

CMP : Rs.277

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	16,910
52w H/L (Rs)	324/196
Avg Daily Vol (BSE+NSE)	177,329

SHAREHOLDING PATTERN

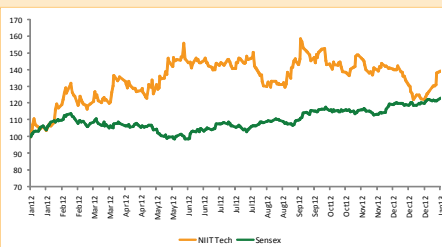
	%
<i>(as on 31st Dec. 2012)</i>	
Institutions	44.4
Others, Incl Public	24.3
Promoters	31.3

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
NIIT TECH	13.7	-0.8	39.2
SENSEX	2.5	6.9	23.0

Source: Capitaline, IndiaNivesh Research

NIIT TECH v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Q3FY13 Result Update: NIIT Technologies Ltd (NIIT Tech)

Performance in-line with our expectations - Maintain Buy

NIIT Technologies Ltd (NIIT Tech) Q3FY13 performance was largely in-line with our estimates on all fronts. During the quarter, reported revenue grew by 2.9% qoq to Rs.5,144 mn (INSPL est: Rs.5,157mn). The revenue growth was volume led - U.S. (+1.0% qoq) & Europe (+5.7%qoq), partially offset by RoW. EBITDA margin contracted 115bps qoq (INSPL est: down 56bps) to 15.8% due to large business transition (Morris deal) and low margin from GIS & ROOM solution segment. However, margin pressure on GIS & ROOM segment is likely to ease-off by Q1FY14 given improving business momentum. NIIT Tech reported forex loss of Rs.22.5 mn (v/s Rs.90.2mn Q2FY13). Resultant, net profit went up by 30.2%qoq to Rs.561mn (INSPL est: Rs570mn). Adjusted net profit (ex forex) increased 12.0% qoq to Rs.584 mn (v/s Rs.521mn in Q2FY13 & Rs.726 mn in Q3FY12). Tax rate during the quarter was 28.9% (v/s 24.5% in Q2FY13 & 26.0% in Q3FY12). Management expect good traction in demand environment in FY13-14 as compared to FY12-13 with strong recovery over EBITDA margin front.

Key Conference Call Takeaway

Steady fresh order intake

NIIT Tech continue to maintain stable fresh order intake, \$83 mn in Q3FY13 (above \$80m) v/s \$93mn in Q2FY13 & \$83 mn in Q1FY13. Additionally, large size deal wins further increase the revenue visibility (I) \$10 mn renewal deal in Travel & Transport, and (II) \$10 mn turn-key project from Registration & Stamps Department (India). During the quarter, NIIT Tech added four new clients two in manufacturing one each in transport and Government. NIIT Tech's 12M executable order book stood at \$242mn (v/s \$253mn in Q2FY13). Given the current order book and deal pipeline, we expect NIIT Tech to meet Nasscom's top end guidance (11-14%) in FY13. Top5/ Top10/20 clients (64.5% of rev) demonstrated healthy growth 9.3%/5.0%/3.7% qoq, respectively. During the quarter, net hiring was 265 employees (v/s 173 in Q2FY13 and 245 in Q3FY12). As a result, utilization level during the quarter went down to 78.4% (v/s 79.8% in Q2FY13 and 80.0% in Q3FY12). LTM attrition rate was at 12.5% (v/s 12.7% in Q2FY13 and 12.5% in Q3FY12). The company's intend to hire 200-250 employees in Q4FY13, expect slight contraction in utilization from current levels.

Revenue growth led by key - Geography/Vertical/Practice

Revenue growth in Q3FY13 was across geography, vertical and practice. Transportation (42% of rev), Manufacturing (6% of Rev) and Government (8% of rev) business grew by 2.9% qoq, 2.9% qoq and 64.6% qoq, respectively. BFSI segment delivered negative growth (down 3.4% qoq) due to client specific issue (AIG) and less traction in ROOM solution segment (low license revenue). In term of geography, baring APAC (down 13.0% qoq), rest all delivered positive growth (US +0.2% qoq, EMEA +5.5% qoq and India +23.4% qoq). NIIT Tech's key practice ADM (63% of Rev) grew by 1.3% qoq followed by System Integration (+14.3% qoq)/BPO (+2.9% qoq) / Managed Services (+12.2% qoq), partially offset by 7.4% qoq decline in IP Assets.

Update - Morris/Proyecta/Room/GIS

Morris/Proyecta/Room contributed 5.9% (to Rs303mn v/s Rs264mn in Q2FY13), 2.8% (to Rs144 mn v/s Rs127 mn in Q2FY13) and 7.3% (to Rs337 mn v/s Rs366mn in Q2FY13) to overall revenue. GIS reported Rs.197mn of revenue with negative 7% net margin (v/s 1% in Q2FY13). Room solution margin contracted to 18% (v/s 25% historical average) due to less traction in new license registration. Recent acquisition (Saber Holding BPO, Philippines) reported revenue of Rs.52 mn with average margin of 8-9%. Going forward, management expect high margin from Saber Holding BPO on back of high utilization level. CCTNS hardware revenue was Rs.220mn (overall revenue Rs.266 mn in Q3FY13).

