

NIIT Technologies Limited	CMP Rs. 99.75 BUY	Result Update Q1FY10
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NIIT Tech started the year off with a bleak Q1 owing to traditional slower start as well as added burden of pricing & volume pressure. Decreasing IT spending by new clients also has resulted in erosion of revenues. The company reported a topline de-growth of ~4% QoQ & ~11% YoY. The revenue reduction is contributed due to 7% volume decline, 2.3% hedging loss & 1.4% drop due to pricing pressure. NIIT has adopted blood bath accounting techniques this quarter due to which even the bottomline has suffered by a 3% margin reduction. These accounting tactics have basically made some of their outstanding hedges (@Rs. 41.9/\$), non-effective. These non-effective hedges are expensed as a forex loss for the quarter, but the magnitude is to the tune of the entire year's expected forex loss. This might be due to the fact that the company would want to show better performance for the coming three quarters, which would be their actual performance, ex-forex. In spite of the revenue loss, the company has been able to maintain an operating margin of 18% due to prudent cost control measures.

Due to the re-designation of the hedges & making some of them non-effective (\$16.4 Mn), the total hedges left & due for expiry in FY10 & beyond are to the tune of \$99 Mn. As per the management remarks, the non-effective hedges will result in Rs. 11 Cr benefit in then next quarter.

On the business front, the company has acquired 4 new clients this quarter with \$98 Mn worth of contracts being executable over the next 12 months. NIIT has been stuck to a trend of reducing ~200 employees from the past 5 quarters, forgoing scalability to maintain steady margins by rampant cost control. But despite this reduction in manpower, they have been able to scale up by adding new clients. Room Solutions also showed a decline in revenue from Rs. 254 Mn to Rs. 232 Mn, due to decline in license revenues. Non-linear business also showed revenue of only 25% over the entire revenue as compared to 27% in Q4FY09.

The TTL vertical has also shown some improvement, however the situation with BA, their largest client, still remains cloudy. The company has had to renegotiate some contract terms last year owing to reduction in prices & also suffered lower volumes. But new customers are seen in this vertical, which is helping NIIT Tech scale up. But the business still shows some sensitivity to the top client movement.

The company has noticed aggressive sales effort by top players into their domain, which might also be a cause for concern, but the company seems to hold their ground owing to their long standing commitment to only a few niche verticals which has helped them gain tonnes of domain expertise. Salary structure for employees has been shifted to more variable component to less of fixed. This has also added to the margins.

On the SaaS front, the company has only 6 clients as of now, but it can offer valuable experience as to how clients perceive these applications & use it, which will help in incremental development of new applications going ahead. Room Solutions looks very promising, since they have IP based products which are new for the insurance industry. There is plenty of apprehension about their usability & effectiveness, which we believe can catch up over time. The company has shown interest in adding one more vertical to their existing portfolio, of Govt. contracts. They have seen a lot of interest from the Govt & are very actively addressing this opportunity. The focus still remains on the domestic & emerging market business just like every other IT company with incremental revenues from developed economies having dwindled.

Valuation

For FY10 the company still seems a lot uncertain as to how the year will turn out. No budgets have been fixed except for Rs. 800 Mn CAPEX. This short term uncertainty might prove to be useful for the investor since the chances of their non linear initiatives catching up are quite high, going ahead. We recommend a BUY for NIIT Tech at 5 times earnings, but we also like to compare to another company in the similar vertical which might prove to be a better bet, i.e. Sonata Software, which trades only at 4.5 times earnings & has better sustained margins & comparable earnings yield of ~20%.

