

NIIT Ltd. (NIIT)

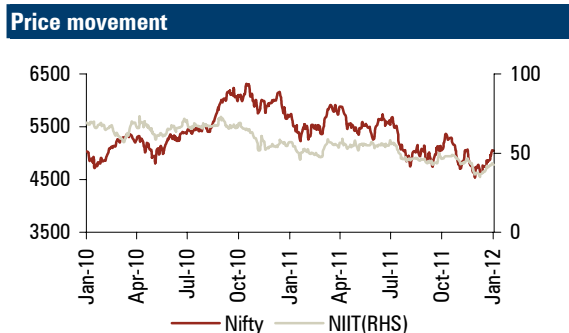
₹ 42

Rating matrix	
Rating	: Hold
Target	: ₹ 46
Target Period	: 12 months
Potential Upside	: 9%

Key Financials				
	FY10	FY11	FY12E	FY13E
Net Sales	1,199.3	1,272.9	1,189.2	1,334.1
EBITDA	156.7	153.1	148.4	190.7
EBITDA margin(%)	13.1	12.0	12.5	14.3
Net Profit	70.1	86.0	107.3	127.9
EPS	4.3	5.2	6.5	7.8

Valuation summary				
	FY10	FY11E	FY12E	FY13E
PE (x)	9.8	8.0	6.4	5.4
Target PE (x)	10.9	8.9	7.1	6.0
EV to EBITDA (x)	3.9	4.0	4.1	3.2
Price to book (x)	1.4	1.3	1.4	0.8
RoNW (%)	14.1	15.6	17.1	17.6
RoCE (%)	7.8	9.4	15.1	16.3

Stock data	
Market Capitalisation	₹ 691 Crore
Debt (Dec-11)	₹ 110 Crore
Cash (Dec-11)	₹ 188 Crore
EV	₹ 613 Crore
52 week H/L (₹)	61/35
Equity capital	₹ 33 crore
Face value	₹ 2
DII Holding (%)	10.9
FII Holding (%)	26.6



Analyst's name	
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WHAT'S CHANGED...

PRICE TARGET	Changed from ₹48 to ₹46
EPS (FY12E)	Changed from ₹5.2 to ₹6.5
EPS (FY13E)	Changed from ₹6.4 to ₹7.8
RATING	Unchanged

Baby steps in the right direction...

NIIT reported its Q3FY12 revenues and PAT ahead of our estimates but EBITDA margins were below. Revenues declined 16.8% YoY to ₹ 250.1 crore ahead of our ₹ 228.7 crore estimate while EBITDA margins of 10% were below our 15.8% estimate. The net income beat (₹ 40.7 crore reported vs. our ₹ 19.6 crore estimate) was aided by other income gains of ₹ 165.2 crore. During the quarter, NIIT repaid ₹ 287-crore debt aided by divestiture of the Element K business. As a reminder, NIIT sold the Element K business for \$110 million and received pre-tax proceeds of \$96.4 million adjusted for transaction expenses. Tax liability from this transaction would be \$23.9 million. Break-up of this includes \$20 million tax payable in the US and \$3.9 million as the withholding tax, which has been paid. NIIT's balance sheet now carries ~₹ 110 crore of non convertible debentures (NCD) due for maturity since April 2012 and spread over three years. We are raising our FY13E EPS estimate as net of tax interest cost could be lower by ₹ 1.3/share. Though NIIT's baby steps are in the right direction, we are maintaining our HOLD rating as refilling of lost growth stays crucial.

Operating metric highlights

Revenues from the individual learning solutions (ILS) business grew 11% YoY to ₹ 132.7 crore with EBITDA margins of 13% vs. 17% in Q3FY11. The ILS pending order book stands at ₹ 177.4 crore with 65% of it executable over the next 12 months. The school learning solutions (SLS) business grew 1% YoY to ₹ 36.8 crore with EBITDA margins of 3.5% vs. 13% in Q3FY11. SLS fresh order intake was ₹ 20.4 crore taking the order backlog executable over 12 months to ₹ 136.6 crore. Corporate learning solutions (CLS) declined by 44.3% YoY to ₹ 80.5 crore with EBITDA margins of 10% vs. 8% in Q3FY11. CLS order intake was \$21.2 million taking the pending order book to \$ 47.6 million with 50% of it executable in the next 12 months.

