

## NIIT Technologies Limited

CMP Rs. 78.0  
BUY

Q2 FY2009  
Result Update

NIIT Technologies has delivered above expected results with a topline growth of 5.3% Q-Q (12.5% Y-Y) and a PAT growth of 4.3% Q-Q (6.5% Y-Y). The Q-Q growth is impressive if one considers the impact of the higher hedging losses and salary hikes effected. Margin improvement in its subsidiary Room Solutions, which unveiled its new modular SOA based software is noteworthy. Non-linear business contributed 25% of the revenues v/s. 23% in the last quarter. Important event in the quarter was the receipt of a multi million dollar long term contract from British Airways. The first phase involving a shift from onsite to offshore would be functional towards the end of this fiscal and would call for some staff addition then. Total employee number de-grew by 21 to 4667 from 4888 at end of Q1 and 5118 at end of FY08. Utilization improved from 78% to 81% Q-Q. Offshoring increased by 1% to 39%.

There is so much that we like about this company. This extremely vertical & cost focused company avoids going for every other opportunity available. Extremely strong domain competence, especially in Travel & Insurance would shield it from any vendor consolidation threat and may possible even turn it to its advantage. NIIT Tech & IBM were the only 2 out of the 23 vendors that were retained by British Airways as a part of their restructuring in 2001. By offering integrated & SOA/ Platform based offerings, it is further strengthening its vertical command. Also, the company is an early mover towards Non-Linear offerings including SaaS, Managed Services, which provide for value addition & cost effectiveness to clients and higher margins for NIIT Technologies.

Finally the valuations. Over Rs. 9,000 Mn. run-rate company is available at a 50% market capitalization of Rs. 4,500 Mn. Consistent 25%+ ROEs on a low debt and a P/E of 3.3x its FY09E earnings. Not to forget the dividend yield of over 8%. Overall as a company focused on vertical specialization, value addition & tight cost control, NIIT Tech should come out as a long term winner. We recommend BUY with a target price of Rs. 130 based on 5x FY10E earnings of Rs. 26 per share.

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H109	H108	Y-Y(%)
Net Revenues	2,587.0	2,458.0	5.25%	2,299.0	12.53%	5,045.0	4,593.0	9.84%
Total Expenditure	2,128.0	2,002.0	6.29%	1,873.0	13.61%	4,130.0	3,742.0	10.37%
Operating Profit	459.0	456.0	0.66%	426.0	7.75%	915.0	851.0	7.52%
Other Income	81.0	62.0	30.65%	69.0	17.39%	143.0	131.0	9.16%
EBITDA	540.0	518.0	4.25%	495.0	9.09%	1,058.0	982.0	7.74%
Depreciation	104.0	112.0	-7.14%	103.0	0.97%	216.0	195.0	10.77%
EBIT	436.0	406.0	7.39%	392.0	11.22%	842.0	787.0	6.99%
Interest	0.0	0.0	0.00%	0.0	0.00%	0.0	0.0	0.00%
PBT	436.0	406.0	7.39%	392.0	11.22%	842.0	787.0	6.99%
Tax	65.0	51.0	27.45%	47.0	38.30%	116.0	89.0	30.34%
PAT before MI	371.0	355.0	4.51%	345.0	7.54%	726.0	698.0	4.01%
Minority Interest	4.0	4.0	0.00%	1.0	300.00%	8.0	3.0	166.67%
PAT after MI	367.0	351.0	4.56%	344.0	6.69%	718.0	695.0	3.31%
Equity Capital	587.1	587.1	0.00%	586.8	0.05%	587.1	586.8	0.05%
EPS	6.25	5.99	4.34%	5.87	6.47%	12.24	11.85	3.29%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H109	H108	Y-Y(bps)
OPM (%)	17.74%	18.55%	(80.9)	18.53%	(78.7)	18.14%	18.53%	(39.1)
EBITDA (%)	20.87%	21.07%	(20.0)	21.53%	(65.8)	20.97%	21.38%	(40.9)
EBIT (%)	16.85%	16.52%	33.6	17.05%	(19.7)	16.69%	17.13%	(44.5)
PAT (%)	14.19%	14.28%	(9.4)	14.96%	(77.7)	14.23%	15.13%	(90.0)

