

Initiating Coverage

21<sup>st</sup> February 2013

Sensex: 19,500

Nifty: 5,900

CMP: Rs.259

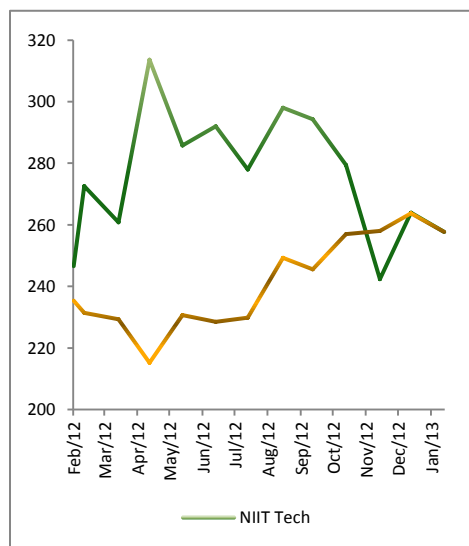
Target Price: Rs.343

Rating: Strong Buy

**Background:** The company is mainly engaged in Application Development and Maintenance, Managed Services, Cloud Computing, data warehousing solutions, testing services and Business Process Outsourcing. NIIT Technologies is a leading IT solutions organization, servicing customers in North America, Europe, Middle East, Asia and Australia. The Company focuses on well-defined industry verticals including Banking, financial and Insurance services (BFSI), Travel, Transportation and Logistics (TTL), Retail and Manufacturing.

52 Week High/Low	<b>Rs.325/227</b>	
Bloomberg Code	NITEC@IN	
Reuters Code	NITT.NS	
Face Value	<b>Rs.10</b>	
No of o/s shares in mn	59	
Market Cap in mn	15,811	
Beta	1.23	
Shareholding	Sep-12	Dec-12
Promoters (%)	31.3	31.4
FII (%)	26.8	27.1
DII (%)	17.6	17.2
Others (%)	24.3	24.3

Price Performance



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**Investment Rationale**

**Consistent Dividend Paying Company:** NIIT Tech has the history of paying dividend consistently; it has an average of 4% dividend yield. During FY12 the company has declared the dividend of Rs.8/share and the payout ratio for FY12 stood at 24% which is less than the average of 28% in last 5 years.

**Robust Order Book:** During Q3 FY13 the order book for the company stood at \$242 mn as compared to \$253 mn in Q3 FY12. In Q2 FY13 the order intake was \$83 mn which is executable over next 12 months. This healthy Order book imbibes confidence in our revenue assumptions.

**High Return ratio:** Considering NTL's last five years average ROE of 26%, which is expected to come down in near future to 22% over next 3 years, we recommend investors to buy the stock for longer period of time to fetch good returns.

**Outlook & Valuation:**

We believe currency volatility would be major challenge for the industry. Considering NITL's high ROE, consistent dividend history and Robust order book of USD 245mn we initiate coverage on NIIT Technologies Ltd and advise investors to buy the stock at CMP: Rs.259 for the target price of Rs.343 (upside of 32%) for the period of 15-18 months, we are valuing the company at 8.5x at its FY14E EPS of Rs.40.4. NIIT Tech's margin performance has been impacted adversely by cost overruns in some GIS projects and sluggishness in the NIIT Insurance business. Management expects an improvement in margins ahead driven by increase in profitability at GIS as well as pick up in Insurance vertical. We believe NIIT Tech has made investments in the business and now is the time to reap.

## Company Overview

The company is mainly engaged in Application Development and Maintenance, Managed Services, Cloud Computing, data warehousing solutions, testing services and Business Process Outsourcing. NIIT Technologies is a leading IT solutions organization, servicing customers in North America, Europe, Middle East, Asia and Australia. The Company focuses on well-defined industry verticals including Banking, financial and Insurance services (BFSI), Travel, Transportation and Logistics (TTL), Retail and Manufacturing.

As a part of its BFSI vertical practice, the company offers solutions to the insurance, asset management and banking sectors, the company has a suite of solution framework focused on the insurance sector. As a part of its TTL segment, the company has handled diverse projects for leading airlines, land transport and railways authorities. The company retail industry practice focuses on providing development and maintenance services for retailing systems. As a part of its Manufacturing segment, the company provides SAP solutions to small and medium business (SMB) segment.

