

NIIT Technologies (NIITEC)

₹ 220

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 170 to ₹ 200
EPS (FY12E)	Changed from ₹ 31.7 to ₹ 34.7
EPS (FY13E)	Changed from ₹34.7 to ₹37.2
RATING	Unchanged

Stable quarter but uncertainty persists...

NIIT Tech reported numbers, which were ahead of our estimates. Reported revenues grew 16.6% QoQ and 44% YoY to ₹ 433 crore vs. our ₹ 412.9 crore estimate (11.3% QoQ growth estimate). Revenue growth was aided by Proyecta and Morris, which contributed ₹ 24.3 crore and ₹ 15.1 crore, respectively while currency had a positive impact of 8.9%. The 12-month executable order book increased to \$245 million from \$232 million at the end of Q2FY12. Despite reporting better-than-expected numbers, the management alluded to weakness in banking finance & insurance (BFI) clients spending led by either vendor rationalisation, impact of natural calamities on insurers or uncertainty in Europe. This was the rationale for our HOLD rating and continues to be so.

Result analysis

Reported revenues grew 16.6% QoQ to ₹ 433 crore compared to our ₹ 412.9 crore estimate. EBITDA margins increased 319 bps QoQ led by rupee depreciation (up 183 bps) and absence of one-time cost of ₹ 11.9 crore booked in Q2. Reported PAT of ₹ 64 crore was also above our ₹ 47.8 crore estimate aided by other income of ₹ 17.4 crore, higher relative to our estimate.

Vertical revenue growth trends

Geographically, the US grew 16.7% QoQ vs. 12.9% QoQ growth in Q2 while Europe grew 19.8% QoQ vs. 15.9% QoQ in Q2. APAC and India grew 16.7% and 7%, respectively. BFI contribution declined 3 percentage points (pp) in Q3 and grew 7.7% QoQ. Noticeably, fiscal year-to-date BFI contribution is down 6 pps from 42% in Q1. Transportation contribution increased 2 pps to 38% and grew 23.2% QoQ. Together, BFI & transportation account for 74% of revenues.

Valuation

We are raising our estimates and expect revenues/EPS to grow at 30.7%/12.9% YoY in FY12E and 23.6%/7.09% YoY in FY13E, respectively. This translates to 29.6%/20% CAGR growth in revenue/EPS during FY10-FY13E. We have valued NIIT Tech at 5.4x (4.9x earlier) our FY13E EPS estimate of ₹ 37.2 to arrive at our target price of ₹ 200 (₹ 170 earlier). However we maintain our **HOLD** rating.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12	Q3FY12E	Q2FY12	Q3FY11	QoQ(Ch %)	YoY(Ch%)
Net Sales	433.0	412.9	371.1	300.6	16.6	44.0
EBITDA Margin (%)	18.0	17.5	14.8	20.7	319 bps up	271 bps dip
Depreciation	9.2	8.7	8.3	7.1	10.8	29.6
Other Income	17.4	1.0	11.5	2.7	51.3	544.4
Reported PAT	64.0	47.8	43.4	47.9	47.6	33.6
EPS (₹)	10.8	8.0	7.3	8.1	48.5	32.8

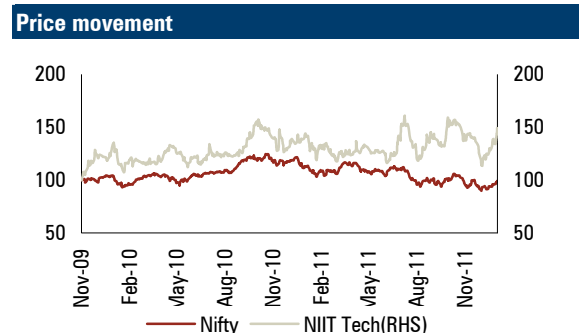
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 200
Target Period	: 12 months
Potential Upside	: -9%

Key Financials				
(₹ Crore)	FY10	FY11	FY12E	FY13E
Net Sales	914	1232	1611	1991
EBITDA	189	240	280	334
EBITDAmargin-%	20.7	19.5	17.4	16.8
Net profit	126	182	206	221
EPS (₹)	21.5	30.7	34.7	37.2

