

**January 15, 2013**

Shashi Bhusan  
shashibhusan@plindia.com  
+91-22-66322300

Pratik Shah  
pratikshah@plindia.com  
+91-22-66322256

Rating	<b>BUY</b>
Price	Rs278
Target Price	Rs350
Implied Upside	25.9%
Sensex	19,987
Nifty	6,057

*(Prices as on January 15, 2013)*
**Trading data**

Market Cap. (Rs bn)	16.6
Shares o/s (m)	59.6
3M Avg. Daily value (Rs m)	34.5

**Major shareholders**

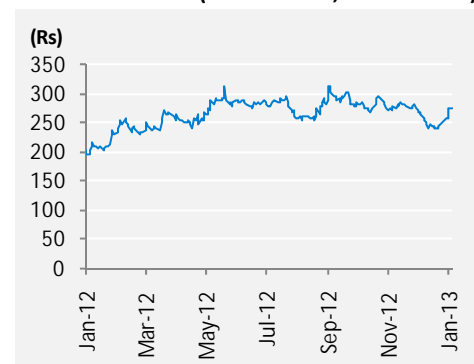
Promoters	31.33%
Foreign	26.83%
Domestic Inst.	17.57%
Public & Other	24.27%

**Stock Performance**

(%)	1M	6M	12M
Absolute	4.7	(0.9)	39.2
Relative	1.2	(17.0)	15.5

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2014	43.5	41.7	4.3
2015	48.9	46.1	6.0

**Price Performance (RIC: NITT.BO, BB: NITEC IN)**

*Source: Bloomberg*

NIIT Technologies (NIIT Tech) reported revenues/margin above PLe/Consensus expectation. However, on the margin front, it disappointed due to the weakness in GIS and insurance business. Improving revenue momentum in GIS, project ramp-up in Morris would give the much needed revenue impetus along with margin expansion in CY13. We retain our **'BUY'** rating with target price of **Rs350**.

- **Revenue growth steady, margin disappoints:** NIIT Tech reported revenue growth of 2.9% QoQ to Rs5,144m (PLe: Rs5,126m, Cons: Rs5,035m) and 4.4% on constant currency basis. EBITDA margin contracted by 115bps to 15.8% (PLe: 16.5%, Cons: 16.1%), mainly due to softness in GIS, Insurance business and Transition costs associated with a large engagement. However, on account of increase in other income (revaluation of foreign currency assets & liabilities), PAT improved by 30% QoQ to Rs560m (PLe: Rs 592m, Cons: Rs545m).
- **Recovery in GIS business and revenue, post transition, to give upside:** The cost associated with large project from Morris-related transition has impacted margin by 40bps in the quarter. We expect revenue ramp-up in Q4FY13. GIS business delivered operating margin of -7% compared to traditionally ~20%+ due to cost over-run in a APDRP contract. The management expects margin to be recouped by Q1FY14, as Q4 is seasonally a strong quarter for GIS.
- **Conference call highlights:** **1)** Margins declined significantly in GIS business in Q3FY13~(7)% (Q2FY13~1%, Q1FY13~15%) **2)** Q3FY13 Revenue – Room: Rs337m, Morris: Rs303m, Projecta: Rs144m, GIS: Rs197m, CCTNS: Rs266m **3)** Hedges: US\$47.9m (@Rs56.71) **4)** Sabre BPO revenue: ~Rs52m (margin: ~8-9%) **5)** BFS vertical will continue to remain soft **6)** Non-linear revenue: 21% **7)** DSO: 76days **8)** FCF for Q3FY13: ~Rs550m **9)** Volume: US: 1%, Europe: 5.7% QoQ **10)** Added four new clients, CCTNS pilot phase went live in the last week of December
- **Valuation & Recommendation:** NIIT Tech has made investments in the business and now is the time to reap. Positive IATA commentary, project ramp-up in GIS, and Morris ramp-up would give revenue growth with margin impetus. NIIT Tech is currently trading at 7.2x FY13 estimates with EPS CAGR of 13% (FY12-14E).