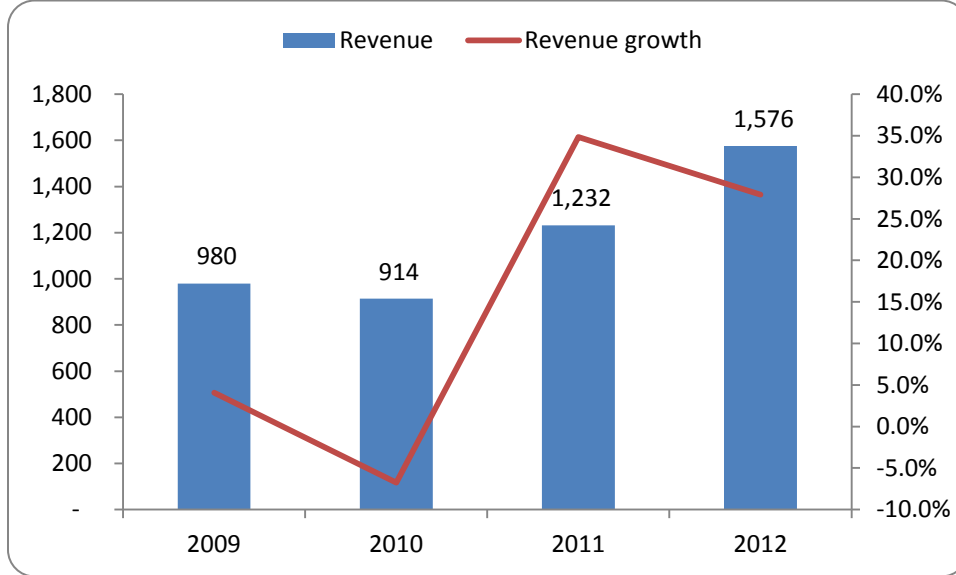
## Valuation Summary

Particulars	Valuation Summary					
	2010A	2011A	2012E	2013E	2014E	2015E
Revenues (INR mn)	9,137	12,323	15,765	19,235	21,791	24,092
EBITDA (INR mn)	1,703	2,363	2,701	3,500	3,773	4,170
Net profit (INR mn)	1,277	1,854	1,964	2,289	2,423	2,551
Capital Employed (INR mn)	6,043	7,631	9,348	11,202	12,991	14,928
Market Cap(INR mn)	15,581	15,581	15,581	15,581	15,581	15,581
Market Cap/Sales, x	1.7	1.3	1.0	0.8	0.7	0.6
Gross Block (INR mn)	4,559	4,372	6,687	7,649	8,302	9,025
EPS, Rs	21.30	30.94	32.78	38.19	40.43	42.57
CEPS, Rs	27	36	39	47	50	56
BVPS, Rs	96.7	124.8	151.8	181.0	211.5	243.0
P/E, x	12.2	8.4	7.9	6.8	6.4	6.1
P/BV, x	2.7	2.1	1.7	1.4	1.2	1.1
EV/EBITDA, x	8.4	6.1	5.3	4.1	3.8	3.4
EV/Sales, x	1.6	1.2	0.9	0.7	0.7	0.6