Valuation

We expect revenues, EBITDA & earnings to grow at a modest 3.6%, 6.8% and 22.2% CAGR during FY10-FY13E, respectively. We continue to value NIIT on an SOTP basis with an overall EV/EBITDA target multiple of 2.2x on our FY13E EBITDA i.e. with a target price of ₹ 46 and maintain our **HOLD** rating as refilling of lost growth stays crucial.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12	Q3FY12E	Q2FY12	Q3FY12	QoQ(Ch %)	YoY(Ch%)
Net Sales	250.1	228.7	383.8	300.7	(34.8)	(16.8)
EBITDA Margin (%)	10.0	15.8	14.6	12.3	455 bps dip	227 bps dip
Depreciation	20.0	15.1	20.0	22.2	-	(9.9)
Other Income	3.8	(2.8)	(9.2)	(8.3)	140.9	145.4
Reported PAT	40.7	19.6	30.2	12.9	34.8	215.5
EPS (₹)	2.5	1.2	1.8	0.8	35.2	215.5

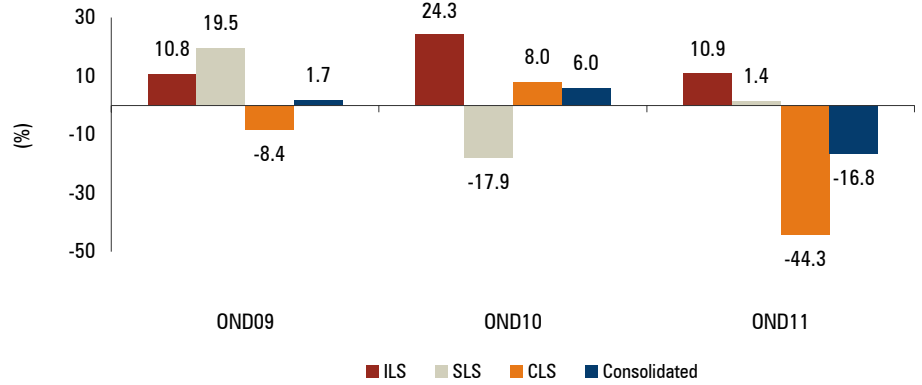
Source: Company, ICICIdirect.com Research

Growth was tepid across verticals with CLS excluding Element-K creating a drag

ILS, SLS and CLS had EBITDA margins of 13.1%, 3.5% and 9.6%, respectively. Divestiture of Element-K led to an improvement in CLS margins while SLS margins were impacted by the government school portfolio

ILS, SLS and CLS contributed 53.5%, 14.7% and 32.2% to revenues, respectively. CLS contribution was impacted by the Element-K divestiture

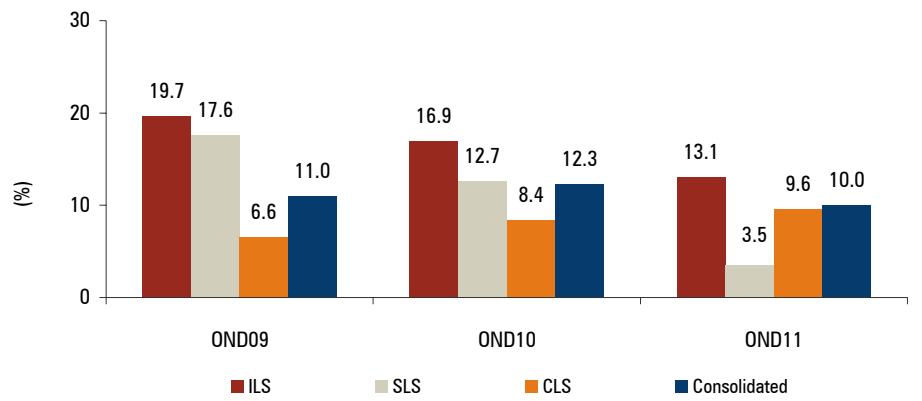
Exhibit 2: Segment wise revenue growth trend



