

**SPECIAL
ISSUE**

OUTLOOK

Profit

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**BULLS. BEARS.
BILLIONAIRES.**

**STOCK
SCAN
DATABASE
INSIDE**

**COULD
THESE
BE THE
NEXT
RISING
STARS**



**CONCEPT
STOCKS**

Depending on your temperament if you are an avid stock market buff, you are either looking for more of the same or for some new stock to catch your fancy. If you are in the former camp, then you certainly have Warren Buffett's temperament, and may be a respectable fraction of his net-worth. The Sage of Omaha built bulk of his fortune by buying what the market termed as predictable and boring companies. Coca Cola was already a 100-year-old company when he first bought the stock. On the other hand, if you are constantly hunting for new game, then you belong to the league of another investing legend, Julian Robertson. The hedge fund maestro made a name, not to mention, a multi-billion dollar fortune, chasing investment ideas before the rest of the herd got to it. What was amazing was the scale and canvas on which he did it before hanging up his boots.

Why concept stocks? The idea was to try and narrow down stocks which could be multi-baggers of the future. This is not to say that the 25 stocks covered here have not been written about earlier, in fact there might be instances where some of these stocks might have been actively tracked before being given up as a has-been. People in the business would know this happens with amazing regularity in the market: you buy a stock, sit on it for 3-4-5 years, but the stock refuses to budge and you decide to give up and sell out; or that you refuse to budge, stay put in the stock and in the 7th year of your holding, the stock goes up some 10 times.

Moral of the story: catching inflection points is key to making extraordinary returns in stock markets. Obviously, like many other things, this is easier said than done. So, should we say the 25 Concept Stocks listed here are going to set your portfolio on fire? (In a positive sense, of course) Well, think about it. Because our next question for you then would be – have you forsaken your sanity? Nobody in his right mind knows how the market is going to behave either from a one month perspective or a one decade perspective. What everybody has is a best case guesstimate, which is largely drawn from how stocks have behaved in the past, and the much-fed wisdom about stocks outperforming all other asset classes over the long run.

But yes, when we were building this stock list, the priority was to look for companies which could scale up over the years, operating as they are in an industry still in an early growth stage or where sustained growth seemed possible. The difficulty we faced was to get managements to talk, because they were happy being reclusive or tightlipped or preferred sticking to their shady ways, as the case may be. The other hurdle: even when managements were over-eager to talk, there was no way for us to cross-examine their claims as there was hardly any analyst coverage on most of the stocks. That is why you find that most of the stocks carry stale financial tables and no forward looking numbers. That said, the stock selection is a mixed bag, we had to leave out several seemingly promising companies for lack of adequate inputs or reluctance on part of the management to share their business plans. But the motley group that follows should make for interesting reading and, hopefully, in the times to come, profitable investments too.

RSPadmashali

Rajesh Padmashali



SANJIT KUNGU

Learning well

NIIT has all segments of the booming education market covered with varying degrees of success and a lot of potential

Sheetal Aggarwal

For all its fantastic numbers on the economic front, India's labour productivity index is among the worst in the world. A depressingly low number of 15 million skilled labourers are available in the country. This is far from ideal. To fix things, the government wants to take the number of skilled labourers to 500 million by 2022. Built into these huge figures is a phenomenal opportunity for the education sector.

The services sector, which is greatly employment intensive, contributed a significant 57 per cent of India's GDP in FY09. Yogesh Aggarwal, analyst at HSBC Securities, estimates in his report that from its present size of \$28 billion, the Indian education sector is poised to grow to \$47 billion in five-six years.

Our concept stock pick in this brightly shining sunrise segment is NIIT, a nearly three-decade-old name that a generation of Indians grew up knowing, long before education became the talked about business topic it is today.

In our assessment of NIIT as a concept stock, it scores a star for its presence across the entire education value chain, from K-12 (kindergarten to class 12) to

NIIT

Vjay Thadani

Chief Executive Officer

CONCEPT IN A NUTSHELL

NIIT appears nicely positioned to achieve the right scale and structure to meet the ever-rising demand for skilled talent in India

vocational and skill-based training. Corporate learning solutions (CLS) contribute 45 per cent to its overall revenues, followed by individual learning solutions (ILS) and school learning solutions (SLS) at 36 per cent and 19 per cent respectively. Though NIIT faces competition within the ICT (instructional computing technology) segment from players like Everonn and Educomp, which already have a strong foothold in the domestic IT education space, unlike them, it has ventured into the global IT training outsourcing market, which also supports growth.

In fact, NIIT appears nicely positioned to achieve the right scale and structure to meet the ever-rising demand for skilled talent in India. "Vocational or skill-based training helps in two ways - one is to get employment and the other is to be an entrepreneur," says Vijay Thadani, Chief Executive Officer, NIIT.

"There are lot of initiatives being taken at the government's end, in addition to employer-funded initiatives and individual initiatives, which are focused on skill development." Massive government schemes are underway to fix this state of affairs, right from primary schooling onwards. Priority is being accorded to the sector across all levels. The Confederation of Indian Industry, for instance, is placing emphasis on nationwide skills development to support industry manpower needs. Initiatives are also being tailored to improve the employability of the working population, including school dropouts, semi-skilled and unskilled workers. Efforts are also being taken to create a new wave of entrepreneurship in the country that will result in further employment generation.

Without doubt, the need for investment in education is matched only by the very lucrative business opportunities it offers. Already, the rapid growth of the services sector and the nation's burgeoning middle class has established an irrefutable demand for quality educational services. Growth in this sector is a given now.