Source: Company, Greshma Research

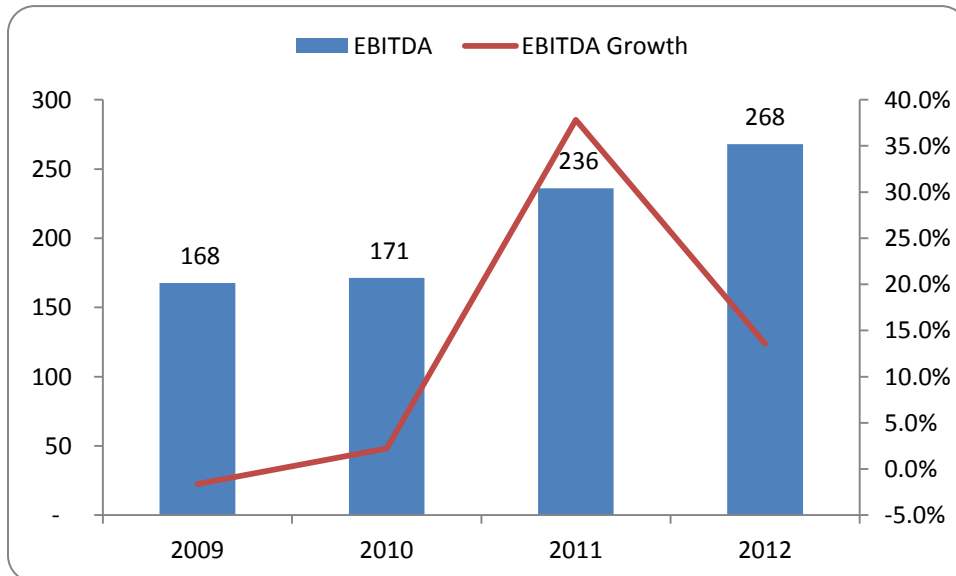
## Financial Snapshot

### Revenue



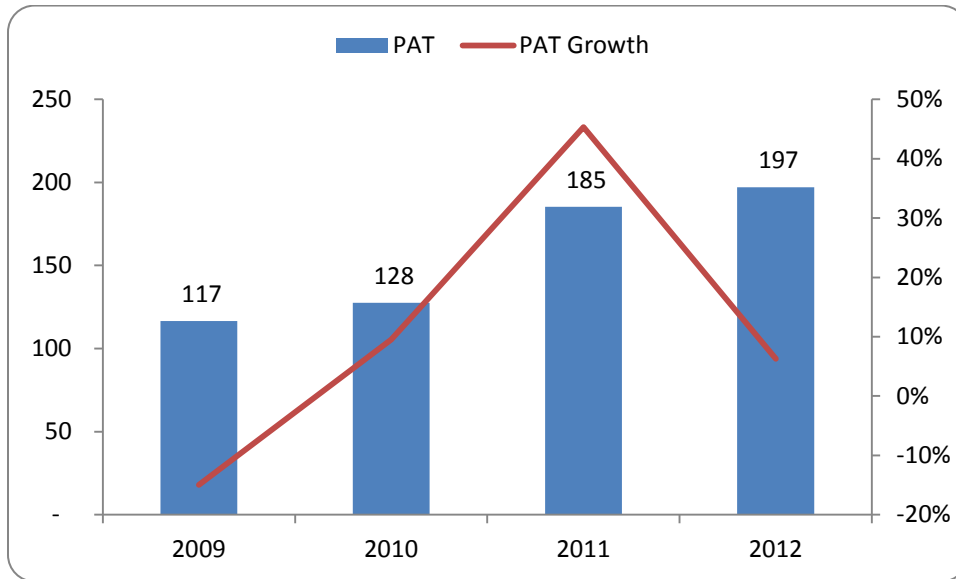
Source: Company Filings

### EBITDA



Source: Company Filings

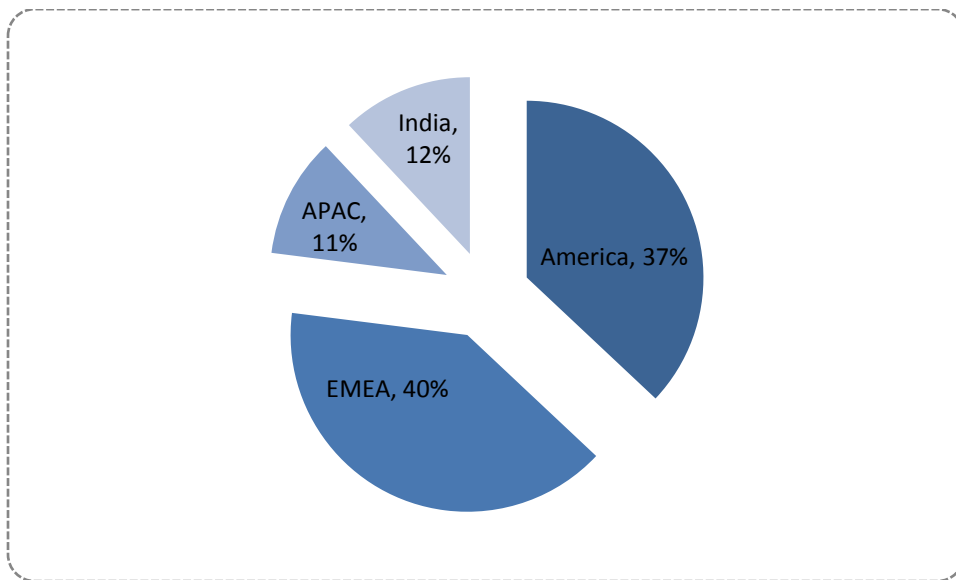
**PAT**



Source: Company Filings

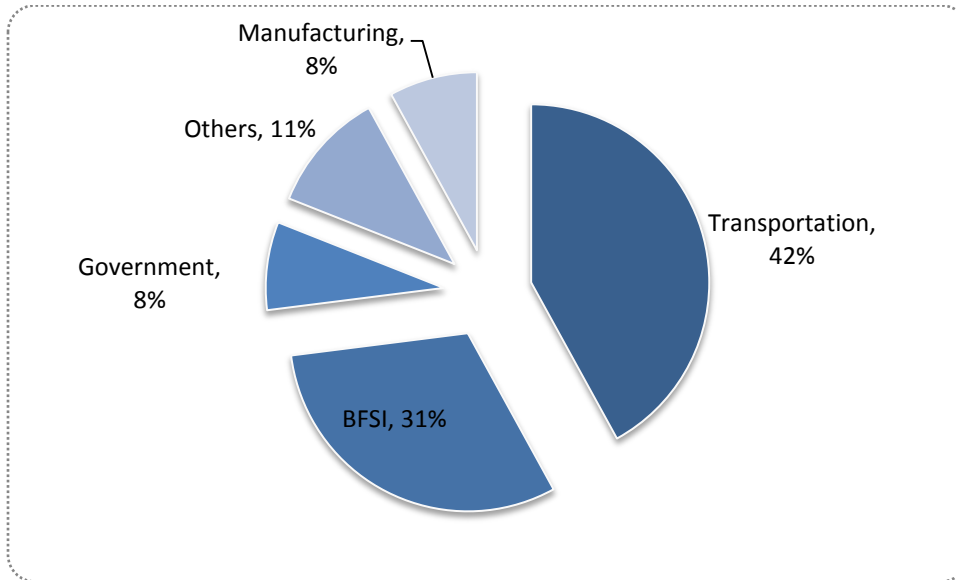
**Revenue Split**

**By Geography**



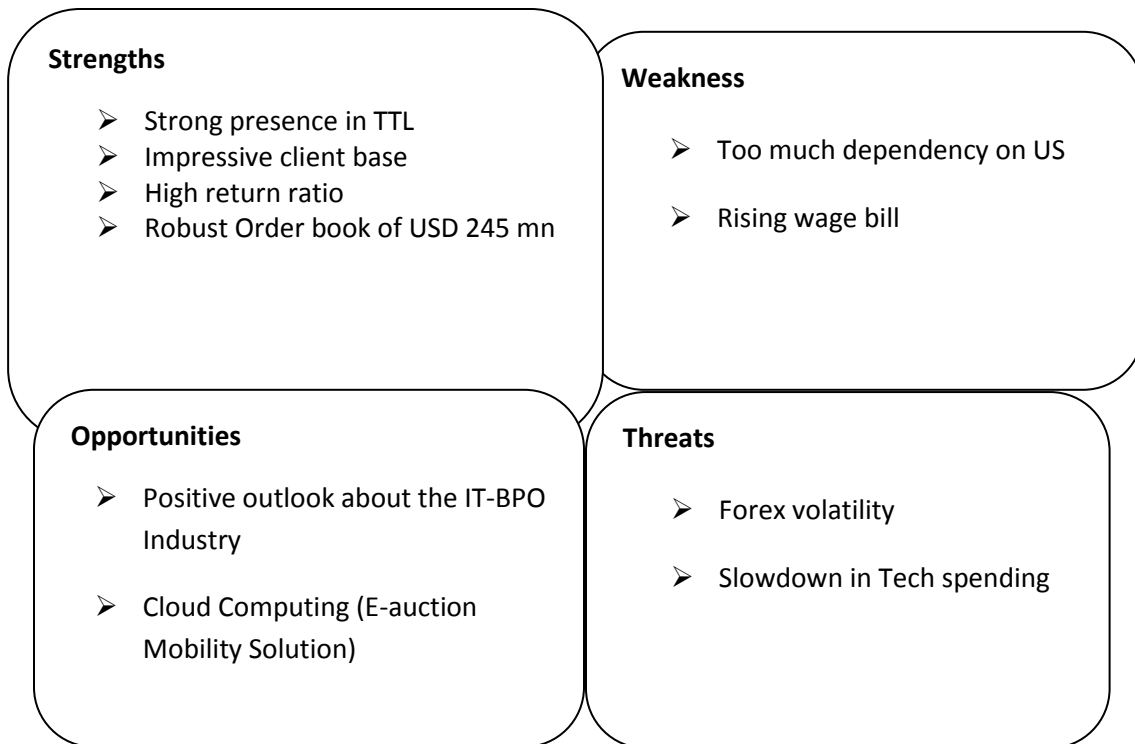
Source: Company Filings

**By Vertical**



Source: Company Filings

**SWOT Analysis**



## Q3 FY13 Highlights

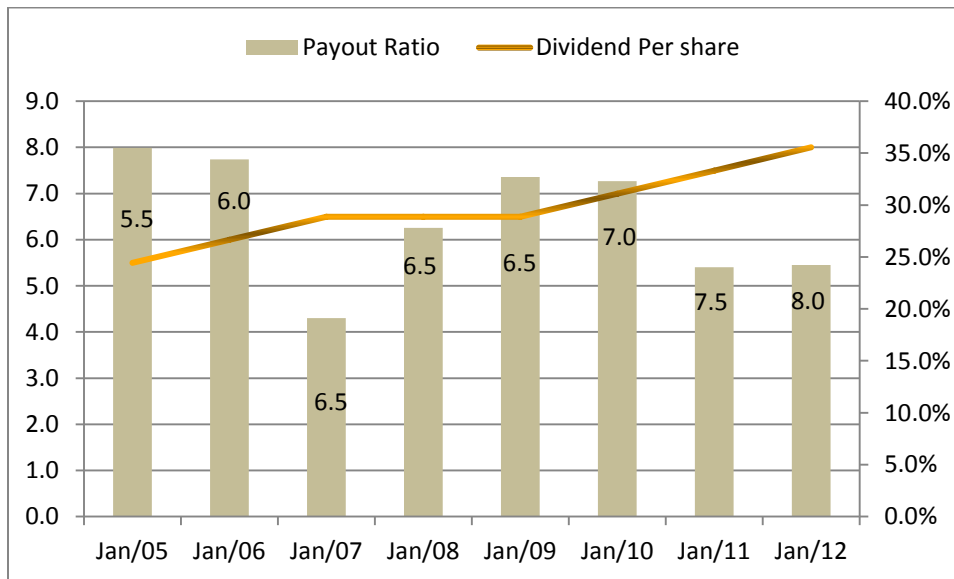
Particulars (INR mn)	Dec-12	Sep-12	Dec-11	Q-o-Q Change	Y-o-Y Change
Revenue	5,144	5,001	4,330	2.9%	18.8%
Operating Expenses	4,331	4,153	3,550	4.3%	22.0%
EBITDA	813	848	780	-4.1%	4.2%
EBITDA Margin	15.8%	17.0%	18.0%	-6.8%	-12.3%
Depreciation	142	138	92	2.9%	54.3%
EBIT	671	710	688	-5.5%	-2.5%
Other Income	126	-115	174	-209.6%	-27.6%
PBT	797	595	862	33.9%	-7.5%
Tax	236	164	222	43.9%	6.3%
Net Profit	561	431	640	30.2%	-12.3%

Source: Company, Greshma Research