Source: Company, ICICIdirect.com Research

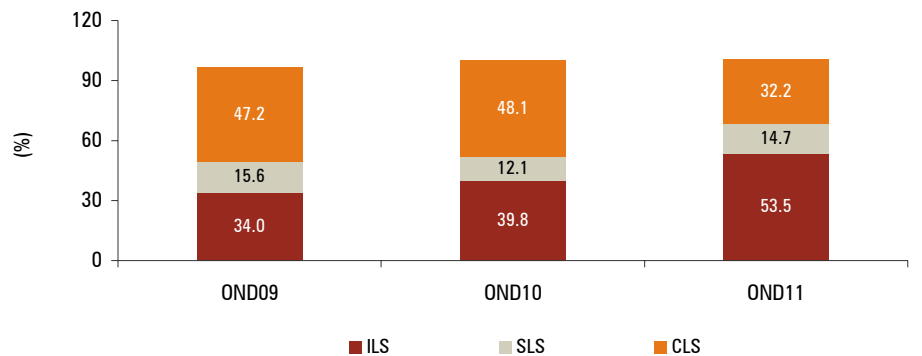
OND – October November December

Exhibit 3: Segment wise EBITDA margins trend



Source: Company, ICICIdirect.com Research

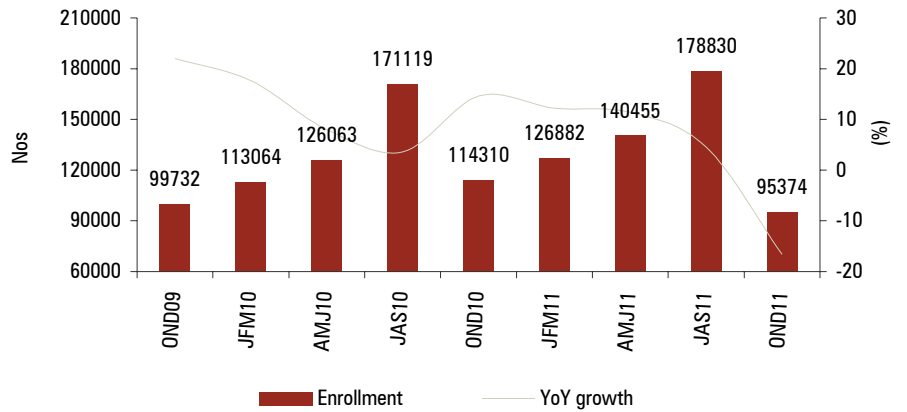
Exhibit 4: Revenue mix trend



Source: Company, ICICIdirect.com Research

Enrolments declined ~47% QoQ and ~17% YoY to 95,374 vs. 1, 78,830 in Q2FY12. Short-term modular enrolments were up 14% while banking career enrolments were up 20%