Valuation summary				
	FY10	FY11	FY12E	FY13E
PE (x)	10.2	7.2	6.3	5.9
Target PE	9.3	6.5	5.8	5.4
EV to EBITDA(x)	6.1	4.8	4.1	3.5
RONW (%)	21.8	24.4	22.7	20.6
ROCE (%)	29.7	30.6	28.3	27.7

Stock data	
Market cap (₹ crore)	₹ 1308 Crore
Debt (Dec-11)	₹ 60 Crore
Cash (Dec-11)	₹ 208 Crore
EV	₹ 1159 Crore
52 week H/L (₹)	245/164
Equity capital	59.4
Face value	10.0
DII Holding (%)	12.4
FII Holding (%)	23.5



Analyst's name	
Abhishek Shindadkar	abhishek.shindadkar@icicisecurities.com
Aishwariya KPL	aishwariya.kpl@icicisecurities.com

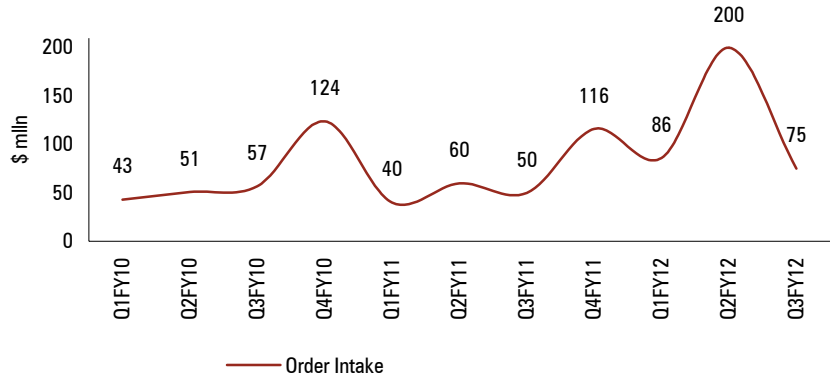
Order intake for the quarter was \$75 million with half of it coming from the EMEA region

The 12-month order executable order book increased to \$245 million from \$232 million at the end of Q2FY12

Revenues continue to be driven by the transportation vertical as BFI contribution to revenue continues to decline

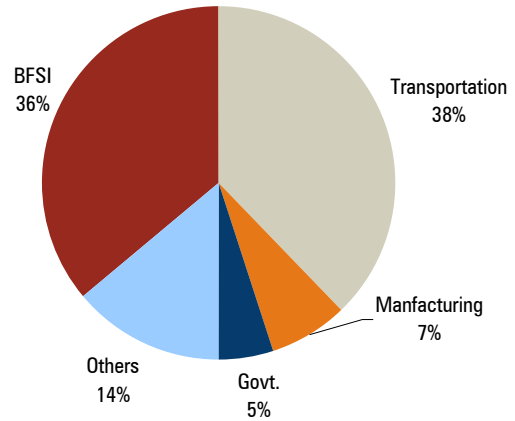
Geographically, the US grew 16.7% QoQ vs. 12.9% QoQ growth in Q2 while Europe grew 19.8% QoQ vs. 15.9% QoQ in Q2. APAC and India grew 16.7% and 7%, respectively

Exhibit 2: Order intake for Q1FY10-Q3FY12



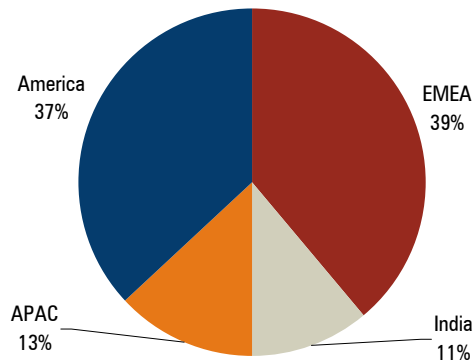
Source: Company, ICICIdirect.com Research