- Consolidated net sales grew by 2.9% sequentially (quarter-on-quarter or QoQ) during third quarter of financial year 2012-2013 (3QFY13).
- In constant currency terms, the growth in revenues was 4.4% QoQ as compared to 3%QoQ in 2QFY13.
- Operating margins declined by 1.2% QoQ during the quarter and stood at 15.8% at the end of 3QFY13. That was primarily due to a fall in gross profit margin by 1.8%.
- The current quarter witnessed a rise in other income which came in at Rs 126 m primarily because of forex revaluation.
- The rise in other income led the Profit before Tax to rise by 34% QoQ. As a result the net profit also rose by 30% QoQ during the quarter. The rise would have been even more if the effective taxation had not risen to 28.9% in 3QFY13. The effective tax rate had stood at 24.5% in 2QFY13. The net profit margin increased by 2.3% QoQ and stood at 10.9%.
- The company secured fresh orders of US\$ 83 m, as compared to US\$ 93 m received during the previous quarter (2QFY13). This led to an order book of US\$ 242 m executable over next 12 months.
- Growth from business segments was led by 'Government' (8% of net sales), which saw a growth of 64.6% QoQ. 'Banking and Financial Services' (12% of net sales) and 'Insurance' (19% of net sales) segments de-grew by 5.1% QoQ and 2.3% QoQ respectively during the quarter. 'Manufacturing' (6% of net sales) saw a 2.9% QoQ growth, 'Transportation' segment which was the largest contributor to sales (contributing 42%) grew by 2.9% QoQ, while the 'Others' vertical (13% of net sales) saw a de-growth of 4.5% QoQ.

## Investment Rationale

**Consistent Dividend Paying Company:** Apart from capital appreciation dividends are considered to be one of the sources of Income for the investors. Therefore, it has been found that companies that have been consistent dividend payers attract more interest from investors than non-dividend paying companies. NIIT Tech has the history of paying dividend consistently; it has an average of 4% dividend yield. During FY12 the company has declared the dividend of RS.8/share and the payout ratio for FY12 stood at 24% which is less than the average of 28% in last 5 years.

