NIIT technologies

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NIIT Technologies

Delivering on deals

With strong client additions, robust business-mix and improvements in key operating metrics, the company has demonstrated significant growth.

BUY

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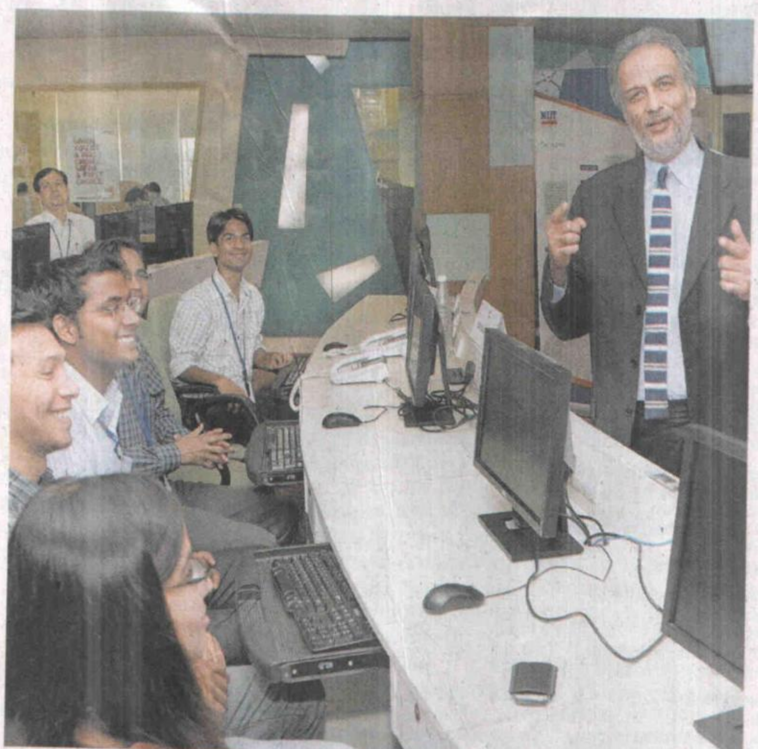
In an environment where top-Tier IT companies garner the bulk of business arising from increase in client IT budgets, a select set of mid-cap IT services players have still managed to hold their ground.

NIIT Technologies falls in this category. With strong client additions, robust business-mix and improvements in key operating metrics, the company has not only been resilient, but also demonstrated growth.

Investors with a two-year horizon can, thus, consider buying the shares of the company. At Rs 222, the share trades at 8 times its likely FY-12 earnings, which is lower than the valuations enjoyed by players such as Hexaware Technologies and Infotech Enterprises.

In FY-11, NIIT Tech witnessed a 34.9 per cent increase in revenues over the previous fiscal to Rs 1,232.2 crore, while net profits expanded by 44.2 per cent to Rs 182.2 crore. These growth rates have been higher than even frontline players and, most certainly, among the best in the mid-Tier IT services space. Even in the recent June quarter, the company recorded a 12.8 increase in revenues over the same period in FY-11 to Rs 328.8 crore, though net profits were up only marginally due to increase in wage costs and a higher tax incidence.



Mr Arvind Thakur, CEO...Moving up the value chain.

LUCRATIVE CLIENT ADDS

NIIT Tech has been steadily increasing the size of the deals it works on. Over the last three-four quarters, the number of multi-million dollar clients has increased from 33 to 48. Its top 10 clients have ramped up revenue contribution, indicating the company's sound client-mining capabilities. The company is all set to complete a Rs 228-crore project with the Border Security Force as it reaches the final stages of commissioning. Much of the revenues from the deal have already been received. Given the strategic nature of the BSF project that was executed, the company would look to win more projects from the segment as Defence organisations seek to increase technology spends as a part of modernisation.

The company had a strong order-book of $200 million as of June, which is about three-fourths of its FY-11 revenues, to be executed over the next 12 months. What is even more desirable is the quality of revenues that the company has managed to garner in terms of superior service delivery requirements. For instance, Eurostar, an operator of speed trains in Europe, has awarded a multi-year, multi-million pounds contract to the company. This involves delivering remote infrastructure services as well as application development and maintenance.

WHY BUY

- Climbing value chain by executing transformational projects
- Robust deal pipeline
- Key verticals and segments well placed

There is also a multi-lingual support for several European countries, making it a deal of wide scopeA part of this deal are to be executed before the London Olympics in 2012. Another deal won from a large media company – Morris Communications – to be executed via a joint-venture, would potentially generate revenues of $85 million over five years. This deal involving end-to-end IT and BPO services signals a significant climb up the value chain for the company.

Although it would entail taking some of the client's personnel on board, the company would be able to take a significant portion of work offshore to optimise costs. In addition, it would then be able to up-sell or cross-sell services to other clients.

HEALTHY BUSINESS-MIX

For NIIT Tech, 27 per cent of revenues come from IP-led initiatives. This means that revenue growth would be de-linked from headcount expansion and would improve margins. At around 19 per cent, the company has a fairly robust operating margin.

This could climb over the next couple of years as the company seeks to achieve around 35 percent 'non-linear' revenues. In terms of geographic-mix, the US and the Europe and Middle-Eastern Area (EMEA) contribute 37 per cent of revenues each, while India accounts for 11 per cent. Asia Pacific region is the other key geography.

Even though the developed economies are grappling with slow-paced growth, it has not affected the company's prospects as it has been witnessing high double-digit revenue growth from the American and EMEA regions. The blend of developed and emerging economies makes for a sound geographic-mix. In terms of verticals too, there is a healthy blend with BFSI (42 per cent of revenues), transportation (35 per cent) and manufacturing, government and others accounting for the rest.

Pricing has been stable for the company even as new contracts flow in with marginal hikes. Attrition, at 15.8 per cent, is steadily coming down over the past few quarters. But any further wage hike to stem employee turnover may affect margins significantly.

Also, higher outflow as a result of removal of Software Technology Parks of India tax benefits would mean that margin expansion would be slow in the next few quarters.