

NIIT Technologies LimitedCMP Rs. 130.0
BUYResult Update
Q2FY10

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NIIT Tech has reported a dismal topline performance, with 12.5% decline compared to last year's second quarter (Rs. 2263mn over Rs. 2587mn). A similar scale decline can be observed in the bottomline. Operating margins have improved to ~20% from ~18% (YoY) owing to their cost cutting drive which has led to a reduction of ~107 employees this quarter. This brings the total number of employees to 3,917 from 4,024 last quarter. On a Y-o-Y basis, they have managed to trim down their workforce by 750 employees.

The company has reported a revenue loss of ~Rs. 154 mn on account of hedging losses. Their outstanding hedges for the current year are upto \$138 mn at an effective rate of Rs.42.18. Also the decline in PAT can be attributed to the lower contribution from Other Income (Rs. 51mn over Rs. 81mn in Sept 08).

The business metrics haven't changed significantly since the last quarter, except for a notable increase in offshore revenue to 43% of total as against 41% last quarter. This might be on account of clients opting for more offshore work than onsite. Yet, there has been an addition of 54 employees onsite, which might be an indicator of an expected increase in demand for onsite work.

The company won 3 new clients this quarter with a fresh order intake of \$50Mn & orders worth \$105mn are expected to be executable over the next 12 months. Capacity utilization figures would be higher as past quarters on account of employee reduction comparable to the fresh order intake.

NIIT – Tech is one of the leaders in the Travel, Tourism & Logistics vertical. The company has been mired with low expectations on account of its hedging policies, low growth Y-o-Y & at the same time highly uncertain outlook. None of this should affect the fact that the uncertainties will even themselves out over time, yet the returns have been as high as ~24% annually. Although no one can predict where the economy goes, but outsourcing IT services is necessary for optimal cost management. With its niche in their verticals & their foray into the SaaS (Software as a Service) model for their TTL as well as Insurance clients they are probably well placed than many peers in the next wave of IT cost / vendor rationalization.

Valuation

- Return on Equity is ~24% annually
- Dividend Yield of ~4% annually
- In spite of revenue de-growth & hedging losses, it has been a debt free company.
- Operating profit margins – 17% annually
- NIIT Tech trades 0.8 times Sales (TTM)
- NIIT Tech trades at a P/E of ~6.5 (TTM)

On the basis of the overall business outlook as well as the statistical attractiveness of the business, we recommend a BUY for NIIT Tech.

NIIT : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	12M'09	12M'08	Y-Y(%)
Net Revenues	2,263.0	2,182.0	3.71%	2,587.0	-12.52%	9,800.0	9,416.0	4.08%
Total Expenditure	1,804.0	1,788.0	0.89%	2,128.0	-15.23%	8,035.0	7,652.0	5.01%
Operating Profit	459.0	394.0	16.50%	459.0	0.00%	1,765.0	1,764.0	0.06%
Other Income	15.0	(84.0)	-117.86%	81.0	-81.48%	47.0	135.0	-65.19%
EBITDA	474.0	310.0	52.90%	540.0	-12.22%	1,812.0	1,899.0	-4.58%
Depreciation	90.0	95.0	-5.26%	104.0	-13.46%	423.0	389.0	8.74%
EBIT	384.0	215.0	78.60%	436.0	-11.93%	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	384.0	215.0	78.60%	436.0	-11.93%	1,389.0	1,510.0	-8.01%
Tax	62.0	37.0	67.57%	65.0	-4.62%	225.0	137.0	64.23%
PAT before MI	322.0	178.0	80.90%	371.0	-13.21%	1,164.0	1,373.0	-15.22%
Minority Interest	1.0	2.0	-50.00%	4.0	-75.00%	16.0	19.0	-15.79%
PAT after MI	321.0	176.0	82.39%	367.0	-12.53%	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	5.47	3.00	82.33%	6.25	-12.48%	19.55	23.06	-15.24%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(bps)	Q2FY09	Y-Y(bps)	12M'09	12M'08	Y-Y(bps)
OPM (%)	20.28%	18.06%	222.6	17.74%	254.0	18.01%	18.73%	(72.4)
EBITDA (%)	20.95%	14.21%	673.8	20.87%	7.2	18.49%	20.17%	(167.8)
EBIT (%)	16.97%	9.85%	711.5	16.85%	11.5	14.17%	16.04%	(186.3)
PAT (%)	14.18%	8.07%	611.9	14.19%	(0.2)	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)	5.7	13.0	11.5	5.9	5.7	6.7
P/BV (x)	1.0	3.3	2.8	2.1	1.7	2.0
BVPS (Rs.)	132.3	39.7	46.7	63.1	75.2	66.0
Market Cap (Rs. Mn.)	1,898.6	7,594.6	7,594.6	7,683.3	7,689.5	7,693.2
M Cap/Sales (x)	0.4	1.4	1.3	0.9	0.8	0.8
EV (Rs. Mn.)	2,061.6	7,206.3	7,091.0	7,532.9	7,676.0	6,456.4
EV/EBITDA (x)	2.6	7.0	5.9	3.9	4.0	3.5
EV/Sales (x)	0.4	1.3	1.2	0.9	0.8	0.7
Cash per share		35.3	40.7	61.1	33.6	27.0
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 (%)	15.3%	4.2%	4.6%	5.0%	5.0%	3.8%

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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