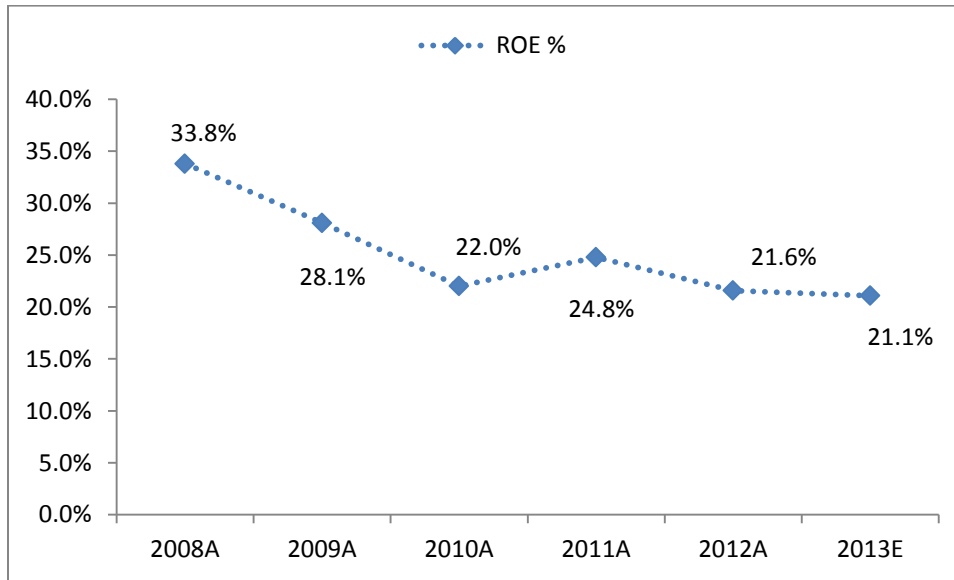


Source: Company, Greshma Research

**Strong Presence in TTL:** NIIT Technologies is the leading outsourcing company in Travel, Transportation and Logistics (TTL) segment and has numerous customers in this vertical. NIIT Tech originates 42% of the revenue from TTL segment and over FY2010 this vertical has grown by 25%. Their Software testing engagements include long standing blue chip customers such as UK’s leading Airline British Airways, Virgin group and Sabre. IT Services demand from TTL vertical in US and Europe is in cyclical uptrend. NIIT Tech occupies the leadership position in TTL segment. NIIT Tech is well positioned in growth driving verticals like BFSI and TTL, about 73% of the revenue comes from the above 2 verticals.

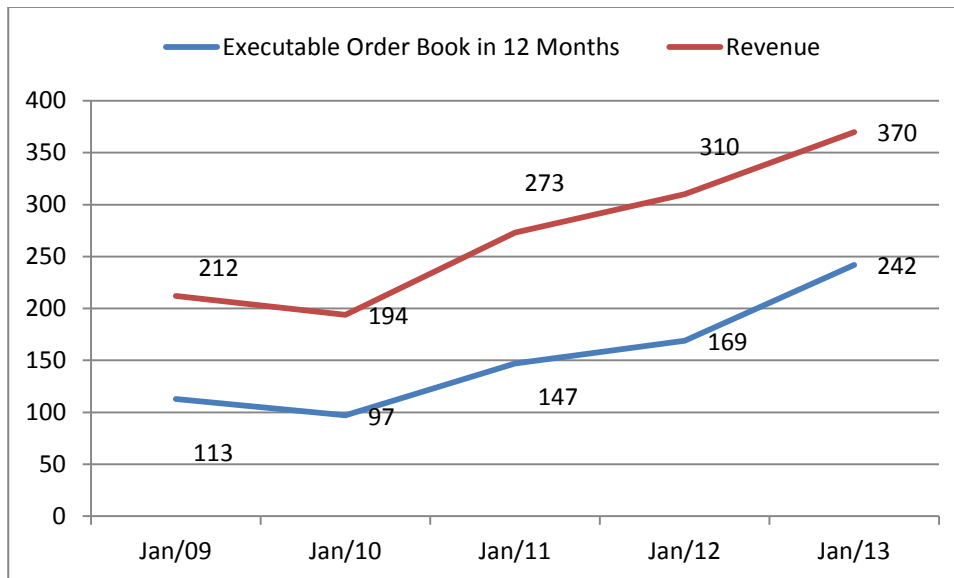
### High Return Ratios

ROE is an important tool to assess a company’s potential, Considering NTL’s last five years average ROE of 26%, which is expected to come down in near future to 22% over next 3 years, we recommend investors to buy the stock for longer period of time to fetch good returns.



Source: Company, Greshma Research

**Robust Order Book:** During Q3 FY13 the order book for the company stood at \$242 mn as compared to \$253 mn in Q3 FY12. In Q2 FY13 the order intake was \$83 mn which is executable over next 12 months. This healthy Order book imbibes confidence in our revenue assumptions.



Source: Company, Greshma Research



## Risks and Concerns

**Impact of cut back in tech spending:** There is a global slowdown in economies of US and Europe where the IT spending is maximum. There are already talks of US corporations cutting back on their discretionary technology spending. The fact that fresh contracts are coming in at a much slower pace will most likely impact the volumes of Indian IT players. Mid-size companies like NTL that lack the scale and breadth of offerings of a larger company are likely to suffer more from this slowdown in global tech spending.

**Currency volatility:** The Indian rupee has been very volatile against the US dollar over the past few years, Not only does this adds to volatility in IT services exporter’s revenues, the fact is that many companies enter into hedges also adds to their risk on the profit and loss account and balance sheet.



