

NIIT TECHNOLOGIES

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New Ideas, More Value.™

FUNDAMENTAL REPORT INITIATING BUY-2ND FEBRUARY
2015

NIIT Technologies provides IT solutions to its customers located at North America, Europe, Japan, Asia and Australia. Incorporated in 1992, the company has presence in areas such as Application Development and Management and Enterprise Solutions including Managed Services and BPO.

The offers range of services in area of Banking, Financial Services and Insurance (BFSI), Travel, Transportation and Logistics (TTL), Retail and Distribution.

Services

Application Development Management– Company is engaged from application development to application management to application testing and application integration, data warehousing.

Packaged Implementations– Under this the company manages the entire program management cycle right from business analysis to application implementation, and subsequent maintenance and support of the application portfolio. Company provides SAP implementations services.

BPO– Company provides BPO services in area of Insurance, Financial Services, Market Research and Direct Marketing, Real Estate, Transportation and Technology

Managed Services– Under this it provides services such as infrastructure management, production support and managed security.

Certification

NIIT Technologies adheres to major global benchmarks and standards, having secured the ISO 9001:2000 certifications and the ISO: 27001 Information Security Management accreditation and follows global standards of development. It has been assessed at Level 5 of SEI CMMi version 1.2. The company's Business Process Outsourcing arm conforms to the highest quality standards such as COPC and Six Sigma. Data center operations are assessed at the international ISO 20000 IT management standards.

Product and Services

NIIT Technologies has successfully partnered with companies such as ING Group, British Airways, SEI Investments, Singapore Airlines, Toshiba, Office Depot, Ministry of Defense – Singapore, helping them reach their business goals in a cost effective way without compromising on quality.

BUY

CMP RS. 350

TARGET RS. 408 (+16.50%)

Bloomberg	NITECH:IN
Equity Shares (m)	61
M. Cap (INR b) / (USD b)	19.94/0.27
52 Week Range (INR)	328-487

SHAREHOLDING PATTERN

Entity	% Holdings
Promoters	30.90%
Institutions	50.83%
Non-Institutions	18.28%

Net profit of NIIT Technologies rose 11.89% to Rs 44.33 crore in the quarter ended December 2014 as against Rs 39.62 crore during the previous quarter ended December 2013.

In this competitive world the company initiated following services to customers

- Application development Management
- Managed Services
- Testing Services
- Cloud Computing
- BPO
- Geographic Information System (GIS) Solutions & Services
- Mobile solutions

NIIT's Worldwide Locations

NIIT Technologies provide value to their clients based on the combined strength of companies global delivery centers, spread across 18 countries. The companies have expertise and a proven track record of delivering quality to over 230 clients worldwide and have

The global networks of the company in different countries around the world are as follows

- NORTH AMERICA
- AUSTRALIA
 - Sydney
 - Melbourne

EUROPE

- BELGIUM
- GERMANY
- IRELAND
- NETHERLANDS
- SWITZERLAND
- UNITED KINGDOM
- SPAIN

MIDDLE EAST

- DUBAI

ASIA

- HONG KONG
- INDIA
 - Delhi
 - Bangalore
 - Haryana

- Kolkata
- Mumbai
- SINGAPORE
- THAILAND
- PHILIPPINES
- JAPAN

OUTLOOK

NIIT Technologies has launched IPF3, a new Insurance Process Framework, for supporting any commercial insurance process. The framework, with unrivaled speed and flexibility, has the capability of providing enhanced technology to tailor business processes with accuracy. It also facilitates easier fulfillment to changing regulatory requirements for commercial insurance organisations. IPF3 is already being used by leading commercial insurers and reinsurers in the Lloyds market in UK. Munich Re Underwriting is one of the first clients to have experienced the working of the framework.

Q3 RESULTS

Net profit of NIIT Technologies rose 11.89% to Rs 44.33 crore in the quarter ended December 2014 as against Rs 39.62 crore during the previous quarter ended December 2013. Sales rose 1.16% to Rs 332.15 crore in the quarter ended December 2014 as against Rs 328.35 crore during the previous quarter ended December 2013.

Sudhir Chaturvedi, COO, NIIT Technologies, said that as the company has seen the improvement in margins from 13.4 percent in Q1 to 14.50 percent, they expect margins to be 16 percent in Q4 as the company continue to see good trends of order intake in the business especially from the US market.

Commenting on the revenue growth in Q4 and the growth company is expecting in FY15 for the full year, he said, "We had a USD 109 million of fresh order intake of which 55 percent was from the US and about 30 percent from Europe. A significant part of this USD 109 million comes from new logos, so these are essentially new revenues from new logos. We have had a trend of signing one large deal per quarter and we have continued that trend with one large deal this quarter with a large insurance, major in the US. So given the order intake and the deals we expect to see an uptake in our growth going forward. We do not give guidance as such but the pipeline for deals that has already been signed indicates executable order book of USD 300 million odd of constant currency and we should see that

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uptake in Q4 and in line with that a margin improvement".