Let's learn

Traditionally, NIIT has been one of India's leading players in professional training solutions, particularly for the IT sector. The professional training solutions forms part of company's ILS (individual learning solutions) division

which currently operates through 900 centers. Forty per cent of them are owned by NIIT and the remaining operates through a franchisee model. About 70 per cent of these institutes are in India, while 30 per cent are situated abroad. The company also operates a large e-learning library of about 6,000-7,000 titles, which people join on a subscription basis. The revenue from this division grew by 7 percent during FY10. For individuals, NIIT provides training for people interested in pursuing a career in IT-enabled services, or in upgrading their IT skills through partnerships with technology companies.

Its CLS division, which contributes the largest chunk of 45 per cent to its topline, offers skills-based education options for government initiatives and outsourced corporate training programmes. Most of this business comes from the US, followed by Europe and India.

Thadani points out that IT and BFSI (banking, financial services and insurance) are one of the few sectors which have great potential for large-scale employment in India. What also favours India's IT education sector is its current demography. At present, more than 60 percent of India's population is below 30 years of age.

Recently, NIIT started offering training programmes to individuals in banking, insurance, finance and management through partnerships with banks, insurance companies and management institutes. This segment notched around 2 per cent of the overall revenues in FY10, down from 3 per cent in FY09 after the global financial meltdown.

Back to school

NIIT's school learning solutions wing provides technology-enabled learning

Core focus

School learning and corporate training solutions to drive topline growth

₹ cr.	FY10	FY11E	FY12E
Sales	1,199	1,303	1,452
Change (%)	4	9	11
EBITDA	158	188	221
Change (%)	33	19	18
Net profit	70	94	114
Change (%)	1	34	21
EPS (Rs)	4.25	5.68	6.82
Book value	30.55	35.62	40.76
ROE (%)	14.31	16.85	18.23

Source: Bloomberg

and education for schools. The government is working on improving the effectiveness and efficiency of education in schools through monumental national initiatives like the Sarva Shiksha Abhiyaan and the National Mission on Education through ICT. India also has to contend with a high illiteracy rate of over 60 per cent and even more dismal dropout rates - 88 per cent of the population enrolls for primary education but only 11 per cent of it makes it to higher education. Compare this with developed countries, where 80 per cent of young citizens progress to college.

During the year, NIIT added 2,478 additional government schools to its books, taking the total tally of the schools it covers with SLS to more than 15,000.

For private schools, the company offers a comprehensive suite of products and solutions under the e-Guru brand. "The margins are better in private contracts but government [schools] provide volumes and opportunities to get into new areas," says Thadani. "The overall difference between margins when working for government projects comes out to be 10 per cent lower but it helps to allocate development overheads and initiatives over a larger volume."

In FY10, the company recorded an order intake of Rs 206 crore in SLS, taking the total order book for the business to Rs 331 crore at the end of the year. Of this, 31 per cent is executable over FY11.

Slowdown setback

In 2009, NIIT was affected by a slowdown in the corporate business coming



Corporate learning solutions contribute 45 per cent to NIIT's sales

from the US and UK, and weaker recruitment in the Indian IT sector. Unsurprisingly, NIIT's CLS business shrank during FY10 in the wake of the global financial meltdown and reported a revenue drop of 6 per cent. During the year, the business clocked an order intake of \$127.5 million. The order-book at the end of the year stood at \$90.3 million, 58 per cent of which is executable during FY11.

The education major's product portfolio has both ILS and CLS programmes geared to develop and improve academic performance, employability and workforce productivity in India, China, other emerging economies, the US and Europe.

Analysts expect a recovery across all its divisions, led by an ILS pick-up followed by corporate training market in the US and Europe. Besides, the multimedia SLS division is expected to stimulate its growth further in the medium to long-term. The second half of FY10 heralded something of a comeback that looks set to continue. NIIT is now planning more defensive expansion plans and is working towards increasing its market share in the school learning aids market through its e-Guru solutions.

Well done, keep it up

Till 2006, NIIT was focused primarily on individual IT training and ICT solutions. It made a mark in the US and UK corporate learning solutions market with the acquisition of Rochester-based Element K in 2006. Later, the company introduced a competitive product in the interactive multimedia solutions segment for private schools.

Over the last five years, NIIT's revenues have grown by an average of 27 per cent, with 17 per cent growth in profits. The company's leadership position in the individual learning and IT training solutions segment is unassailed and it's scouting around to replicate the same story in other areas of the education business. NIIT enjoys a strong market position in the ILS segment, which the management believes is its most profitable business and where the largest numbers of job opportunities are arising. CLS continues to bring 90 per cent of its revenues from outside India, mainly the US and Europe, where markets continue to be challenging. Their recovery process will help in determining the pace of growth.

Thadani is firmly of the view that the education business demands patient investment and execution. It's a humongous market that no single player can address. For an idea of what this means, of the total market of one million schools

in India, barely 20,000-30,000 have been covered.

NIIT wants to focus on both volume and profitability for the future. Thadani believes that the recovery of the economy will help NIIT's ILS business, which is expected to grow by 10-12 per cent. Meanwhile, SLS holds out the most potential with an anticipated 25 per cent growth rate, while CLS is slated to grow in single digits.

HSBC's Aggarwal says the stock has underperformed in the recent past, led by muted growth in its corporate training and individual learning divisions, and investments made in new ventures. He feels the scrip is likely to rebound, led by a compound annual growth rate (CAGR) of 13 per cent and earnings CAGR of 27 per cent over FY10-13. At its current market price of Rs 67, the stock trades 10 times its expected FY12 EPS, which is at a discount to its historical average multiple of 14 times.

NIIT's entry into new growth areas to cater to larger job opportunities and increased demand for skilled labour is a good move. "The company is a market leader in individual learning solutions, has got a successful start in its China operations and is planning to expand in other geographies as well," says Thadani. "NIIT promises an association starting from the first step towards education till ensuring a secured future." Are these not traits that are common to good investments? □

NIIT

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