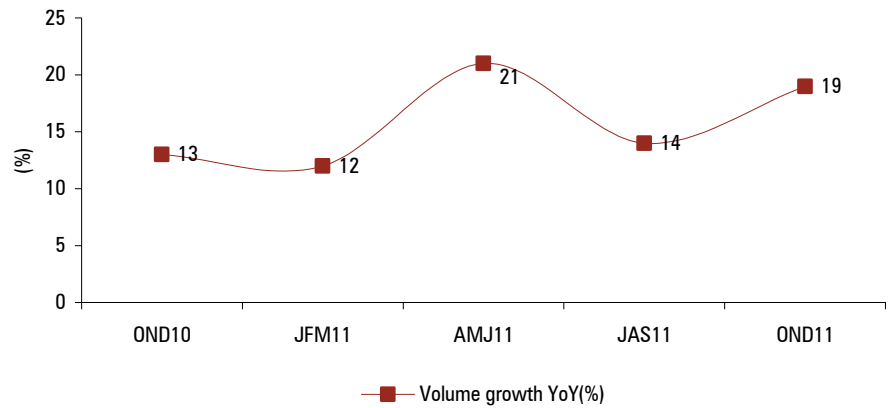
Exhibit 5: ILS-IT enrolment growth



Source: Company, ICICIdirect.com Research

The CLS revenue decline was arrested by volume growth of 19%

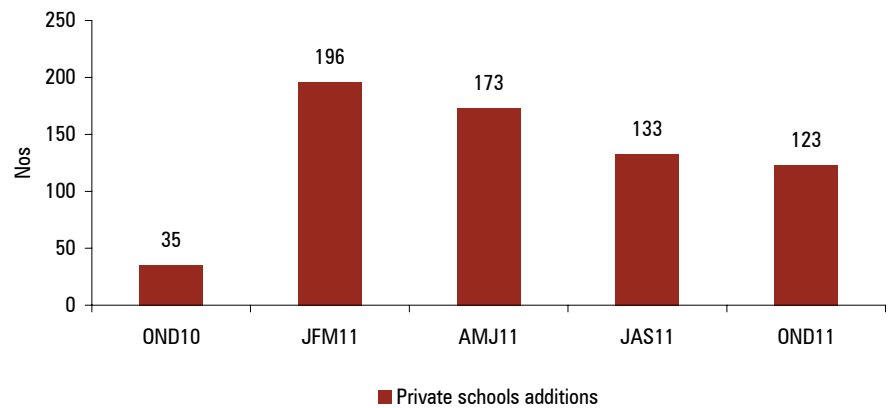
Exhibit 6: CLS volume growth trends



Source: Company, ICICIdirect.com Research

Total 123 private schools were added this quarter and contributed 47% to the SLS business revenues

Exhibit 7: Private schools addition trends



Source: Company, ICICIdirect.com Research

The company has won SLS orders worth ₹ 20.4 crore. CLS fresh order intake stood at ~US\$21.2 million taking the pending order book to \$47.6 million

Exhibit 8: Order book status

	OND11	OND10	JAS11	YoY (%)	QoQ (%)
School Learning Solution (in ₹ crore)					
Fresh order	20.4	14.2	148.0	43.7	-86.2
Pending order	455.4	442.4	471.8	2.9	-3.5
Executable over next 12 months (%)	30	30	31		
Corporate Learning Solution (in USD million)					
Fresh order	21.2	33.1	27.9	-36.0	-24.0
Pending order	47.6	92.5	77.8	-48.5	-38.8
Executable over next 12 months (%)	50.0	58.0	62.0		