The company is seeing softness in insurance and some uncertainty in the euro zone due to quantitative easing in the euro zone or the looming Greek exit. But, the environment for growth in the other US markets as well as in the UK market is strong so they continue to see traction in those markets and that is what would be focus on.

LATEST UPDATES

- NIIT Technologies completes 15 years of successful engagement with Toyota a Motor Asia Pacific Engineering & Manufacturing Co. Ltd.
- Air Tahiti Nui launches 5 new regional websites. Air Tahiti Nui chose NIIT Technologies to develop this new platform.
- NIIT Technologies appraised at People CMM Level 5. PCMM is a maturity framework that focuses on continuously improving the management and development of the human assets of an organization. Level 5 is the highest maturity level in the model.
- The Company entered into partnerships with new Digital technology players and launched Digital Foresight, a predictive analytics solution in the U.S.
- Americas contributed to 44% of revenues, EMEA to 35% of revenues and India to 21% on the back of execution of large orders secured during the year.
- NIIT Technologies listed in "The Breakthrough 10 Sourcing Standouts" in Americas by the Information Services Group in its third quarter 2014 Global Outsourcing Index.
- During Q3 FY15, USD 109 million of new orders was secured.
- NIIT Technologies Ltd has added 5 new clients, 2 in US and 1 each in EMEA, APAC and India.
- During Q3 FY15, Consolidated revenue at Rs. 5953 million grew by 1.4% YoY basis and net profit at grew by 20.2%.

VALUATION AND VIEW:

Our estimates are largely unchanged post results, with the exception of cross currency adjustments. Lackluster revenue growth and profitability have kept valuation multiples well below peers. Multiple levers to margins such as OPM in GIS and NITL businesses, utilization, decline in hardware revenue and hedge gains in revenue have all played their part in the past couple of quarters, but the tide seems to be turning now and better margins can be expected. We initiate BUY, with a target price of 408, which

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discounts FY17E EPS by 9.7x.

OUTLOOK AND CONCLUSION

At the current market price of Rs.350.30 the stock P/E ratio is at 11.18 x FY15E and 10.58 x FY16E respectively.

Earnings per share (EPS) of the company for the earnings for FY15E and FY16E is seen at Rs.31.33 and Rs.32.28 respectively.

Net Sales and PAT of the company are expected to grow at a CAGR of 10% and 5% each over 2013 to 2016E respectively.

On the basis of EV/EBITDA, the stock trades at 8.05 x for FY15E and 7.00 x for FY16E.

Price to Book Value of the stock is expected to be at 2.03 x and 1.73 x respectively for FY15E and FY16E.

We recommend 'BUY' in this particular scrip with a target price of Rs.408.00 for Medium to Long term investment

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BALANCE SHEET

(in Rs. Cr.)

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
Share Capital	60.2	60.7	60.7	60.7	60.7
Reserves & Surplus	1,033.90	1,263.20	1,381.40	1,522.60	1,685.70
Networth	1,094.10	1,323.90	1,442.10	1,583.30	1,746.50
Debt	60	53	-	-	-
Minority Interest	17.30	18.90	27.00	35.50	44.00
Capital Employed	1,117.40	1,348.00	1,469.10	1,618.80	1,790.50
Net Fixed Assets	438.30	453.40	573.90	558.50	527.30
Capital Work In Progress	27.70	128.60	110.00	80.00	60.00
Investments	82.00	55.10	100.00	150.00	180.00
Deferred Tax Assets	12.20	22.30	22.30	22.30	22.30
Current Assets, Loans & Advances					
Inventories	0.40	5.20	5.50	5.50	7.50
Debtors	576.10	693.90	722.90	745.50	780.60
Cash & Bank balances	232.90	221.20	159.50	283.50	442.80
Other Current Assets	56.50	45.80	55.00	63.00	70.00
Loans & Advances	112.60	176.00	185.00	197.50	230.00
Current Liabilities & Provisions					
Current Liabilities	393.50	422.40	435.00	455.00	495.00
Other Liabilities & Provisi	27.90	31.00	30.00	32.00	35.00
Net Current Assets	557.10	688.70	662.80	808.00	1,000.90
Application of Funds	1,117.50	1,348.00	1,469.10	1,618.80	1,790.50

PROFIT & LOSS ACCOUNT

(in Rs. Cr.)