NIIT : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q110	Q409	Q-Q(%)	Q109	Y-Y(%)	12M'09	12M'08	Y-Y(%)
Net Revenues	2,182.0	2,270.0	-3.88%	2,458.0	-11.23%	9,800.0	9,416.0	4.08%
Total Expenditure	1,788.0	1,866.0	-4.18%	2,002.0	-10.69%	8,035.0	7,652.0	5.01%
Operating Profit	394.0	404.0	-2.48%	456.0	-13.60%	1,765.0	1,764.0	0.06%
Other Income	(84.0)	5.0	-1780.00%	62.0	-235.48%	47.0	135.0	-65.19%
EBITDA	310.0	409.0	-24.21%	518.0	-40.15%	1,812.0	1,899.0	-4.58%
Depreciation	95.0	100.0	-5.00%	112.0	-15.18%	423.0	389.0	8.74%
EBIT	215.0	309.0	-30.42%	406.0	-47.04%	1,389.0	1,510.0	-8.01%
Interest	0.0	0.0	0.00%	0.0	0.00%	0.0	0.0	0.00%
PBT	215.0	309.0	-30.42%	406.0	-47.04%	1,389.0	1,510.0	-8.01%
Tax	37.0	40.0	-7.50%	51.0	-27.45%	225.0	137.0	64.23%
PAT before MI	178.0	269.0	-33.83%	355.0	-49.86%	1,164.0	1,373.0	-15.22%
Minority Interest	2.0	6.0	-66.67%	4.0	-50.00%	16.0	19.0	-15.79%
PAT after MI	176.0	263.0	-33.08%	351.0	-49.86%	1,148.0	1,354.0	-15.21%
Equity Capital	587.3	587.3	0.00%	587.1	0.03%	587.3	587.1	0.03%
EPS	3.00	4.48	-33.04%	5.99	-49.92%	19.55	23.06	-15.24%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q110	Q409	Q-Q(bps)	Q109	Y-Y(bps)	12M'09	12M'08	Y-Y(bps)
OPM (%)	18.06%	17.80%	25.9	18.55%	(49.5)	18.01%	18.73%	(72.4)
EBITDA (%)	14.21%	18.02%	(381.0)	21.07%	(686.7)	18.49%	20.17%	(167.8)
EBIT (%)	9.85%	13.61%	(375.9)	16.52%	(666.4)	14.17%	16.04%	(186.3)
PAT (%)	8.07%	11.59%	(352.0)	14.28%	(621.4)	11.71%	14.38%	(266.5)

NIIT : Financials

Earnings Statement						
Particulars (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09
Total Revenues	4,933.3	5,432.0	6,075.3	8,858.6	9,415.1	9,799.4
- Growth (%)		10.1%	11.8%	45.8%	6.3%	4.1%
Total Expenditure	4,201.8	4,475.1	4,919.5	7,056.0	7,652.4	8,136.2
Operating Profit	731.5	956.9	1,155.8	1,802.6	1,762.7	1,663.2
- Growth (%)		30.8%	20.8%	56.0%	-2.2%	-5.6%
Other Income	65.8	71.9	36.9	148.6	146.1	179.4
EBITDA	797.3	1,028.8	1,192.7	1,951.2	1,908.8	1,842.6
- Growth (%)		29.0%	15.9%	63.6%	-2.2%	-3.5%
Depreciation	362.4	368.7	389.5	434.7	388.8	421.7
EBIT	434.9	660.1	803.2	1,516.6	1,520.0	1,420.9
Interest	23.6	26.6	13.5	1.0	10.8	31.8
PBT	411.4	633.5	789.7	1,515.6	1,509.2	1,389.1
Tax	66.6	35.8	114.8	185.3	137.7	224.1
PAT Before MI	344.8	597.7	674.9	1,330.2	1,371.5	1,165.0
Minority Interest	13.6	12.3	12.0	37.8	18.9	16.6
PAT	331.21	585.43	662.90	1292.44	1352.61	1148.40
- Growth (%)		76.8%	13.2%	95.0%	4.7%	-15.1%

Ratio Analysis						
Particulars	FY04	FY05	FY06	FY07	FY08	FY09
OPM (%)	14.8%	17.6%	19.0%	20.3%	19%	17%
EBITDA (%)	16.2%	18.9%	19.6%	22.0%	20%	19%
PAT (%)	6.7%	10.8%	10.9%	14.6%	14%	12%
Interest Cover (x)	18.5	24.8	59.5	1,512.9	140.8	44.7
EPS (Rs.)	22.9	10.1	11.4	22.0	23.0	19.6
P/E (x)	4.3	9.7	8.6	4.5	4.3	5.0
P/BV (x)	0.7	2.5	2.1	1.6	1.3	1.5
BVPS (Rs.)	132.3	39.7	46.7	63.1	75.2	66.0
Market Cap (Rs. Mn.)	1,426.2	5,704.6	5,704.6	5,771.2	5,775.9	5,778.7
M Cap/Sales (x)	0.3	1.1	0.9	0.7	0.6	0.6
EV (Rs. Mn.)	1,589.1	5,316.3	5,201.1	5,620.9	5,762.5	4,541.9
EV/EBITDA (x)	2.0	5.2	4.4	2.9	3.0	2.5
EV/Sales (x)	0.3	1.0	0.9	0.6	0.6	0.5
ROCE (%)	16.1%	21.9%	24.7%	32.6%	29.5%	32.7%
RONW (%)	17.3%	25.4%	24.5%	34.9%	30.6%	29.6%
Debt/Equity Ratio (x)	0.3	0.2	0.2	0.2	0.1	0.1
Inventory T/o Days	0.3	0.4	0.4	0.1	0.2	0.4
Debtors T/o Days	89.8	78.8	71.1	75.6	83.3	71.1
Advances T/o Days	34.4	21.6	25.2	17.4	27.1	33.2
Creditors T/o Days	63.8	52.8	52.6	51.6	59.9	119.6
Working Cap T/o Days	81.1	98.0	91.8	64.6	51.7	24.0
Fixed Assets T/o (Gross)	2.3	2.3	2.3	2.3	2.2	2.1
DPS (Rs.)	20.0	5.5	6.0	6.5	6.5	5.0
Dividend Payout (%)	58.3%	36.3%	35.0%	19.7%	28.2%	25.6%
Dividend Yield (%)	20.3%	5.6%	6.1%	6.6%	6.6%	5.1%

