NIIT ▸ RATING: BUY

Enrollments on the rise

Though individual and corporate learning solutions are picking up, schools are a drag

SOTP-based valuation

			Comment
ILS			
EV/Ebitda (x)	7.0x		The best business segment; has high operating leverage with lower working capital cycle
Mar '12E Ebitda (Rs m)	1,267		
EV (Rs m)	8,869		
SLS			
EV/Ebitda (x)	6.0x		Has issues with high receivables in the government schools segment and hence we ascribe a lower multiple. Slower growth (decline in FY11) positive for balance sheet
Mar '12E Ebitda (Rs m)	224		
EV (Rs m)	1,346		
CLS			
EV/Ebitda (x)	6.0x		Business gradually recovering—has lower margins and is impacted by currency fluctuations
Mar 12E Ebitda (Rs m)	520		
EV (Rs m)	3,119		
New businesses			
EV/sales (x)	2.0x		Strong growth expected in the future with operating breakeven in FY12
Mar '12E sales (Rs m)	640		
EV (Rs m)	1,280		
Total EV	**14,613**		

Net debt (Rs m)	3,404	Value at current prices	3,064
Value for equity (Rs m)	11,209	Holding company discount	25%
Value per share (Rs)	67.5	Stake valuation	2,298
Fully diluted shares	166.2	Value per share (Rs)	13.8
NIIT Tech stake valuation		**Total equity valuation**	**13,508**
Average share price	209	Fully diluted shares	166.2
No of shares (in m)	14.7	Fair value of a share	81.0

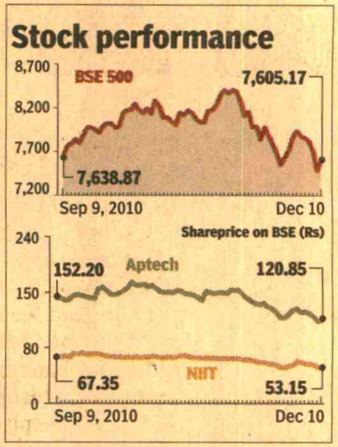
Source: Citi Investment Research and Analysis

CITIGROUP analysts interacted with the CEO of NIIT Vijay Thadani. Below are the key highlights from that discussion: Individual Learning Solutions (ILS) on an uptick: Enrollments in India are increasing with products like Infrastructure management, 99 Day diploma and GNIIT doing well. A prominent trend in ILS is that there is a preference for shorter duration courses. ILS should benefit from the positive trends in the IT Services sector with increasing (i) volumes; and (ii) attrition. continues to accelerate -growth last quarter was 13% YoY up from 6-11% YoY in the prior quarters.

Corporate Learning Solutions (CLS) showing pickup: CLS is seeing a pickup in demand with (i) Corporates spending on training; and (ii) Government spending on skills training in places like India. The Learning Products and Managed Training segments are showing good pickup. Management expects good volume growth in FY11 with some good deal wins in the recent past.

School Learning Solutions (SLS) slow: Private schools are doing well; Government schools are slow in decision making. Small players are under cutting in the government schools space--NIIT has decided to be selective. Management expects marginal growth in FY11 (like on like). The Banking (IFBI) and Management (Imperia) courses are doing well with significant growth in enrollments. The New Businesses on an overall basis is expected to break even in FY12. growth in SLS is a positive from a balance sheet perspective.

Valuation: We reiterate Buy. We value NIIT at Rs 81 based on our SOTP (sum-of-the-parts)-based methodology given the fact that the company has four different business segments. We value the ILS segment at 7 times March 2012e EV/Ebitda (enterprise value/earnings before interest, taxes,depreciation and amorti- sation) SLS segment at 6 times March 2012e EV/Ebitda, CLS segment at 6 times March 2012e EV/Ebitda and New Businesses at 2 times March 2012E EV/Sales (given that we expect breakeven only in FY12). We value the 25% stake held in NIIT Technologies at a 25% holding company discount. Our target price implies a target multiple of about 13-14x (times) which is towards the lower end of the historical trading band of about 3-36x over the past three years and is also lower than the average of about 15x over the same period. With complete recovery still uncertain, we believe that NIIT will trade towards the lower end of its historical trading band. Further, we expect revenue and Ebitda CAGR (compound annual growth rate) of about 8% and about 15% respectively over FY10-13e (slower than the about 15% and about 25% CAGR witnessed over FY07-10a).



Risks: We rate NIIT Medium Risk inline with other Educational Services companies that we cover, despite our quantitative risk rating system suggesting Low Risk. Key downside risks to our target price include: (i) Lower enrollment in IT courses; (ii) Lower price realisation in the retail training business; (iii) Higher inflation in fixed costs; (iv) Slower fresh orders in the institutional business; (v) Lower fresh orders in the corporate business; (vi) Lower growth in new businesses.

—Citi