DNA
DAILY NEWS & ANALYSIS

NIIT technologies

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Niche play augurs well for NIIT Tech

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NIIT Technologies, a midsized IT solutions provider, is well-placed to benefit from its diversified geographical presence, growing share of non-linear revenues and healthy order book position.

Business: NIIT Technologies offers traditional services like application development and maintenance (ADM) and business process outsourcing (BPO) apart from non-linear services like managed services, intellectual property (IP) asset or platform-based solutions and cloud computing to organisations in the financial services, insurance, travel, transportation and logistics, manufacturing and distribution sectors. It also provides geographic information systems (GIS) based solutions.

The company, which demerged from NIIT Ltd in 2004, has a strong domain-focused approach. It gets most of its revenues from banking financial services and insurance (BFSI) and transportation segments, which contribute 41% and 35%, respectively to the overall pie.

Geographically, the company has a balanced revenue mix — 36% from Americas, 35% from Europe, Middle East and Africa, 14% from Asia Pacific and 15% from India.

The company has over the years increased its focus on non-linear activities, which contribute to 27% of consolidated revenues with share of infrastructure managed services at 13% and platform based services at 14%. Though the share of cloud computing is very small, the company has developed cloud platform for cooperative banks. It has also made niche acquisitions to strengthen its domain specialisation and increase geographical presence. Its acquisitions include Softec Germany, which specialises in operation solutions for airlines, UK-based Room Solutions, which caters to the insurance market and more recently Spain-based Proyecta Sistemas, which has a strong customer presence in travel and BFSI segment in Europe and Latin American markets.

The company has marquee clients such as British Airways, Virgin Group, ING, SEI, Sabre and Holcim and derives close to 47% revenues from its top 10 clients. It added seven new clients last quarter — five in travel and transportation including the big one, Eurostar International.

▸ NIIT Technologies

Financials

₹ crore	Standalone Q1-FY12	Standalone annual FY11	Standalone annual FY12(E)*
Net sales	328.80	1232.30	1390.00
EBITDA	60.80	236.28	253.68
Net profit	54.10	182.22	177.23
EPS (in ₹)	9.12	30.73	29.89
Capital	59.30	59.30	59.30

Market details

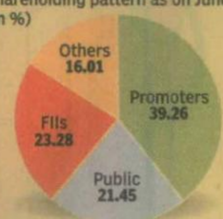
*Based on FY12 standalone earnings estimates

Current mkt price (₹)	Price earnings (FY12E)*	Book value (₹) (FY12E)*
189.00	6.32	145.00

EV/EBIDTA* (FY12E)*	Market cap (₹ crore)	Price/book value (FY12E)*
3.70	1120.75	1.30

Share price on BSE ₹

Shareholding pattern as on June '11 (in %)



MID-CAP MONITOR

Investment rationale:
The company is a niche mid-sized player with strong domain presence in areas of investment management, insurance and transportation/logistics. It continues to witness decent volume growth in its core segments and has bagged new orders worth $86 million during the last quarter, taking its outstanding order book position to $200 million, which is expected to be executed over next 12 months. In addition company has also won a muti-year, multi-million dollar contract with Morris Communications for providing end-to-end integrated IT & BPO services. This would likely result in steady revenue stream of around $85 million over the next five years. The company's increasing focus on cloud computing would support its target of generating 30% revenues from non-linear initiatives. The company's recent acquisition of Proyecta would help it to garner new customers in Latin American markets. NIIT has a strong balance sheet with minimal debt (₹12 crore) and sufficient cash on hand (₹195 crore as on June 30, 2011) that provides for further inorganic opportunities. The company also has healthy return ratios and decent dividend yield record.

Concerns: The company will see higher tax outgo from this fiscal on account of withdrawal of tax incentives for software and technology parks registered units in India. It faces exchange fluctuation risk as it derives considerable overseas revenues. Also, any severe economic downturn leading to cut in IT spending by corporates, government and individuals would affect revenues and profitability.

Valuations: Led by a strong order book and healthy growth in its non-linear segment, the company's revenues are expected to grow at a compounded annual growth rate of 16% over FY11-13 while the net profits are expected to rise at a CAGR of 8% during the same period on account of higher tax rates. At the current market price of ₹189, the stock trades at 6.32 times its expected earnings per share in fiscal 2012, and 5.22 times its expected fiscal 2013 earnings. Given its strong balance sheet, healthy operating metrics and decent dividend yield, investors with medium- to long-term horizon can consider adding the stock at current levels.

Disclaimer: *The writer does not hold any share in the company*