NIIT : Financials

Balance Sheet						
Particulars (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09
Equity Capital	96.6	386.5	386.5	391.0	587.0	587.3
ESOP	0.0	0.0	0.0	0.2	0.0	0.0
Share Application money	289.9	0.0	13.9	3.7	2.4	1.7
Reserves	1,530.6	1,914.5	2,309.4	3,307.5	3,823.7	3,286.6
Shareholders Funds	1,917.1	2,301.0	2,709.9	3,702.5	4,413.1	3,875.6
Minority Interest	39.0	51.3	63.3	149.3	49.5	21.9
Borrowed Funds	600.8	539.6	420.2	793.2	646.8	347.9
Total Liabilities	2,556.8	2,891.9	3,193.4	4,645.0	5,109.5	4,245.5
Fixed Assets	1,117.2	954.3	949.1	1,530.2	2,377.5	3,157.1
Investments	334.0	438.3	649.4	1,444.3	1,311.4	0.0
Current Assets						
Inventory	4.3	6.2	6.1	2.9	5.6	10.9
Sundry Debtors	1,230.5	1,189.3	1,200.7	1,860.6	2,178.3	1,934.9
Loans & Advances	471.0	326.2	425.9	427.7	710.0	903.7
Cash & Bank Balance	437.8	927.9	923.8	943.5	660.3	1,584.8
Other Current Assets	84.1	100.3	171.3	146.5	93.4	171.4
Current Liabilities						
Liabilities	874.6	796.8	888.0	1,269.5	1565.889795	3256.761175
Provisions	242.2	274.7	290.9	521.4	728.667281	695.5
Net Current Assets	1,110.8	1,478.5	1,549.0	1,590.3	1,353.2	653.6
Miscellaneous Exp W/Off	6.3	2.1	0.0	0.0	0.0	0.0
Net Deferred Tax	11.4	18.7	45.9	80.1	67.4	434.8
Total Assets	2,556.8	2891.9	3193.4	4645.0	5109.5	4245.4

Cash Flow						
Particulars (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09
Opening Cash & Bank	3.2	437.8	927.9	923.8	943.5	660.3
Profit After Tax	331.2	585.4	662.9	1,292.4	1,352.6	1,148.4
Invt Income	(65.8)	(71.9)	(36.9)	(148.6)	(146.1)	(179.4)
Interest Paid	23.6	26.6	13.5	1.0	10.8	31.8
Miscellaneous Exp W/Off	4.3	4.2	2.1	0.0	0.0	0.0
Depreciation	362.4	368.7	389.5	434.7	388.8	421.7
Deferred Taxation	23.9	(30.1)	(27.2)	(6.9)	22.5	(6.0)
Others	803.9	(32.7)	(78.4)	(8.8)	(241.0)	(700.0)
Change in Working Cap	(557.7)	122.5	(74.6)	(21.6)	(46.1)	1,624.1
CF - Operating Activities	925.8	972.6	850.9	1,542.2	1,341.6	2,340.6
Change in Fixed Assets	(387.4)	(203.4)	(338.4)	(1,077.6)	(1,069.6)	(912.7)
Change in Investments	(65.9)	(104.3)	(211.2)	(794.9)	132.8	1,311.4
Investment Income	65.8	71.9	36.9	148.6	146.1	179.4
CF - Investing Activities	(387.4)	(235.7)	(512.6)	(1,723.8)	(790.8)	578.2
Increase in Equity	94.1	41.3	10.4	(2.5)	(195.6)	(1,342.4)
Changes in Minority Interest	0.0	12.3	12.0	86.0	(99.8)	(27.6)
Changes in Borrowings	18.9	(61.1)	(119.5)	373.0	(146.4)	(298.9)
Interest Paid	(23.6)	(26.6)	(13.5)	(1.0)	(10.8)	(31.8)
Dividend Paid	(193.2)	(212.6)	(231.9)	(254.2)	(381.5)	(293.6)
CF - Financing Activities	(103.8)	(246.7)	(342.4)	201.4	(834.1)	(1,994.3)
Net Change in Cash	434.6	490.1	(4.2)	19.8	(283.3)	924.5
Closing Cash & Bank Bal	437.8	927.9	923.8	943.5	660.3	1,584.8

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip	NIIT
2. PPFAS ownership of the scrip	NO
3. PMS ownership of the scrip	YES
	NO

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