Key financials (Y/e March)	2012	2013E	2014E	2015E
Revenues (Rs m)	15,764	20,175	23,226	26,387
Growth (%)	27.9	28.0	15.1	13.6
EBITDA (Rs m)	2,683	3,269	3,715	4,104
PAT (Rs m)	1,956	2,251	2,594	2,913
EPS (Rs)	32.8	37.8	43.5	48.9
Growth (%)	6.8	15.1	15.2	12.3
Net DPS (Rs)	8.6	11.1	12.1	13.1

Profitability & Valuation	2012	2013E	2014E	2015E
EBITDA margin (%)	17.0	16.2	16.0	15.6
RoE (%)	23.4	22.5	22.2	21.4
RoCE (%)	23.1	21.8	21.6	21.1
EV / sales (x)	0.9	0.7	0.6	0.5
EV / EBITDA (x)	5.4	4.3	3.7	3.1
PE (x)	8.5	7.4	6.4	5.7
P / BV (x)	1.8	1.5	1.3	1.1
Net dividend yield (%)	3.1	4.0	4.4	4.7

*Source: Company Data; PL Research*

**Exhibit 1: Revenue ahead and margin soft due to higher transition cost (Rs m)**

Y/e March	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY	Consensus	Q3FY13(PLe)	Variance(PL VS ACTUAL)
Revenue	5,144	5,001	2.9%	4,330	18.8%	5,035	5,126	0.4%
EBITDA	812	848	-4.2%	780	4.1%	812	846	-4.0%
<i>EBITDA Margin</i>	15.8%	17.0%	-117 bps	18.0%	-223 bps	16.1%	16.5%	-71 bps
Pre Tax Income	796	595	33.8%	862	-7.7%	798	802	-0.8%
Tax	230	146	57.5%	224	2.7%	253	211	9.2%
<i>Tax Rate</i>	29%	25%	436 bps	26%	291 bps	32%	26%	265 bps
PAT	560	431	29.9%	640	-12.5%	545	592	-5.4%
EPS (Rs)	9.4	7.2	29.9%	10.7	-12.6%	9.2	9.9	-5.4%

Source: Company Data, PL Research

**Exhibit 2: New order book weak due seasonality, 2 deals from EMEA and 1 from the US**

Fresh Order Analysis (\$ m)	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
USA	31	43	-27.9%	17	82.4%
EMEA	34	33	3.0%	56	-39.3%
ROW	18	17	5.9%	2	800.0%
<b>Total</b>	<b>83</b>	<b>93</b>	<b>-10.8%</b>	<b>75</b>	<b>10.7%</b>
<b>Executable over next 12 months</b>	<b>242</b>	<b>253</b>	<b>-4.3%</b>	<b>245</b>	<b>-1.2%</b>
<b>New Customer Addition</b>					
USA	1	1	0.0%	1	0.0%
EMEA	2	2	0.0%	1	100.0%
ROW	1	0	NA	2	-50.0%
<b>Total</b>	<b>4</b>	<b>3</b>	<b>33.3%</b>	<b>4</b>	<b>0.0%</b>

Source: Company Data, PL Research

**Exhibit 3: Strong growth in the US and Europe**

By Geography	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
USA	1,903	1,900	0.2%	1,602	18.8%
Europe	2,058	1,950	5.5%	1,689	21.8%
India	566	650	-13.0%	563	0.5%
ROW	617	500	23.4%	476	29.6%
<b>Total</b>	<b>5,144</b>	<b>5,001</b>	<b>2.9%</b>	<b>4,330</b>	<b>18.8%</b>
<b>as % of Total</b>					
USA	37.0%	38.0%	-100 bps	37.0%	0 bps
Europe	40.0%	39.0%	100 bps	39.0%	100 bps
APAC	11.0%	13.0%	-200 bps	13.0%	-200 bps
India	12.0%	10.0%	200 bps	11.0%	100 bps

Source: Company Data, PL Research

**Exhibit 4: Growth led by Transportation and Government**

By Verticals	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
Finance Insurance & Banking	1,595	1,650	-3.4%	1,559	2.3%
Transportation	2,160	2,100	2.9%	1,645	31.3%
Manufacturing & Retail	309	300	2.9%	303	1.8%
Others	1,080	950	13.7%	823	31.3%
<b>Total</b>	<b>5,144</b>	<b>5,001</b>	<b>2.9%</b>	<b>4,330</b>	<b>18.8%</b>
<b>as % of Total</b>					
Finance Insurance & Banking	31.0%	33.0%	-200 bps	36.0%	-500 bps
Transportation	42.0%	42.0%	0 bps	38.0%	400 bps
Manufacturing & Retail	6.0%	6.0%	0 bps	7.0%	-100 bps
Others	21.0%	19.0%	200 bps	19.0%	200 bps