Source: Company, ICICIdirect.com Research

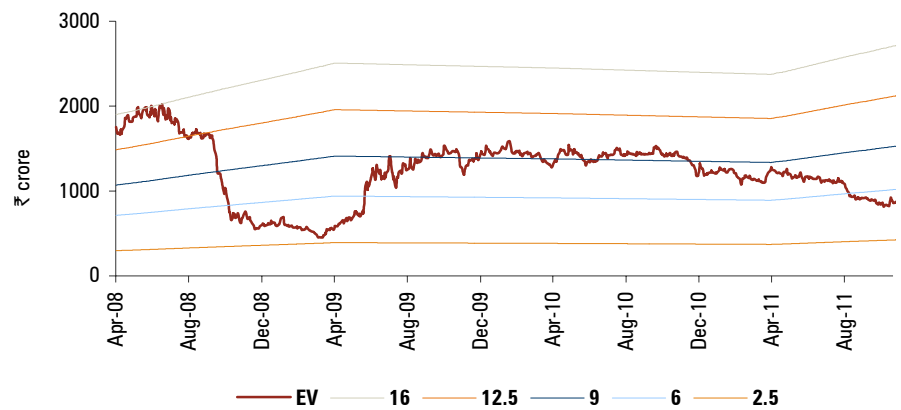
Exhibit 9: Segmental expectation

₹ crore	FY10	FY11	FY12E	FY13E
ILS				
Revenue	427.5	504.9	565.1	641.3
YOY (% growth)	7.4	18.1	11.9	13.5
EBITDA	98.6	97.4	96.6	131.3
EBITDA (%)	23.1	19.3	17.1	20.5
SLS				
Revenue	200.0	148.1	158.0	179.8
YOY (% growth)	44.6	-26.0	6.7	13.8
EBITDA	29.6	16.9	13.9	19.1
EBITDA (%)	14.8	11.4	8.8	10.6
CLS				
Revenue	542.2	583.6	466.0	510.8
YOY (% growth)	-6.3	7.6	-20.1	9.6
EBITDA	43.7	47.2	41.9	44.1
EBITDA (%)	8.1	8.1	9.0	8.6
New business				
Revenue	29.6	36.3	NA	NA
YOY (% growth)	-11.4	0.0	NA	NA
EBITDA	-15.2	-8.4	NA	NA
EBITDA (%)	-51.4	-23.1	NA	NA
SBS				
Revenue	NA	NA	0.1	2.2
YOY (% growth)	NA	NA	NA	NM
EBITDA	NA	NA	-4.0	-38.0
EBITDA (%)	NA	NA	NM	NM
Consolidated				
Revenue	1199.3	1272.9	1189.2	1334.1
YOY (% growth)	4.4	6.1	-6.6	12.2
EBITDA	156.7	153.1	148.4	190.7
EBITDA (%)	13.1	12.0	12.5	14.3

Source: Company, ICICIdirect.com Research

The stock is currently trading at an EV/EBITDA multiple of 6.4x and 5.4x its FY12E and FY13E EBITDA, respectively

Exhibit 10: One year forward EV/EBITDA(x)



Source: Company, ICICIdirect.com Research

Valuation

We expect revenues, EBITDA & earnings to grow at a modest 3.6%, 6.8% and 22.2% CAGR during FY10-FY13E, respectively. We continue to value NIIT on an SOTP basis with an overall EV/EBITDA target multiple of 2.2x on our FY13E EBITDA i.e. with a target price of ₹ 46 and maintain our HOLD rating as refilling of lost growth stays crucial.

Exhibit 11:

FY13E (₹ crore)	EBITDA	Target EV/EBITDA (X)	Target EV
ILS	131.3	2.5	328.2
SLS	19.1	2.0	38.2
CLS	44.1	1.5	66.1
SBS	-38.0	NA	NA
Target EV for NIIT Ltd			432.5
Debt			110.0
Cash & Cash equivalent			188.0
Target Mcap for NIIT			510.5
Value per share for NIIT Ltd (₹)			31.0
Value due to NIIT technologies			
Current price (₹)	210.0		
Holding discount	20.0		
No of shares held by NIIT(crore)	1.5		
Value of held equity	252.0		
Value per share of held equity	15.3		
Target price for NIIT Ltd	46.4		

Source: Company, ICICIdirect.com Research

Risks & concern

NIIT's core revenue/earnings growth remains tepid. Divestiture of Element K led to the Q3 beat. However, refilling of lost revenues of the Element-K business remains crucial. Rupee depreciation created marginal tailwinds in Q3FY12 for the CLS business and significant appreciation of the average rupee/dollar rate from current levels could negatively impact the same.

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	1,199.3	1,272.9	1,189.2	1,334.1
Growth (%)		6	-7	12
Total Operating Expenditure	1,166	1,120	1,041	1,143
EBITDA	157	153	148	191
Growth (%)		-2	-3	28
Depreciation	75	85	83	89
Other Income	-33	-18	151	89
PBT	49	50	216	115
Total Tax	11	9	154	32
PAT	70	86	107	128
Growth (%)		23	25	19
EPS (₹)	4.3	5.2	6.5	7.8

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	33	33	33	33
Reserve and Surplus	463	517	595	694
Total Shareholders funds	496	550	628	727
Total Debt	405	366	81	59
Minority interest	2	3	3	3
Others	8	7	56	51
Total Liabilities	911	925	768	839
Assets				
Gross block	814	877	821	891
Ac.depreciation	322	397	480	569
Net Block	492	480	341	322
CWIP	45	62	62	62
Investments	127	164	109	109
Inventory	13	15	13	15
Debtors	340	390	399	454
Other Current Assets	224	253	274	320
Cash	62	53	71	90
Total Current Assets	638	710	756	879
Current liabilities	379	477	463	510
Provisions	42	45	42	27
Total Current Liabilities	421	522	505	536
Net Current Assets	217	188	252	342
Application of Funds	911	925	768	839

