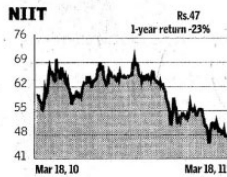


NIIT

# Programmed for success

Deal wins from private schools for driving computer-led education and increased traction in corporate training suggest improving realisations for NIIT.

BUY



K.Venkatashubramanian

Investors with a two-year horizon can consider taking exposure to the stock of NIIT, a training solutions provider — to students of colleges and schools, working employees and corporates — given the robust expansion in demand in its offerings.

With the IT sector and even the banking industry back to hiring mode, the interest in enrolling for training programmes has increased substantially. Continuing deal wins from private schools for driving computer-led education, and increased traction in corporate training suggest improving volumes and realisations for NIIT over the next couple of years.

At Rs 47.2, the share trades at nine times its likely FY-12 per share earnings, which is lower than all education and training companies in the listed space. The valuation includes the 25 per cent stake that NIIT has in NIIT Technologies, with an assumed 20 per cent holding company discount.

Over a three-year timeframe, the company has seen its revenues increase at a compounded annual rate of 14.7 per cent to Rs 1,199.4 crore in FY-10, while operating profits grew at 26.6 per cent to Rs 156.9 crore.

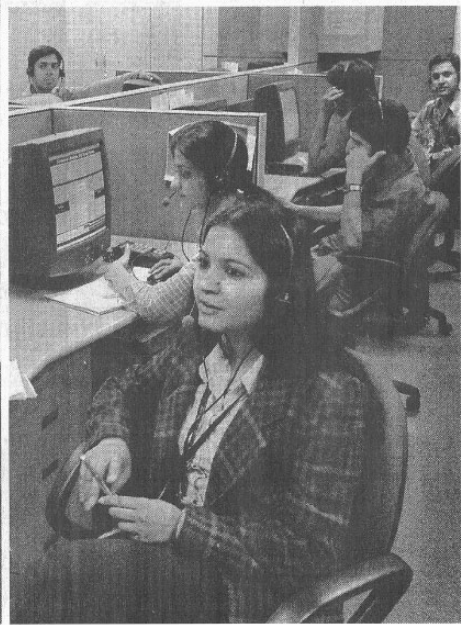
For the first nine months of this fiscal, NIIT has managed to grow its system-wide revenues (including hardware sales) by 5 per cent to Rs 1390.4 crore, while net profits were enhanced by 19 per cent to Rs 54.4 crore.

## WHY BUY

- Robust demand for trained personnel
- IT and Banking on recruitment mode
- Rapid volume expansion in corporate training
- Healthy Geographic-mix



Mr Rajendra S. Pawar, President... Imparting the right lessons.



## DIVERSIFIED OFFERINGS

The company has a desirable geographic mix of growth and mature markets. NIIT derives 51 per cent of system-wide revenues from India, 31 per cent from the US and Europe and 18 per cent from the rest of world, that includes China where it is an early mover.

Individual IT training (53 per cent of revenues), corporate training (35 per cent) and schools (9 per cent) are its key segments of operations.

The Indian economy has continued on its growth path after emerging from the financial crisis.

Crucially, IT companies are now witnessing robust increase in demand for their services. Client spending in key segments such as BFSI and geographies in North America has witnessed a significant revival, with discretionary spends and large-deals back in vogue.

IT companies have indicated a robust hiring environment with the top five alone indicating that about 1.5 lakh personnel would be recruited over the next 12-18 months.

This works to the advantage of companies such as NIIT, with enrolment soaring for its individual training programmes. This segment has seen revenues grow by over 12 percent over the last one year and has witnessed increase in margins. Placements from its own institutes are up 24 per cent for the nine months of this fiscal.

Its core "edgefneers" programme, catering to engineers, is witnessing a 34 per cent spike in enrolments. This was in single-digits during the slow-down. The company, earlier in the year, announced a price hike for its GNIIT programme, whose gains would be reflected more in the next couple of fiscals.

Even in areas such as SAP, enrolments are up in keeping with the up-trend in discretionary spending witnessed by IT companies. In its 99-day diploma course that is job-oriented, enrolments are up nearly 46 per cent.

Corporate training is another important area for the company where volumes are up 13 per cent, again from low single-digits, on the back of growth in training outsourcing and on-line learning products. This division's operating profits were up 37 per cent compared to the previous year.

The company is looking at recurring revenues and has been able to forge multi-year, multi-geography relationships.

On the whole NIIT's operating margins have improved to 13 per cent this fiscal. With stable pricing, currency appreciation may be the only key risk to realisations.

NIIT has an order-book of \$92.5 million (about Rs 420 crore) in the corporate training segment, as of December 2010, of which is 58 per cent is executable over the next 12 months.

This gives a fair degree of revenue visibility.

## CLIENT FOCUS

School-learning solutions, largely a domestic play, have consciously been allowed to take a backseat as the company focuses on more lucrative opportunities. NIIT is looking at focussing on deals that involve substantial software services component rather than concentrating on hardware-intensive ones.

Revenues in this segment are down 34 per cent for the first nine months of this fiscal to Rs 110.8 crore for the company.

But NIIT has added many private schools, taking the total of such schools to 385 currently, much higher than in FY10. Non-governmental schools that fit in more with the company's margin-expansion strategy, now contribute 38 per cent of revenues and have grown 28 per cent over the previous fiscal.

The company has a pending order book of Rs 442.3 crore in the school learning segment, suggesting continued interest from client schools and allowing for annuity-based revenues.

NIIT also has a new segment where training is imparted to students for career in BPOs and financial services (specifically banks). While 10 new BFSI clients have been added to take the count to 35, enrolments for its banking courses are up 57 per cent.