Source: Company Data, PL Research

**Exhibit 5: Good growth across client bucket except top 6-10 clients**

Client metrics	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
Top 5 Clients	1,749	1,600	9.3%	1,256	39.3%
Top 6-10 Clients	720	750	-4.0%	650	10.9%
Top 10 Clients	2,469	2,350	5.0%	1,905	29.6%
Non Top 10 Clients	2,675	2,651	0.9%	1,819	47.1%
<b>Total</b>	<b>5,144</b>	<b>5,001</b>	<b>2.9%</b>	<b>4,330</b>	<b>18.8%</b>
<b>% of Total Revenue</b>					
Top 5 Clients	34.0%	32.0%	200 bps	29.0%	500 bps
Top 10 Clients	48.0%	47.0%	100 bps	44.0%	400 bps
Non Top 10 Clients	52.0%	53.0%	-100 bps	42.0%	1000 bps

Source: Company Data, PL Research

**Exhibit 6: Onsite growth strong for the quarter**

Revenue by Delivery Type	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
Onsite	3,241	3,151	2.9%	2,728	18.8%
Offshore	1,903	1,850	2.9%	1,602	18.8%
<b>Total</b>	<b>5,144</b>	<b>5,001</b>	<b>2.9%</b>	<b>4,330</b>	<b>18.8%</b>
<b>% of Total Revenue</b>					
Onsite	63.0%	63.0%	0 bps	63.0%	0 bps
Offshore	37.0%	37.0%	0 bps	37.0%	0 bps

Source: Company Data, PL Research

**Exhibit 7: Expected to hire more fresher hiring in remaining FY13**

Employee metrics	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
Total employees	7,882	7,617	3.5%	6,978	13.0%
Net addition	265	173	53.2%	245	8.2%
Utilisation	78.4%	79.8%	-140 bps	80.2%	-180bps
Attrition	12.5%	12.7%	-17 bps	12.5%	0 bps

Source: Company Data, PL Research

**Exhibit 8: Service Offering (Rs m): IP assets weak in-line with guidance**

By Service	Q3FY13	Q2FY13	QoQ gr.	Q3FY12	YoY gr.
Application Development & Management	3,241	3,201	1.3%	3,101	4.5%
IP Assets	463	500	-7.4%	650	-28.8%
Managed Services	617	550	12.2%	600	2.9%
Systems Integration & Package Implementation	514	450	14.3%	350	46.9%
BPO	309	300	2.9%	300	2.9%
<b>Total</b>	<b>5,144</b>	<b>5,001</b>	<b>2.9%</b>	<b>4,330</b>	<b>18.8%</b>
<b>as % of Total</b>					
Application Development & Management	63.0%	64.0%	-100 bps	62.0%	100 bps
IP Assets	9.0%	10.0%	-100 bps	13.0%	-400 bps
Managed Services	12.0%	11.0%	100 bps	12.0%	0 bps
Systems Integration & Package Implementation	10.0%	9.0%	100 bps	7.0%	300 bps
BPO	6.0%	6.0%	0 bps	6.0%	0 bps

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2012	2013E	2014E	2015E
<b>Net Revenue</b>	<b>15,764</b>	<b>20,175</b>	<b>23,226</b>	<b>26,387</b>
Software Dev. Exp.	9,876	13,125	15,230	17,504
Gross Profit	5,888	7,050	7,996	8,883
Employee Cost	—	—	—	—
Other Expenses	3,205	3,781	4,281	4,779
<b>EBITDA</b>	<b>2,683</b>	<b>3,269</b>	<b>3,715</b>	<b>4,104</b>
Depr. & Amortization	364	558	620	682
Net Interest	—	—	—	—
Other Income	282	264	297	344
<b>Profit before Tax</b>	<b>2,601</b>	<b>2,975</b>	<b>3,392</b>	<b>3,767</b>
Total Tax	637	774	848	866
<b>Profit after Tax</b>	<b>1,964</b>	<b>2,201</b>	<b>2,544</b>	<b>2,900</b>
Ex-Od items / Min. Int.	8	(50)	(50)	(13)
<b>Adj. PAT</b>	<b>1,956</b>	<b>2,251</b>	<b>2,594</b>	<b>2,913</b>
<b>Avg. Shares O/S (m)</b>	<b>59.6</b>	<b>59.6</b>	<b>59.6</b>	<b>59.6</b>
<b>EPS (Rs.)</b>	<b>32.8</b>	<b>37.8</b>	<b>43.5</b>	<b>48.9</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	1,643	2,035	2,418	2,955
C/F from Investing	(985)	(1,009)	(1,162)	(1,320)
C/F from Financing	371	(663)	(723)	(783)
Inc. / Dec. in Cash	1,029	363	534	852
Opening Cash	1,194	2,223	2,586	3,119
Closing Cash	2,223	2,586	3,119	3,971
FCFF	1,047	1,076	1,307	1,648
FCFE	1,063	1,076	1,307	1,648