Source: xe.com

## Peer Comparison

PARTICULARS		NIIT TECH	HEXAWARE	MPHASIS	KPIT	HCL TECH	WIPRO	INFOSYS	TCS
Face Value	Rs	<b>10</b>	2	10	2	2	2	5	1
Avg Mkt Cap	Rs m	<b>13,447</b>	21,415	77,421	14,858	3,06,430	9,84,085	15,70,207	21,40,220
Net Sales	Rs m	<b>15,765</b>	14,505	55,253	15,000	2,08,306	3,71,878	3,37,340	4,88,938
Gross profit margin	%	<b>17</b>	19.7	19.6	14.6	17.6	18.4	31.8	29.5
Profit after tax	Rs m	<b>1,972</b>	2,670	7,923	1,453	24,227	56,045	83,320	1,04,134
Net profit margin	%	<b>12.5</b>	18.4	14.8	9.7	11.6	15.1	24.7	21.3
Earnings per share	Rs	<b>33</b>	9	38	8	35	23	146	53
Dividends per share	Rs	<b>8</b>	4	17	1	4	6	47	25
Dividend yield (eoy)	%	<b>3.5</b>	5.5	4.7	0.8	0.9	1.5	1.7	2.3
Book value per share	Rs	<b>155</b>	35	209	40	142	110	548	151
Shares outstanding (eoy)	m	<b>60</b>	293	210	178	693	2,457	571	1,957
Avg P/E ratio	x	<b>6.8</b>	8	9.5	10.2	12.6	17.6	18.8	20.6
Return on assets	%	<b>15</b>	18.8	13.4	11.4	14.4	13.2	21.9	25.2
Return on equity	%	<b>21.4</b>	26.3	18	20.4	24.6	20.7	26.6	35.3

Source: Company, Greshma Research

As compared to domestic peers NIIT Tech is trading at a cheap valuation, at CMP of Rs.259 the stock is trading at 6.5x at its FY14E EPS of Rs.40.4, Other IT companies are trading at an average P/E multiple of 9-14x which indicates that NIIT Tech is trading at the discount of 30-40 percent to its peer group. We believe such cheap valuations for a company whose average ROE is 26% over the last 5 years is not justified. We are valuing NIIT Tech at 8.5x of its FY14E EPS of Rs.40.4.

## Financial Summary

Particulars	Consolidated Balance Sheet INR Mn					
	2010A	2011A	2012A	2013E	2014E	2015E
<b>Sources Of Funds</b>						
<b>Shreholders Funds</b>						
Share Capital	588	593	596	596	596	596
Share Application Money	0.2	0.2	-	-	-	-
Reserves & Surplus	5,210	6,886	8,503	10,252	12,076	13,968
<b>Total Shareholders Fund</b>	<b>5,798</b>	<b>7,478</b>	<b>9,099</b>	<b>10,848</b>	<b>12,672</b>	<b>14,564</b>
Minority Interest	28	43	123	123	123	123
<b>Loan Funds</b>						
Secured Loans	214	110	60	231	196	241
Unsecured Loans	3	-	4	-	-	-
<b>Total loans</b>	<b>217</b>	<b>110</b>	<b>126</b>	<b>231</b>	<b>196</b>	<b>241</b>
<b>Total Liabilities</b>	<b>6,043</b>	<b>7,631</b>	<b>9,348</b>	<b>11,202</b>	<b>12,991</b>	<b>14,928</b>
<b>Application Of Funds</b>						
<b>Fixed Assets</b>						
<b>Gross Block</b>	<b>4,559</b>	<b>4,372</b>	<b>6,687</b>	<b>7,649</b>	<b>8,302</b>	<b>9,025</b>
Less: Depreciation	2,706	2,479	2,455	2,957	3,552	4,375
<b>Net Block</b>	<b>1,853</b>	<b>1,893</b>	<b>4,231</b>	<b>4,692</b>	<b>4,750</b>	<b>4,650</b>
Capital WIP	1,287	1,437	2	2	2	2
Investments	465	443	395	624	674	725
Deffered Tax Assets	107	143	207	207	207	207
<b>Current Assets</b>						
Investories	5	6	7	19	22	24
Sundry Debtors	1,851	2,871	3,315	4,269	4,895	5,412
Cash And Bank balance	1,430	1,194	2,223	1,916	3,019	4,447
Other Current Assets	156	831	1,536	1,116	1,264	1,397
Loans & Advances	1,089	1,322	1,345	2,116	2,288	2,530
<b>Total Current Assets</b>	<b>4,531</b>	<b>6,223</b>	<b>8,426</b>	<b>9,435</b>	<b>11,488</b>	<b>13,811</b>
Less: Current Liabilities	-	-	-	-	-	-
Current Liabilities	1,496	1,674	2,965	2,808	3,181	3,517
Provisions	705	834	949	949	949	949
<b>Total Current Liabilities</b>	<b>2,200</b>	<b>2,508</b>	<b>3,914</b>	<b>3,757</b>	<b>4,131</b>	<b>4,467</b>
<b>Net Current Assets</b>	<b>2,330</b>	<b>3,715</b>	<b>4,512</b>	<b>5,678</b>	<b>7,358</b>	<b>9,344</b>
<b>Total Assets</b>	<b>6,043</b>	<b>7,631</b>	<b>9,348</b>	<b>11,202</b>	<b>12,991</b>	<b>14,928</b>