Exhibit 3: Revenue mix by verticals



Source: Company, ICICIdirect.com Research

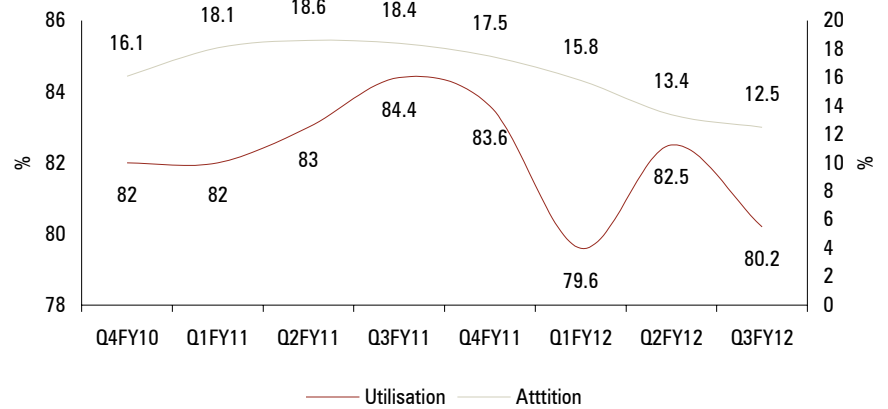
Exhibit 4: Revenue mix by geography



Source: Company, ICICIdirect.com Research

Attrition was at 12.5% vs. 13.4% in Q3FY12, which is one of the lowest in the industry. Utilisation levels have also dropped to 80.2% from 82.5%

Exhibit 5: Utilisation and attrition levels



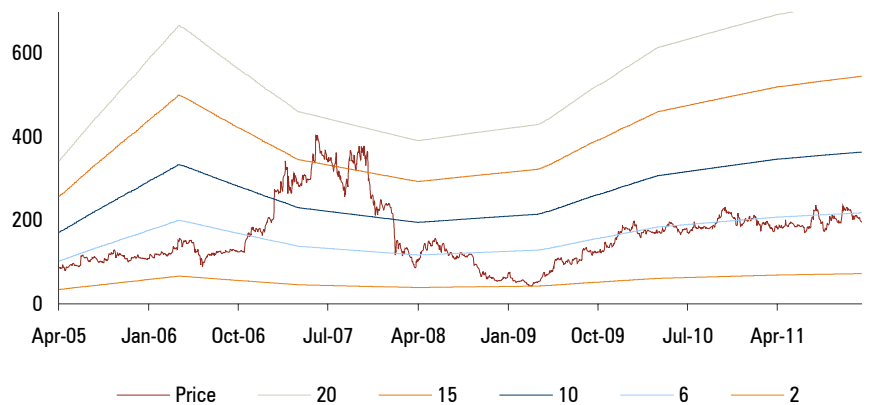
Source: Company, ICICIdirect.com Research

Valuation

We are raising our estimates and expect revenues/EPS to grow at 30.7%/12.9% YoY in FY12E and 23.6%/7.09% YoY in FY13E, respectively. This translates to 29.6%/20% CAGR growth in revenue/EPS during FY10-FY13E. We have valued NIIT Tech at 5.4x (4.9x earlier) our FY13E EPS estimate of ₹ 37.2 to arrive at our target price of ₹ 200 (₹ 170 earlier). However, we maintain our HOLD rating.

The stock is trading at 6.3x FY12E and 5.9x FY13E EPS estimate of ₹ 34.7 and ₹ 37.2, respectively

Exhibit 6: One Year forward PE chart (x)



Source: Company, ICICIdirect.com Research

Risks & Concerns

The macro remains uncertain and could alter the IT spending pattern in CY12. Further, though the rupee created tailwinds in Q3FY12, cross-currency volatility remains a key concern. A significant appreciation of the rupee from these levels could lead to estimate revisions.

Financial summary

Profit and loss statement

(₹crore)	FY10	FY11	FY12E	FY13E
Total Revenues	913.8	1,232.3	1,610.9	1,991.2
Growth (%)	(6.8)	34.9	30.7	23.6
Total Operating Expenditure	724.9	991.9	1,330.9	1,657.6
EBITDA	188.9	240.4	279.9	333.6
Growth (%)	7.0	27.3	16.4	19.2
Depreciation	36.0	31.5	34.6	42.6
Other Income	(10.9)	8.9	33.9	10.8
PBT before Exceptional Items	142.0	217.8	279.2	301.8
Less: Exceptional Items	-	-	-	-
PBT	142.0	217.8	279.2	301.8
Growth (%)	2.2	53.4	28.2	8.1
Total Tax	14.4	32.3	72.8	76.9
PAT before MI	127.6	185.5	206.4	224.9
Minority Interest	1.3	3.2	0.1	4.0
PAT	126.3	182.3	206.2	220.9
Growth (%)	10.0	44.3	13.1	7.1
EPS	21.5	30.7	34.7	37.2
EPS (Growth %)	10.0	42.9	12.9	7.1