**Key Financial Metrics**

Y/e March	2012	2013E	2014E	2015E
<b>Growth</b>				
Revenue (%)	27.9	28.0	15.1	13.6
EBITDA (%)	11.6	21.8	13.7	10.5
PAT (%)	7.4	15.1	15.2	12.3
EPS (%)	6.8	15.1	15.2	12.3
<b>Profitability</b>				
EBITDA Margin (%)	17.0	16.2	16.0	15.6
PAT Margin (%)	12.4	11.2	11.2	11.0
RoCE (%)	23.1	21.8	21.6	21.1
RoE (%)	23.4	22.5	22.2	21.4
<b>Balance Sheet</b>				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	14	21	24	23
<b>Valuation</b>				
PER (x)	8.5	7.4	6.4	5.7
P / B (x)	1.8	1.5	1.3	1.1
EV / EBITDA (x)	5.4	4.3	3.7	3.1
EV / Sales (x)	0.9	0.7	0.6	0.5
<b>Earnings Quality</b>				
Eff. Tax Rate	24.5	26.0	25.0	23.0
Other Inc / PBT	10.8	8.9	8.7	9.1
Eff. Depr. Rate (%)	5.4	7.3	7.0	6.7
FCFE / PAT	54.3	47.8	50.4	56.6

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	9,222	10,761	12,582	14,699
Total Debt	126	126	126	126
Other Liabilities	—	—	—	—
<b>Total Liabilities</b>	<b>9,348</b>	<b>10,886</b>	<b>12,707</b>	<b>14,825</b>
Net Fixed Assets	4,234	4,685	5,227	5,865
Goodwill	—	—	—	—
Investments	549	549	549	549
Net Current Assets	3,963	5,051	6,330	7,809
<i>Cash &amp; Equivalents</i>	<i>2,223</i>	<i>2,586</i>	<i>3,119</i>	<i>3,971</i>
<i>Other Current Assets</i>	<i>5,654</i>	<i>7,556</i>	<i>8,744</i>	<i>10,269</i>
<i>Current Liabilities</i>	<i>3,914</i>	<i>5,091</i>	<i>5,533</i>	<i>6,431</i>
Other Assets	602	602	602	602
<b>Total Assets</b>	<b>9,348</b>	<b>10,886</b>	<b>12,707</b>	<b>14,825</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
<b>Net Revenue</b>	<b>4,435</b>	<b>4,696</b>	<b>5,001</b>	<b>5,144</b>
<b>EBITDA</b>	<b>744</b>	<b>751</b>	<b>848</b>	<b>813</b>
<i>% of revenue</i>	<i>16.8</i>	<i>16.0</i>	<i>17.0</i>	<i>15.8</i>
Depr. & Amortization	111	126	138	142
Net Interest	—	—	—	—
Other Income	(46)	210	(115)	126
<b>Profit before Tax</b>	<b>587</b>	<b>835</b>	<b>595</b>	<b>797</b>
Total Tax	111	246	146	230
<b>Profit after Tax</b>	<b>461</b>	<b>576</b>	<b>431</b>	<b>561</b>
<b>Adj. PAT</b>	<b>461</b>	<b>576</b>	<b>431</b>	<b>561</b>

**Key Operating Metrics**

Y/e March	2012	2013E	2014E	2015E
Total Technical Billed (Headcount)	10,813	13,408	15,218	17,196
Utilization	79	79	79	79
Software Dev. Exp. (% of Sales)	63	65	66	66
Sales & Mktg. (% of Sales)	20	19	18	18

Source: Company Data, PL Research.

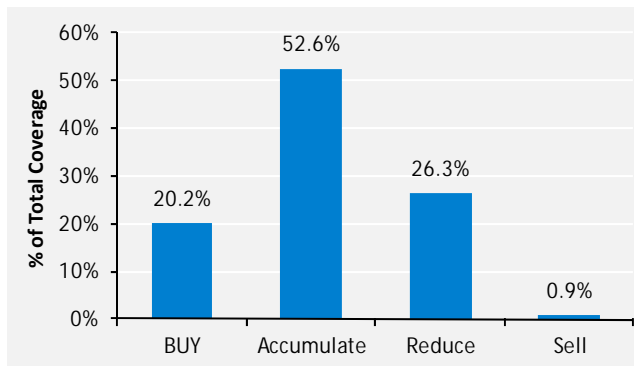


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.