## Data Points

Revenue Mix - Geography-wise	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Americas	31.0%	30.0%	33.0%	31.0%	31.0%
EMEA <sup>^</sup>	50.0%	52.0%	47.0%	49.0%	51.0%
APAC	9.0%	10.0%	8.0%	11.0%	11.0%
India	10.0%	8.0%	13.0%	9.0%	7.0%
Total	100.0%	100.0%	101.0%	100.0%	100.0%

<sup>^</sup> Europe, Middle East & Africa

Revenue Mix - Vertical-wise	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
BFSI	42.0%	42.0%	44.0%	42.0%	45.0%
Transportation	28.0%	28.0%	25.0%	26.0%	24.0%
Retail & Manufacturing	13.0%	13.0%	13.0%	12.0%	12.0%
Others	17.0%	17.0%	18.0%	20.0%	19.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue Mix - On:Off	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Offshore	39.0%	38.0%	37.0%	38.0%	38.0%
Onsite	61.0%	62.0%	63.0%	62.0%	62.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue from Top Clients	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Top 5	34.0%	34.0%	36.0%	36.0%	36.0%
Top 10	46.0%	46.0%	46.0%	46.0%	47.0%
Top 20	60.0%	60.0%	59.0%	58.0%	60.0%

Significant New Customers	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
USA	1	1	1	0	2
EMEA	1	4	1	4	1
ROW	3	1	3	0	3
Total	5	6	5	4	6

Fresh Order Intake (Mn. \$)	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
USA	13	10	34	12	13
EMEA	46	24	31	25	25
ROW	16	9	16	22	11
Total	75	43	81	59	49
Executable over next 12 months	95	100	113	102	101
Revenue capacity utilization	81.0%	78.0%	78.0%	78.0%	77.0%

People	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Total Resource	4,667	4,888	5,118	5,002	4,789
Direct People - Onsite	23.0%	25.0%	23.0%	23.0%	22.0%
Direct People - Offshore	77.0%	75.0%	77.0%	77.0%	78.0%

## NIIT Tech : Financials

Earnings Statement				
Particulars (Rs. Mn.)	FY07	FY08	FY09E	FY10E
Total Revenues	8,858.6	9,415.1	9,885.9	10,577.9
- Growth (%)	45.8%	6.3%	5.0%	7.0%
Total Expenditure	7,056.0	7,652.4	7,903.9	8,276.0
Operating Profit	1,802.6	1,762.7	1,982.0	2,301.9
- Growth (%)	56.0%	-2.2%	12.4%	16.1%
Other Income	148.6	146.1	147.9	171.8
EBITDA	1,951.2	1,908.8	2,129.9	2,473.6
- Growth (%)	63.6%	-2.2%	11.6%	16.1%
Depreciation	434.7	388.8	485.9	585.9
EBIT	1,516.6	1,520.0	1,644.0	1,887.8
Interest	1.0	10.8	44.7	44.7
PBT	1,515.6	1,509.2	1,599.3	1,843.1
Tax	185.3	137.7	196.4	265.5
PAT Before MI	1,330.2	1,371.5	1,402.9	1,577.6
Minority Interest	37.8	18.9	19.3	21.7
PAT	1292.44	1352.61	1383.58	1555.89
- Growth (%)	95.0%	4.7%	2.3%	12.5%

Ratio Analysis				
Particulars	FY07	FY08	FY09E	FY10E
OPM (%)	20.3%	19%	20%	22%
EBITDA (%)	22.0%	20%	22%	23%
PAT (%)	14.6%	14%	14%	15%
Interest Cover (x)	1,512.9	140.8	36.8	42.2
EPS (Rs.)	22.0	23.0	23.3	26.0
P/E (x)	3.6	3.4	3.4	3.0
P/BV (x)	1.3	1.1	0.9	0.7
BVPS (Rs.)	63.1	75.2	89.7	106.1
Market Cap (Rs. Mn.)	4,633.4	4,637.2	4,683.5	4,730.4
M Cap/Sales (x)	0.5	0.5	0.5	0.4
EV (Rs. Mn.)	4,483.1	4,623.7	4,201.8	3,599.6
EV/EBITDA (x)	2.3	2.4	2.0	1.5
EV/Sales (x)	0.5	0.5	0.4	0.3
ROCE (%)	32.6%	29.5%	27.2%	26.6%
RONW (%)	34.9%	30.6%	26.0%	24.5%
Debt/Equity Ratio (x)	0.2	0.1	0.1	0.1
Inventory T/o Days	0.1	0.2	0.2	0.2
Debtors T/o Days	75.6	83.3	80.0	80.0
Advances T/o Days	17.4	27.1	27.0	27.0
Creditors T/o Days	51.6	59.9	60.0	60.0
Working Cap T/o Days	64.6	51.7	60.2	79.1
Fixed Assets T/o (Gross)	2.3	2.2	2.0	1.8
DPS (Rs.)	6.5	6.5	7.0	7.5
Dividend Payout (%)	19.7%	28.2%	30.0%	28.9%
Dividend Yield (%)	8.2%	8.2%	8.9%	9.5%