Source: Company, ICICIdirect.com Research

Balance sheet

	FY10	FY11	FY12E	FY13E
Equity	59.3	59.3	59.4	59.0
Reserves & Surplus	521.0	688.5	850.1	1,015.4
Networth	579.8	747.8	909.5	1,074.4
Minority Interest	2.8	4.3	14.1	18.1
Loans	21.7	11.0	47.1	39.1
Source of funds	604.3	763.1	970.7	1,131.6
Net Block	185.3	189.3	383.8	400.7
CWIP	128.7	143.7	24.3	34.8
Debtors	185.1	287.1	427.7	433.6
Cash & Cash equivalents	185.1	163.7	179.7	303.3
Other Current Assets(OCA)	125.0	215.7	315.5	330.0
Current liabilities	(220.0)	(250.8)	(370.7)	(380.9)
Deferred tax assets (DTA)	10.7	14.4	21.3	21.3
Application of funds	604.3	763.1	970.7	1,131.6

Source: Company, ICICIdirect.com Research

Cash flow statement

	FY10	FY11	FY12E	FY13E
Net profit before Tax	142.0	217.8	279.2	301.8
Depreciation	36.0	31.5	34.6	42.6
(inc)/dec in Current Assets	(3.8)	(184)	(240.4)	(20.5)
(inc)/dec in current Liabilities	5.1	49.9	-	-
CF from operations	147.5	250.1	118.2	258.4
Other Investments	(45.2)	6.0	-	-
(Purchase)/Sale of Fixed Assets	(49.0)	(50.2)	(29.7)	(70.0)
CF from investing Activities	-92.5	-37.4	-24.0	-66.0
Inc / (Dec) in Equity Capital	0.6	6.5	-	-
Inc / (Dec) in sec.loan Funds	(10.7)	(11.7)	(36.1)	(8.0)
Dividend & Dividend tax	(48.8)	(48.7)	(55.6)	(55.6)
Interest Paid on Loans	(0.8)	(0.7)	(3.3)	(5.2)
CF from Financial Activities	-60.7	-54.9	-22.9	-68.8
Cash generating during the year	(5.7)	(25.9)	71.3	123.6
Opening Balance Adjustments	-	-	-	-
Cash on Account of New Subsid	-	-	-	-
Effect of Exchange Rates	(9.8)	143.0	-	-
Opening cash balance	158.5	143.0	119.4	190.7
Closing cash	143.0	119.4	190.7	303.3

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	21.5	30.7	34.7	37.2
Cash EPS	7.5	7.0	6.9	7.1
BV	98.6	126.1	153.0	180.8
DPS	7.0	7.5	8.0	8.0
Cash Per Share	26.7	24.1	20.1	32.1
Operating Ratios (%)				
EBITDA Margin	20.7	19.5	82.6	83.2
PBT / Total Operating income	15.5	17.7	17.3	15.2
PAT Margin	13.8	14.8	12.8	11.1
Inventory days	-	0.0	0.0	0.0
Debtor days	-	75.6	69.9	81.0
Creditor days	-	0.0	0.0	0.0
Return Ratios (%)				
RoE	21.8	24.4	22.7	20.6
RoCE	29.7	30.6	28.3	27.7
RoIC	20.9	23.9	21.2	19.5
Valuation Ratios (x)				
P/E	10.2	7.2	6.3	5.9
EV / EBITDA	6.1	4.8	4.1	3.5
EV / Net Sales	1.3	0.9	0.7	0.6
Market Cap / Sales	1.4	1.1	0.8	0.7
Price to Book Value	2.0	1.6	1.3	1.1
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.2	0.1
Debt / Equity	0.0	0.0	0.1	0.0
Current Ratio	2.3	2.7	2.5	2.8
Quick Ratio	2.3	2.7	2.5	2.8

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (IT)