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	70	86	107	128
Add: Depreciation	75	85	83	89
(Inc)/dec in Current Assets	-108	-104	-38	-90
Inc/(dec) in CL and Provisions	-30	103	-17	32
Taxes paid	-13	-22	-154	-32
CF from operating activities	21	132	241	127
(Inc)/dec in Investments	18	49	151	14
(Inc)/dec in Fixed Assets	-64	-108	-60	-70
CF from investing activities	-46	-51	91	-56
Issue/(Buy back) of Equity	3	2	0	0
Inc/(dec) in loan funds	-16	23	-285	15
Dividend paid & dividend tax	-25	-27	-29	-29
Inc/(dec) in debentures	60	-60	0	-37
Others	0	0	0	0
CF from financing activities	-9	-92	-314	-51
Net Cash flow	-35	-11	18	20
Exchange difference	22	2	0	0
Opening Cash	75	62	53	71
Closing Cash	62	53	71	90

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	4.3	5.2	6.5	7.8
Cash EPS	8.8	10.4	11.5	13.1
BV	30.0	33.3	38.0	44.0
DPS	1.4	1.5	1.5	1.5
Cash Per Share	3.7	3.2	4.3	5.5
Operating Ratios (%)				
EBITDA Margin	13.1	12.0	12.5	14.3
PBT / Total Operating income	4.1	3.9	18.2	8.6
PAT Margin	5.8	6.8	9.0	9.6
Inventory days	-	4.0	4.4	3.8
Debtor days	-	41.8	41.9	29.9
Creditor days	-	122.7	144.2	133.0
Return Ratios (%)				
RoE	14.1	15.6	17.1	17.6
RoCE	7.8	9.4	15.1	16.3
RoIC	7.7	9.3	14.0	15.2
Valuation Ratios (x)				
P/E	9.8	8.0	6.4	5.4
EV / EBITDA	3.9	4.0	4.1	3.2
EV / Net Sales	0.5	0.5	0.5	0.5
Market Cap / Sales	0.6	0.5	0.6	0.5
Price to Book Value	1.4	1.3	1.4	0.8
Solvency Ratios				
Debt/EBITDA	2.6	2.4	0.5	0.3
Debt / Equity	0.8	0.7	0.1	0.1
Current Ratio	1.5	1.4	1.5	1.6
Quick Ratio	1.5	1.3	1.5	1.5

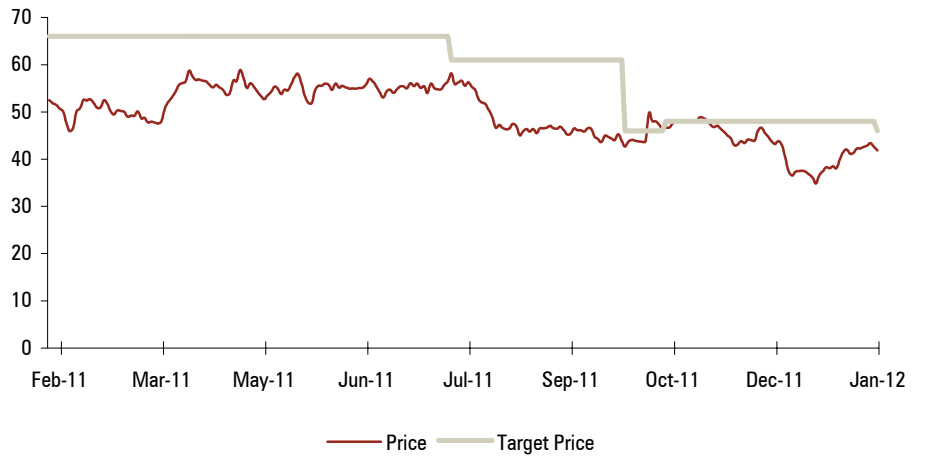
Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (IT)