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
Revenues	2,021.30	2,305.00	2,365.80	2,555.90	2,810.10
Expenses	1,691.70	1,953.40	2,026.60	2,165.60	2,383.90
EBITDA	329.60	351.60	339.10	390.30	426.10
Depreciation	56.70	61.90	91.40	102.40	111.20
EBIT	272.90	289.70	247.70	287.90	314.90
Other Income	20.70	28.80	11.40	24.30	37.00
Profit Before Tax	293.60	318.50	259.10	312.10	351.90
Taxes incl deferred taxation	75.10	80.30	68.90	84.30	95.00
Minority Interest	5.20	7.50	8.10	8.50	8.50
Profit After Tax	213.30	230.70	182.10	219.40	248.40
EPS - Basic Diluted	3.58	3.80	3.00	3.61	4.09

CASH FLOW STATEMENT

	(in Rs. Cr.)				
	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
PBT	293.50	318.40	259.10	312.10	351.90
Depreciation & Amortisation	56.70	61.90	91.40	102.40	111.20
Interest Expense	2.10	1.40	-	-	-
Other Adjustments	7.50	10.10	-	-	-
(Inc)/Dec in Working Capital	-48.10	-136.90	-35.90	-21.10	-33.60
Tax paid	-72.20	-103.90	-68.90	-84.30	-95.00
CF from Operating Activities	235.10	145.30	245.70	309.20	334.50
Capital Expenditure	-93.00	-139.90	-193.40	-57.00	-60.00
(Purchase)/Sale of Investments	-21.30	31.90	-44.90	-50.00	-30.00
Others	1.00	8.30	-	-	-
CF from Investing Activities	-113.30	-99.70	-238.30	-107.00	-90.00
Inc/(Dec) in Share Capital	8.70	3.80	-	-	-
Inc/(Dec) in Debt	-41.40	-0.30	-5.30	-	-
Dividends & Interest paid	-58.80	-56.10	-63.90	-78.10	-85.20
CF from Financing Activities	-91.40	-52.60	-69.20	-78.10	-85.20
Net Cash Flow	30.40	-7.00	-61.80	124.00	159.30
Opening Balance	165.40	202.20	216.60	154.80	278.90
Unrealised Forex + Cash on Acquisition	6.50	21.40	-	-	-
Long Term Deposits + Unpaid Dividend Acc	30.70	4.60	4.60	4.60	4.60
Closing Balance	232.90	221.20	159.50	283.50	442.80

MARGINS (%)

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
EBITDA	16.3	15.3	14.3	15.3	15.2
EBIT	13.5	12.6	10.5	11.3	11.2
PAT	10.6	10.0	7.7	8.6	8.8

FINANCIAL RATIOS

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
RoE (%)	21.3	19.1	13.2	14.5	14.9
RoCE (%)	21.2	19.7	13.7	14.6	14.5
Debt/Equity (x)	0.01	0.0	-	-	-
EBIT/Interest (x)	na	na	na	na	na

CAGR

	9 yrs	5 yrs	3 yrs	1 yr
Net Sales	17.4%	18.7%	23.2%	14%
Adjusted EPS	14.9%	12.4%	4.7%	4.1%
Book Value Per Share	20.8	27.0	19.9	20.0

PER SHARE DATA

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
No. of Shares (m)	60	61	61	61	61
BVPS (INR)	168	199	228	249	274
CEPS (INR)	45.3	48.2	45.1	53.0	59.2
DPS (INR)	8.5	9.0	9.0	11.0	12.0

GROWTH INDICATORS (%)

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
Revenues	28.2	14	2.6	8	9.9
EBITDA	22.8	6.7	-3.5	15.1	9.2
PAT	8.2	8.2	-21.1	20.4	13.2
EPS	8.2	6.3	-21.1	20.4	13.2

VALUATION (x)

	Mar '13	Mar '14	Mar '15E	Mar '16E	Mar '17E
PE	10.5	9.8	11.18	10.58	8.7
P/BV	2.2	1.9	1.6	1.5	1.4
EV/EBITDA	5.8	5.7	5.9	4.7	3.9
EV/Sales	1.0	0.9	0.8	0.7	0.6
Dividend Yield (%)	2.3	2.4	2.4	2.9	3.2

INDUSTRY SCREENER

Company Name	CMP (Rs.)	Price Change (%)	Net Sales (Rs. Cr.)	Latest EPS (Rs.)	Net Profit Margin (%)	Latest P/E	Latest P/BV
Polaris Consulting	148.65	1.61	2,424	17.24	7.53	8.49	1.48
Zensar Technologies	653.20	-0.61	2,336	56.42	9.73	11.65	2.52
NIIT Technologies	350.25	1.32	2,305	37.79	9.64	9.15	1.6
Zylog Systems	6.11	-1.93	1,533	-82.82	-0.9	-	0.08
Rolta India	110.05	-1.17	1,524	48.32	36.98	2.30	0.76

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