

## Programmed to perform

The revival in IT sector hiring, deal wins from State governments and increased volumes in corporate training point to robust prospects for NIIT.

### BUY

#### K. Venkatasubramanian

Investors with a two-year horizon can consider taking exposure to the stock of NIIT, a training solutions provider for individuals and corporates, given the broad-based recovery in all its key segments of operations.

The revival in IT sector hiring leading to higher training enrolments, continuing deal wins from governments towards ensuring computer-led education in schools, and increased volumes in corporate training point to robust prospects for NIIT over the next couple of years.

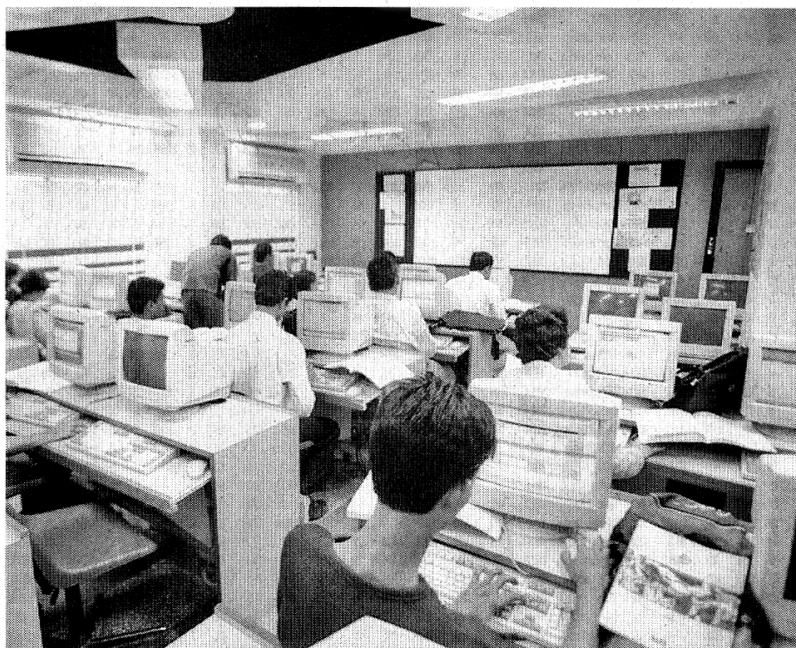
At Rs 61, the share trades at 12 times its likely FY-11 per share earnings, which is the lowest among what companies under the education/training category enjoy. The valuation includes the 25 per cent stake that NIIT has in NIIT Technologies.

Over a four-year period, the company has seen its net sales increase at a compounded annual rate of 27.7 per cent to reach Rs 1,199.4 crore in FY-10, while net profits grew at 14.2 per cent to Rs 70.2 crore.

NIIT has managed a turbulent FY-10, marked by a 6 per cent increase in revenues and flat profits.

The company has a desirable geographic mix with 49 per cent of system-wide revenues coming from India, 27 per cent from the US and Europe and 24 per cent from the rest of world, from China. This creates a blend of growing and mature markets to which NIIT makes targeted offerings.

NIIT operates in three seg-



Rise in enrolments to enhance growth.

ments – individual IT training (57 per cent of system-wide revenues), corporate (34 per cent) and school learning solutions (8 per cent).

#### TRAINING LOOKS UP

The company is partly a play on the economy, in general, and the slowdown, especially in the IT sector hiring, affecting enrolments for the company.

With the revival in IT hiring, seekers of careers in the sector have once again propped up enrolments.

Enrolments in FY-10 have risen 12 per cent, much of it supported by a spurt over the last couple of quarters. 17 per cent of revenues from this segment comes from China, which is still a nascent market as far as software training is concerned, providing an early mover advantage to companies such as NIIT.

Importantly, enrolments for courses such as infrastructure management services, an area of increasing focus and deal wins for IT majors, are up over 64 per cent.

This is in addition to its core “edgeineers” programme witnessing a spike in enrolments. This learning business

is a high-margin one for the company (EBITDA of 23 per cent).

Placements after course completion are also up 25 per cent, suggesting an all-round revival that would enable margin expansion for NIIT.

New alliances and programs have been formed with companies and institutions such as IGNOU for innovative training programs.

Corporate training is another important area for the company, which was affected significantly during the slowdown.

However, volumes are looking up over the past few quarters, though pricing and currency appreciation may be risks to realisations.

NIIT has signed three multi-million dollar deals over FY-10 and has orders worth \$90.3 million, 58 per cent of which is executable over 12 months, giving a reasonable revenue visibility.

#### MORE SCHOOLS ADDED

School learning solutions, mostly a domestic play, have seen a 45 per cent increase in revenues to Rs 200 crore. NIIT has added as many 2,812 schools over FY-10, taking the total number of schools in its

portfolio to 15,000. That momentum has continued this fiscal too with a deal-win from the Maharashtra Government.

Though orders from the government are hardware-intensive (and commands lower margins), there have been several repeat orders for the company, thus assuring annuity revenues.

Significantly, the number of non-governmental schools, particularly private ones, has increased by 334, expected to bring in better realisations. With a healthy blend, margins in this segment would be at comfortable levels of around 15 per cent.

NIIT also has a new segment where training is imparted to students for careers in BPOs and in financial services (specifically banks).

This is still nascent and loss-making, though there has been significant increase in enrolments, making a case for growth over the next few years.

Operationally, key positives are increase in IP-led revenues, which accounted for 43 per cent of revenues in FY-10 and expansion in annuity-based order book, which now constitutes nearly 52 per cent.