NIIT Technologies Ltd. (contd...)

Other Key Details of Q3FY13 Results

- The proportion of fixed price contracts was at 42.0% (v/s 42.0% in Q2FY13).
- Added 265 employees (net), taking its total employee base to 7,882.
- New client additions for the quarter were 4 (v/s 4 in Q2FY13).
- Cash balances stood at 2,856 mn (v/s 2,320 mn Q2FY13).
- Total outstanding hedge position stood at \$47.9 mn (v/s \$48.4 mn at the end of the Q2FY13).
- DSO stood at 76 days in the quarter as compared to 75 days in Q2FY13.

Valuation & Outlook

At the CMP of Rs.277, the stock is trading at 7.5x FY13E and 6.5x FY14E earnings estimates, which is at 36%/38% discount relative to 10.0x/9.0x – mid cap 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 (in Travel & Transport and Government). However, the key trigger for re-rating would be margin and revenue growth performance. We believe strong traction in key verticals and demand recovery in GIS and ROOM could lead to margin expansion from here on. We maintain our BUY rating with the target price of Rs.345 (valuing at 8.2x FY14E) on NIIT Tech.

Quarterly Performance							
(Rs. mn)	Q3 FY13	Q2 FY13	QoQ Ch %	Q1 FY13	Q4 FY12	Q3 FY12	YoY Ch %
Revenue	5,144	5,001	2.9	4,696	4,435	4,330	18.8
Total Operating Expenses	4,331	4,153	4.3	3,945	3,691	3,550	22.0
EBITDA	813	848	-4.1	751	744	780	4.2
Depreciation	142	138	2.9	126	111	92	54.3
Other Income	126	-115	-209.6	210	-46	174	-27.6
Profit/(Loss) Before Tax	797	595	33.9	835	587	862	-7.5
Provision for Tax	230	146	57.5	246	111	224	2.7
Net Profit/(Loss)	567	449	26.3	589	476	638	-11.1
Minority Share of Net Profit	6	18	-66.7	13	15	-2	-350.0
Profit/(Loss) After Tax	561	431	30.2	576	461	640	-12.4
Adj PAT (ex Forex)	584	521	12.0	695	404	726	-19.6
EPS	9.3	7.2	29.6	11.8	6.9	10.8	-13.6
O/Shares	59	59	-0.1	59	59	59	0.3
Margin %			bps				bps
EBITDA	15.8	17.0	-115	16.0	16.8	18.0	-221
PAT	10.9	8.6	229	12.3	10.4	14.8	-388
Adj PAT	11.3	10.4	92	14.8	9.1	16.8	-542
Tax (as % of PBT)	28.9	24.5	432	29.5	18.9	26.0	287

Source: Company Filings; IndiaNivesh Research

NIIT Technologies Ltd. (contd...)

Key Performance Indicators (KPIs)

Key Performance Indicators							
	Q3 FY13	Q2 FY13	QoQ Ch % Absolute	Q1 FY13	Q4 FY12	Q3 FY12	YoY Ch % Absolute
Revenue Mix Geowise (in %)							
Americas	37.0	38.0	0.2	36.0	37.0	37.0	18.8
EMEA	40.0	39.0	5.5	39.0	37.0	39.0	21.8
APAC	11.0	13.0	-13.0	13.0	13.0	13.0	0.5
India	12.0	10.0	23.4	12.0	13.0	11.0	29.6
Revenue Mix Verticalwise (in %)							
BFSI	31.0	33.0	-3.4	34.0	34.0	36.0	2.3
Transportation	42.0	42.0	2.9	40.0	39.0	38.0	31.3
Mfg. / Dist.	6.0	6.0	2.9	7.0	6.0	7.0	1.8
Govt.	8.0	5.0	64.6	8.0	7.0	5.0	90.1
Others	13.0	14.0	-4.5	11.0	14.0	14.0	10.3
Revenue Mix Offshore/Onsite (in %)							
Offshore	37.0	37.0	2.9	38.0	37.0	37.0	18.8
Onsite	63.0	63.0	2.9	62.0	63.0	63.0	18.8
Revenues from Top Clients (in %)							
Top 5	34.0	32.0	9.3	30.0	30.0	29.0	39.3
Top 10	48.0	47.0	5.0	43.0	43.0	44.0	29.6
Top 20	64.5	64.0	3.7	60.0	59.0	58.0	32.1
Non Top 20	35.5	36.0	1.4	40.0	41.0	42.0	0.4
Order Book (USD Mn)							
<i>Fresh Order Intake</i>							
USA	31.0	43.0	-27.9	25.0	35.0	17.0	82.4
EMEA	34.0	33.0	3.0	30.0	17.0	56.0	-39.3
ROW	18.0	17.0	5.9	28.0	40.0	2.0	800.0
Total	83.0	93.0	-10.8	83.0	92.0	75.0	10.7
Over next twelve Months	242.0	253.0	-4.3	240.0	243.0	245.0	-1.2
Practice Split (in%)							
Application Development & Manag	63.0	64.0	1.3	61.0	61.0	62.0	20.7
IP Assets	9.0	10.0	-7.4	12.0	11.0	13.0	-17.8
Managed Services	12.0	11.0	12.2	12.0	13.0	12.0	18.8
SI & Pj**	10.0	9.0	14.3	9.0	9.0	7.0	69.7
BPO	6.0	6.0	2.9	6.0	6.0	6.0	18.8

Source: Company Filings; IndiaNivesh Research

NIIT Technologies Ltd. (contd...)

