communication during the quarter). Three to four large deals still remains in pipeline. The reinforcement of sales team & strengthening of service line is also yielding desired result (above industry revenue growth). Further, its investment in future technology like analytics, mobility and platform looks positive. We maintain our BUY rating with the target price of Rs.345 on NIIT Tech.

Quarterly Performance							
(Rs. mn)	Q2 FY13	Q1 FY13	QoQ Ch %	Q4 FY12	Q3 FY12	Q2 FY12	YoY Ch %
Revenue	5,001	4,696	6.5	4,435	4,330	3,711	34.8
Total Operating Expenses	4,153	3,945	5.3	3,691	3,550	3,161	31.4
EBITDA	848	751	12.9	744	780	550	54.2
Depreciation	138	126	9.5	111	92	83	66.3
Other Income	-115	210	-154.8	-46	174	115	-200.0
Profit/(Loss) Before Tax	595	835	-28.7	587	862	582	2.2
Provision for Tax	146	246	-40.7	111	224	151	-3.3
Net Profit/(Loss)	449	589	-23.8	476	638	431	4.2
Minority Share of Net Profit	18	13	38.5	15	-2	-27	-166.7
Profit/(Loss) After Tax	431	576	-25.2	461	640	458	-5.9
Adj Profit/(Loss) After Tax	582	402	44.8	507	466	368	58.2
EPS	7.2	9.6	-25.2	8.6	7.9	7.7	-7.0
O/Shares	59	59	-0.1	59	59	59	0.3
Margin %			bps				bps
EBITDA	17.0	16.0	96	16.8	18.0	14.8	214
PAT	8.6	12.3	-365	10.4	14.8	12.3	-372
Adj PAT	11.6	8.6	308	11.4	10.8	9.9	172
Tax (as % of PBT)	24.5	29.5	-492	18.9	26.0	25.9	-141

Source: Company Filings; IndiaNivesh Research

Operating performance at a glance

Key Performance Indicators							
	Q2 FY13	Q1 FY13	QoQ Ch % Absolute	Q4 FY12	Q3 FY12	Q2 FY12	YoY Ch % Absolute
Revenue Mix Geowise (in %)							
Americas	38.0	36.0	12.4	37.0	37.0	37.0	38.4
EMEA	39.0	39.0	6.5	37.0	39.0	38.0	38.3
APAC	13.0	13.0	6.5	13.0	13.0	13.0	34.8
India	10.0	12.0	-11.3	13.0	11.0	12.0	12.3
Revenue Mix Verticalwise (in %)							
BFSI	33.0	34.0	3.4	34.0	36.0	39.0	14.0
Transportation	42.0	40.0	11.8	39.0	38.0	36.0	57.2
Mfg. / Dist.	6.0	7.0	-8.7	6.0	7.0	8.0	1.1
Govt.	5.0	8.0	-33.4	7.0	5.0	4.1	66.4
Others	14.0	11.0	35.5	14.0	14.0	13.0	45.7
Revenue Mix Offshore/Onsite (in %)							
Offshore	37.0	38.0	3.7	37.0	37.0	38.0	31.2
Onsite	63.0	62.0	8.2	63.0	63.0	62.0	36.9
Revenues from Top Clients (in %)							
Top 5	32.0	30.0	13.6	30.0	29.0	30.0	43.7
Top 10	47.0	43.0	16.4	43.0	44.0	44.0	43.9
Top 20	64.0	60.0	13.6	59.0	58.0	60.0	43.7
Non Top 20	36.0	40.0	-4.2	41.0	42.0	40.0	21.3
Order Book (USD Mn)							
Fresh Order Intake							
USA	43.0	25.0	72.0	35.0	17.0	99.0	-56.6
EMEA	33.0	30.0	10.0	17.0	56.0	31.0	6.5
ROW	17.0	28.0	-39.3	40.0	2.0	70.0	-75.7
Total	93.0	83.0	12.0	92.0	75.0	200.0	-53.5
Over next twelve Months	253.0	240.0	5.4	243.0	245.0	232.0	9.1
Practice Split (in%)							
Application Development & Manag	64.0	61.0	11.7	61.0	62.0	65.0	32.7
IP Assets	10.0	12.0	-11.3	11.0	13.0	14.0	-3.7
Managed Services	11.0	12.0	-2.4	13.0	12.0	13.0	14.0
SI & PJ**	9.0	9.0	6.5	9.0	7.0	5.0	142.6
BPO	6.0	6.0	6.5	6.0	6.0	3.0	169.5