Infosys				Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)	
Idirect Code	INFTEC	CMP(₹)	2594.0	FY10	22742	109.5	23.7	16.8	32.8	37.9
		Target(₹)	2950.0	FY11	27501	119.5	21.7	14.7	22.9	30.2
Mcap(₹. crore)	148376.8	Upside(%)	13.7	FY12E	34291	147.1	17.6	12.0	21.6	31.0
				FY13E	37763	156.0	16.6	11.3	23.0	33.7
TCS										
Idirect Code	TCS	CMP(₹)	1075.0	FY10	30028	35.1	30.6	24.0	37.4	42.2
		Target(₹)	1150.0	FY11	37321	44.4	24.2	18.6	35.7	41.6
Mcap(₹. crore)	210399.0	% Upside	7.0	FY12E	48187	52.5	20.5	14.8	32.7	41.0
				FY13E	53759	57.4	18.7	13.0	32.4	36.5
HCL Technologies										
Idirect Code	HCLTEC	CMP(₹)	419.0	FY10	12564	18.9	22.2	11.2	18.5	15.3
		Target(₹)	450.0	FY11	15855	24.2	17.3	10.6	20.7	14.8
Mcap(₹. crore)	28722.5	Upside(%)	7.4	FY12E	19943	32.0	13.1	8.2	22.7	17.6
				FY13E	22614	35.0	12.0	7.3	22.5	16.1
Tech Mahindra										
Idirect Code	TECHM	CMP(₹)	610.0	FY10	1113	53.6	11.4	7.7	25.3	27.3
		Target(₹)	591.0	FY11	1134	49.4	12.3	8.8	23.6	22.7
Mcap(₹. crore)	7668.9	Upside(%)	(3.1)	FY12E	1292	61.8	9.9	8.3	18.9	22.6
				FY13E	5927	65.9	9.3	7.5	18.7	25.1
Wipro										
Idirect Code	WIPRO	CMP(₹)	404.0	FY10	27124	18.9	21.4	16.0	26.5	22.4
		Target(₹)	360.0	FY11	31066	21.6	18.7	14.4	24.2	21.4
Mcap(₹. crore)	98491.2	Upside(%)	(10.9)	FY12E	36116	24.0	16.9	12.0	22.0	21.4
				FY13E	40859	25.7	15.7	11.3	22.0	21.0
Rolta										
Idirect Code	ROLIND	CMP(₹)	69.8	FY10	1533	18.2	3.8	4.3	17.0	12.9
		Target(₹)	81.0	FY11	1805	15.9	4.4	3.5	19.0	14.1
Mcap(₹. crore)	1125.2	Upside(%)	16.0	FY12E	2048	20.2	3.5	3.0	18.7	15.9
				FY13E	2048	23.0	3.0	3.0	18.7	15.9
Mastek										
Idirect Code	MASTEK	CMP(₹)	91.1	FY09	943	52.5	1.7	4.0	31.3	24.4
		Target(₹)	90.0	FY10	714	25.2	3.6	-16.0	12.8	10.4
Mcap(₹. crore)	245.3	Upside(%)	(1.2)	FY11E	593	-13.1	NM	-5.4	NA	NA
				FY12E	644	-6.2	NM	5.9	NA	NA
NIIT										
Idirect Code	NIIT	CMP(₹)	43.0	FY10	1199	4.3	10.1	6.6	14.3	18.1
		Target(₹)	46.0	FY11	1273	5.2	8.2	6.7	16.7	16.7
Mcap(₹. crore)	709.9	Upside(%)	7.0	FY12E	1186	5.2	8.3	6.3	15.3	17.1
				FY13E	1331	6.4	6.7	5.3	17.0	16.5
Sasken Comm Ltd										
Idirect Code	SASCOM	CMP(₹)	108.1	FY10	574	26.6	4.1	1.0	14.4	18.3
		Target(₹)	115.0	FY11	546	25.8	4.2	1.1	13.2	16.9
Mcap(crore)	275.1	Upside(%)	6.4	FY12E	525	16.9	6.4	1.3	9.6	14.7
				FY13E	557	20.5	5.3	1.1	9.8	16.2
Mahindra Satyam										
Idirect Code	SATCOM	CMP(₹)	72.1	FY10	5481	NM	NM	24.0	NM	5.5
		Target(₹)	75.0	FY11	5145	NM	NM	13.6	NM	9.8
Mcap(crore)	8478.1	Upside(%)	4.1	FY12E	6375	7.3	29.1	6.9	15.6	16.3
				FY13E	7182	7.8	27.0	5.7	14.4	17.0

Source: Company, Reuters,, ICICIdirect.com Research

Exhibit 7: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
15-Dec-11	Initating coverage	187	170	HOLD
6-Jan-12	Q3FY12 Preview	189	170	HOLD
19-Jan-12	Q3FY12 Result Update	220	200	HOLD

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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