Consolidated Financial statements

Income statement

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
Net sales	9,138	12,323	15,764	20,270	23,319
Growth %	-6.8	34.9	27.9	28.6	15.0
COGS	5,037	7,768	9,877	13,124	14,924
SG&A	2,212	2,151	3,204	3,844	4,431
EBITDA	1,889	2,404	2,683	3,302	3,964
Growth %	7.0	27.3	11.6	23.1	20.0
EBITDA Margin %	20.7	19.5	17.0	16.3	17.0
Depreciation	360	315	364	379	421
EBIT	1,529	2,089	2,319	2,923	3,543
EBIT Margin %	16.7	17.0	14.7	14.4	15.2
Other Income (net)	-109	90	282	161	-40
PBT	1,420	2,179	2,601	3,084	3,503
Tax	144	323	637	805	873
Effective tax rate %	10.1	14.8	24.5	26.1	24.9
Profit After Tax	1,276	1,856	1,964	2,279	2,630
PAT Margin %	14.0	15.1	12.5	11.2	11.3
Growth %	9.6	45.4	5.8	16.1	15.4
Minority Interest	13	33	-8	57	76
Reported PAT	1,263	1,822	1,972	2,222	2,554
Reported PAT Margin %	13.8	14.8	12.5	11.0	11.0
Growth %	10.0	44.3	8.2	12.7	14.9

Source: Company filings; IndiaNivesh Research

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	10,125	11,990
Net Worth	5,798	7,478	9,099	10,724	12,589
Minority Interest	28	43	123	180	256
Secured Loans	217	110	486	422	421
Total Liability	6,044	7,631	9,709	11,326	13,267
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	9,607	11,204
Sundry Debtors	1,851	2,871	3,315	4,448	5,117
Inventories	5	6	7	11	12
Cash & Bank Balance	1,430	1,194	2,223	2,452	2,973
Lones & Advances	1,089	1,322	988	1,277	1,469
Others	156	831	1,893	1,419	1,632
Current Liabilities	2,199	2,508	3,552	4,044	4,615
Trade Payables	783	973	1,284	1,808	2,073
Provisions	704	834	952	1,122	1,261
Others	711	702	1,316	1,114	1,280
Net Current Assets	2,332	3,715	4,873	5,563	6,589
Total assets	6,044	7,631	9,709	11,326	13,267

Source: Company filings; IndiaNivesh Research

Cash Flow

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
Cash Flow From Operations:					
PAT	1,421	2,177	2,602	3,084	3,503
Depreciation	358	315	364	379	421
Others	-20	9	68	-217	40
Changes in working capital	13	-1,447	-801	-461	-505
Tax	-297	-500	-591	-805	-873
Cash Flow From Operations	1,475	553	1,643	1,980	2,586
Cash Flow From Investing:					
Capex	-477	-493	-926	-1,251	-1,335
Interest Income	54	59	25	161	-40
Investments	-452	60	-68	57	76
Others	-50	0	-16	0	0
Cash Flow From Investing	-925	-374	-985	-1,033	-1,299
Cash Flow From Financing:					
Equity (Incl Share Premium)	6	65	54	3	0
Debt	-117	-120	311	-121	-76
Interest Expenditure	-8	-7	-21	0	0
Dividend Paid	-488	-487	-511	-600	-690
Cash Flow From Financing	-607	-549	-167	-718	-766
Net change in cash	-57	-370	491	229	521
Cash at the beginning of the year	1,487	1,564	1,733	2,223	2,452
Cash at the end of the year	1,430	1,194	2,223	2,452	2,973

Source: Company filings; IndiaNivesh Research

Key ratios

Y E March	FY10	FY11	FY12	FY13e	FY14e
EPS (Rs)	21.4	30.9	33.4	37.0	42.6
Cash EPS (Rs)	27.5	36.2	39.6	43.4	49.6
DPS (Rs)	8.3	8.3	8.7	10.0	11.5
BVPS	98.4	126.9	154.2	178.7	209.8
ROCE %	25.4	27.5	24.2	26.2	27.2
ROE %	21.8	24.4	21.7	20.7	20.3
ROIC %	13.4	17.9	16.1	15.1	14.8
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	7.5x	6.5x
P/BV (x)	0.5x	1.3x	1.2x	1.5x	1.3x
P/CEPS (x)	1.9x	4.7x	4.7x	6.4x	5.6x
EV/EBITDA (x)	8.1x	6.4x	5.7x	4.7x	3.9x
Dividend Yield %	15.6	4.8	4.7	3.6	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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