Source: Company, Greshma Research

Consolidated P&L INR Mn						
Particulars	2010A	2011A	2012A	2013E	2014E	2015E
Income from Operations	9,137	12,323	15,765	19,235	21,791	24,092
growth	0.0%	34.9%	27.9%	22.0%	13.3%	10.6%
Total Expenditure	7,435	9,960	13,064	15,735	18,018	19,922
EBITDA	1,703	2,363	2,701	3,500	3,773	4,170
EBITDA Margin	18.6%	19.2%	17.1%	18.2%	17.3%	17.3%
Depreciation	358	315	364	502	595	823
EBIT	1,344	2,048	2,337	2,999	3,178	3,346
Interest	8	7	38	32	27	34
Other Income	85	136	304	112	115	131
PBT	1,421	2,177	2,602	3,079	3,265	3,443
Tax	144	323	638	790	842	892
PAT	1,277	1,854	1,964	2,289	2,423	2,551
PAT Margin	14.0%	15.0%	12.5%	11.9%	11.1%	10.6%

Source: Company, Greshma Research

Cash Flow Statement (INR in mn)						
Particulars	2010A	2011A	2012A	2013E	2014E	2015E
PAT	1,277	1,854	1,964	2,289	2,423	2,551
Depreciation	358	315	364	502	595	823
Non-Cash Adjustments	-173	-168	115	-	-	-
Change in working capital	13	-1,338	-801	-1,473	-577	-558
<b>Cash Flow from operation</b>	<b>1,475</b>	<b>663</b>	<b>1,643</b>	<b>1,318</b>	<b>2,441</b>	<b>2,816</b>
Capital Expenditure	-490	-502	-931	-962	-654	-723
Change in Investment (Dec)/inc	-452	60	-334	-229	-50	-51
Other investing cash flows	18	68	280	-	-	-
<b>Cash Flow used in investing</b>	<b>-925</b>	<b>-374</b>	<b>-985</b>	<b>-1,191</b>	<b>-704</b>	<b>-774</b>
Issue of equity'	6	65	-	-	-	-
Issue/Repay Debt	-107	-117	340	105	-35	45
Dividend paid	-488	-487	-511	-539	-599	-659
Other financing cash flows	-19	-10	4	-	-	-
Cash Flow from Financing	-607	-549	-167	-434	-634	-614
<b>Net Cash</b>	<b>-57</b>	<b>-260</b>	<b>490</b>	<b>-307</b>	<b>1,104</b>	<b>1,428</b>
Adjustment of Exchange rate	-98	24	119	-	-	-
<b>Opening Balance</b>	<b>1,585</b>	<b>1,430</b>	<b>1,194</b>	<b>2,223</b>	<b>1,916</b>	<b>3,019</b>
<b>Closing Balance</b>	<b>1,430</b>	<b>1,194</b>	<b>2,223</b>	<b>1,916</b>	<b>3,019</b>	<b>4,447</b>

Source: Company, Greshma Research

Particulars	Key Ratios					
	2010A	2011A	2012A	2013E	2014E	2014E
EBIDTA %	18.6%	19.2%	17.1%	18.2%	17.3%	17.3%
PAT %	14.0%	15.0%	12.5%	11.9%	11.1%	10.6%
ROE %	22.0%	24.8%	21.6%	21.1%	19.1%	17.5%
ROCE %	22.2%	26.8%	25.0%	26.8%	24.5%	22.4%
ROA %	21.1%	24.3%	21.0%	20.4%	18.7%	17.1%
<b>Growth Ratios (%)</b>						
Income growth	-6.8%	34.9%	27.9%	22.0%	13.3%	10.6%
EBITDA growth	1.6%	38.8%	14.3%	29.6%	7.8%	10.5%
PAT growth	11.2%	45.2%	5.9%	16.5%	5.9%	5.3%
<b>Turnover Ratios</b>						
Fixed Asset Turnover x	2.0	2.8	2.4	2.5	2.6	2.7
Creditors Days	73.4	61.4	82.8	65.1	64.4	64.4
Debtors Days	73.9	85.0	76.7	81.0	82.0	82.0

Source: Company, Greshma Research

## Key Management Personnel

**Rajendra S. Pawar, Chairman & Managing Director**, is an acknowledged IT industry leader and visionary. Ranked among India's celebrated entrepreneurs, Mr. Pawar helped create and nurture NIIT Technologies.

**Arvind Thakur, Chief Executive Officer** is responsible for spearheading the organization and raising its delivery capabilities. He has been a part of the core team since the early years of NIIT's inception, handling both the software and key organizational functions at the company.

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