Balance Sheet				
Particulars (Rs. Mn.)	FY07	FY08	FY09E	FY10E
Equity Capital	391.0	587.0	592.9	598.8
ESOP	0.2	0.0	0.0	0.0
Share Appl. money	3.7	2.4	2.4	2.4
Reserves	3,307.5	3,823.7	4,721.8	5,752.2
Shareholders Funds	3,702.5	4,413.1	5,317.1	6,353.5
Minority Interest	149.3	49.5	68.8	90.5
Borrowed Funds	793.2	646.8	496.8	496.8
<b>Total Liabilities</b>	<b>4,645.0</b>	<b>5,109.5</b>	<b>5,882.7</b>	<b>6,940.8</b>
Fixed Assets	1,530.2	2,377.5	2,873.3	3,287.4
Investments	1,444.3	1,311.4	1,311.4	1,311.4
Current Assets				
Inventory	2.9	5.6	5.0	5.0
Sundry Debtors	1,860.6	2,178.3	2,196.9	2,350.6
Loans & Advances	427.7	710.0	741.4	793.3
Cash & Bank Balance	943.5	660.3	978.6	1,627.6
Other Current Assets	146.5	93.4	98.1	105.0
Current Liabilities				
Liabilities	1,269.5	1,565.9	1,647.6	1,763.0
Provisions	521.4	728.7	718.4	793.8
Net Current Assets	1,590.3	1,353.2	1,653.9	2,324.8
Net Deferred Tax	80.1	67.4	44.1	17.2
<b>Total Assets</b>	<b>4,645.0</b>	<b>5,109.5</b>	<b>5,882.7</b>	<b>6,940.8</b>

Cash Flow				
Particulars (Rs. Mn.)	FY07	FY08	FY09E	FY10E
Opening Cash & Bank	923.8	943.5	660.3	978.6
Profit After Tax	1,292.4	1,352.6	1,383.6	1,555.9
Invnt Income	(148.6)	(146.1)	(147.9)	(171.8)
Interest Paid	1.0	10.8	44.7	44.7
Depreciation	434.7	388.8	485.9	585.9
Deferred Taxation	(6.9)	22.5	23.3	26.9
Others	(8.8)	(241.0)	(70.5)	(76.3)
Change in Working Cap	(21.6)	(46.1)	17.6	(21.8)
CF - Operating Activities	1,542.2	1,341.6	1,736.6	1,943.4
Change in Fixed Assets	(1,077.6)	(1,069.6)	(981.7)	(1,000.0)
Change in Investments	(794.9)	132.8	0.0	0.0
Investment Income	148.6	146.1	147.9	171.8
CF - Investing Activities	(1,723.8)	(790.8)	(833.8)	(828.2)
Increase in Equity	(2.5)	(195.6)	5.9	5.9
Changes in Minority Interest	86.0	(99.8)	19.3	21.7
Changes in Borrowings	373.0	(146.4)	(150.0)	0.0
Interest Paid	(1.0)	(10.8)	(44.7)	(44.7)
Dividend Paid	(254.2)	(381.5)	(415.0)	(449.1)
CF - Financing Activities	201.4	(834.1)	(584.5)	(466.2)
Net Change in Cash	19.8	(283.3)	318.3	649.0
Closing Cash & Bank Bal	943.5	660.3	978.6	1,627.6

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