Source: Company Filings; IndiaNivesh Research

Consolidated Financial Statements

Income statement

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
Net sales	9,138	12,323	15,764	20,156	23,625
Growth %	-6.8	34.9	27.9	27.9	17.2
COGS	5,037	7,768	9,877	12,970	15,120
SG&A	2,212	2,151	3,204	3,846	4,489
EBITDA	1,889	2,404	2,683	3,340	4,016
Growth %	7.0	27.3	11.6	24.5	20.2
EBITDA Margin %	20.7	19.5	17.0	16.6	17.0
Depreciation	360	315	364	379	421
EBIT	1,529	2,089	2,319	2,962	3,595
EBIT Margin %	16.7	17.0	14.7	14.7	15.2
Other Income (net)	(109)	90	282	55	(60)
PBT	1,420	2,179	2,601	3,017	3,535
Tax	144	323	637	761	879
Effective tax rate %	10.1	14.8	24.5	25.2	24.9
Profit After Tax	1,276	1,856	1,964	2,255	2,656
PAT Margin %	14.0	15.1	12.5	11.2	11.2
Growth%	9.6	45.4	5.8	14.8	17.8
Minority Interest	13	33	(8)	69	76
Reported PAT	1,263	1,822	1,972	2,186	2,580
Reported PAT Margin %	13.8	14.8	12.5	10.8	10.9
Growth%	10.0	44.3	8.2	10.9	18.0

Balance sheet

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
LIABILITY					
Share Capital	588	593	596	599	599
Reserves & Surplus	5,210	6,886	8,503	10,099	11,982
Net Worth	5,798	7,478	9,099	10,698	12,581
Minority Interest	28	43	123	192	268
Secured Loans	217	110	486	422	422
Total Liability	6,044	7,631	9,709	11,312	13,272
ASSETS					
Gross Block	4,556	4,372	6,687	7,140	7,575
Less Depreciation	2,704	2,479	2,455	2,834	3,255
Net Block	1,852	1,893	4,231	4,306	4,320
Capital work-in-progress	1,287	1,437	2	800	1,700
Investments	465	443	395	395	395
Deferred Tax Assets	107	143	207	263	263
Total	3,712	3,916	4,836	5,764	6,678
Current Assets	4,531	6,223	8,425	9,544	11,246
Sundry Debtors	1,851	2,871	3,315	4,423	5,184
Inventories	5	6	7	11	13
Cash & Bank Balance	1,430	1,194	2,223	2,429	2,907
Lones & Advances	1,089	1,322	988	1,270	1,488
Others	156	831	1,893	1,411	1,654
Current Liabilities	2,199	2,508	3,552	3,996	4,653
Trade Payables	783	973	1,284	1,787	2,100
Provisions	704	834	952	1,101	1,256
Others	711	702	1,316	1,107	1,297
Net Current Assets	2,332	3,715	4,873	5,549	6,594
Total assets	6,044	7,631	9,709	11,312	13,272

Cash Flow

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
Cash Flow From Operations:					
PAT	1,421	2,177	2,602	3,017	3,535
Depreciation	358	315	364	379	421
Others	(20)	9	68	(111)	60
Changes in working capital	13	(1,447)	(801)	(469)	(567)
Tax	(297)	(500)	(591)	(761)	(879)
Cash Flow From Operations	1,475	553	1,643	2,054	2,570
Cash Flow From Investing:					
Capex	(477)	(493)	(926)	(1,251)	(1,335)
Interest Income	54	59	25	55	-60
Investments	(452)	60	(68)	69	76
Others	(50)	0	(16)	0	0
Cash Flow From Investing	(925)	(374)	(985)	(1,127)	(1,319)
Cash Flow From Financing:					
Equity (Incl Share Premium)	6	65	54	3	0
Debt	(117)	(120)	311	(133)	(76)
Interest Expenditure	(8)	(7)	(21)	0	0
Dividend Paid	(488)	(487)	(511)	(590)	(697)
Cash Flow From Financing	(607)	(549)	(167)	(721)	(773)
Net change in cash	(57)	(370)	491	206	478
Cash at the beginning of the year	1,487	1,564	1,733	2,223	2,429
Cash at the end of the year	1,430	1,194	2,223	2,429	2,907

Key ratios

Y E March	FY10	FY11	FY12	FY13e	FY14e
EPS (Rs)	21.4	30.9	33.4	36.4	43.0
Cash EPS (Rs)	27.5	36.2	39.6	42.8	50.0
DPS (Rs)	8.3	8.3	8.7	9.8	11.6
BVPS	98.4	126.9	154.2	178.3	209.7
ROCE %	25.4	27.5	24.2	26.6	27.6
ROE %	21.8	24.4	21.7	20.4	20.5
ROIC %	13.4	17.9	16.1	14.9	15.0
Inventories Days	0	0	0	0	0
Sundry Debtors Days	73	84	76	79	79
Trades Payable Days	45	45	47	50	50
PER (x)	2.5x	5.5x	5.5x	7.8x	6.6x
P/BV (x)	0.5x	1.3x	1.2x	1.6x	1.4x
P/CEPS (x)	1.9x	4.7x	4.7x	6.6x	5.7x
EV/EBITDA (x)	8.1x	6.4x	5.7x	4.6x	3.8x
Dividend Yield %	15.6	4.8	4.7	3.5	4.1
m cap/sales (x)	1.9x	1.4x	1.1x	0.8x	0.7x
net debt/equity (x)	-0.2x	-0.1x	-0.2x	-0.2x	-0.2x
net debt/ebitda (x)	-0.6x	-0.5x	-0.6x	-0.6x	-0.6x

Source: Company Filings; IndiaNivesh Research



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IndiaNivesh Securities Private Limited

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

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