Infosys			Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)		
Idirect Code	INFTEC	CMP(₹)	2620.0	FY10	22742	109.5	23.9	17.0	32.8	37.9
		Target(₹)	2950.0	FY11	27501	119.5	21.9	14.9	22.9	30.2
Mcap(₹. crore)	149864.0	Upside(%)	12.6	FY12E	34291	147.1	17.8	12.1	21.6	31.0
				FY13E	37763	156.0	16.8	11.5	23.0	33.7
TCS										
Idirect Code	TCS	CMP(₹)	1089.0	FY10	30028	35.1	31.0	24.3	37.4	42.2
		Target(₹)	1150.0	FY11	37321	44.4	24.5	18.9	35.7	41.6
Mcap(₹. crore)	213139.1	% Upside	5.6	FY12E	48187	52.5	20.7	15.0	32.7	41.0
				FY13E	53759	57.4	19.0	13.2	32.4	36.5
HCL Technologies										
Idirect Code	HCLTEC	CMP(₹)	427.0	FY10	12564	18.9	22.6	11.4	18.5	15.3
		Target(₹)	450.0	FY11	15855	24.2	17.6	10.8	20.7	14.8
Mcap(₹. crore)	29270.9	Upside(%)	5.4	FY12E	19943	32.0	13.3	8.3	22.7	17.6
				FY13E	22614	35.0	12.2	7.5	22.5	16.1
Tech Mahindra										
Idirect Code	TECHM	CMP(₹)	609.0	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)	7656.3	Upside(%)	(3.0)	FY12E	1292	61.8	9.9	8.3	18.9	22.6
				FY13E	5927	65.9	9.2	7.5	18.7	25.1
Wipro										
Idirect Code	WIPRO	CMP(₹)	419.0	FY10	27124	18.9	22.2	15.9	26.5	22.4
		Target(₹)	380.0	FY11	31066	21.6	19.4	14.4	24.2	21.4
Mcap(₹. crore)	102148.0	Upside(%)	(9.3)	FY12E	37446	24.5	17.1	11.8	22.5	21.7
				FY13E	40859	25.7	16.3	11.0	22.0	21.0
Rolta										
Idirect Code	ROLIND	CMP(₹)	70.0	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)	1128.4	Upside(%)	15.7	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(₹)	88.3	FY09	943	52.5	1.7	3.7	31.3	24.4
		Target(₹)	90.0	FY10	714	25.2	3.5	-15.0	12.8	10.4
Mcap(₹. crore)	237.7	Upside(%)	2.0	FY11E	593	-13.1	NM	-5.0	NA	NA
				FY12E	644	-6.2	NM	5.6	NA	NA
NIIT Tech Ltd										
Idirect Code	NIITEC	CMP(₹)	208.0	FY10	914	21.5	9.7	5.8	21.8	29.7
		Target(₹)	180.0	FY11	1232	30.7	6.8	4.5	24.4	30.6
Mcap(crore)	1235.5	Upside(%)	(13.5)	FY12E	1611	34.7	6.0	3.9	22.7	28.3
				FY13E	1991	37.2	5.6	3.3	20.6	27.7
Sasken Comm Ltd										
Idirect Code	SASCOM	CMP(₹)	107.0	FY10	574	26.6	4.0	1.0	14.4	18.3
		Target(₹)	115.0	FY11	546	25.8	4.1	1.1	13.2	16.9
Mcap(crore)	272.4	Upside(%)	7.5	FY12E	525	16.9	6.3	1.2	9.6	14.7
				FY13E	557	20.5	5.2	1.1	9.8	16.2
Mahindra Satyam										
Idirect Code	SATCOM	CMP(₹)	72.6	FY10	5481	NM	NM	24.3	NM	5.5
		Target(₹)	75.0	FY11	5145	NM	NM	13.7	NM	9.8
Mcap(crore)	8542.8	Upside(%)	3.3	FY12E	6375	7.3	28.5	7.0	15.6	16.3
				FY13E	7182	7.8	26.5	5.7	14.4	17.0

Source: Company, Reuters,, ICICIdirect.com Research

Exhibit 12: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 13: Recent Releases

Date	Event	CMP	Target Price	Rating
6-Jul-11	Q1FY12 Preview	55	66	BUY
21-Jul-11	Q1FY12 Result Update	58	61	HOLD
5-Oct-11	Q2FY12 Preview	43	46	HOLD
17-Oct-11	Event update	50	46	HOLD
24-Oct-11	Q2FY12 Result Update	47	48	HOLD
6-Jan-12	Q3FY12 Preview	38	48	HOLD
24-Jan-12	Q3FY12 Result Update	42	46	HOLD

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

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;

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ANALYST CERTIFICATION

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