Cash cow

Despite ambitious expansion plans and forays into new areas of business, NIIT has no immediate plans to raise debt. Funds are currently being raised from internal accruals. "We are not looking at raising any additional debt," says Thadani. "Even though our partners share part of the equity, what we are looking for is their domain expertise."

So how does NIIT fund all these new ventures? Simple: from its learning institutes in India, which come under the Individual Learning Solutions (ILS) business. This division contributes about 62 per cent to gross earnings of the company and is the biggest revenue earner of NIIT as well.

The company expects this division to maintain its leadership status in the years to come. "ILS should remain the largest contributor to earnings, bringing in more than 50 per cent of total earnings," says Thadani.

Still, a looming US recession clouds the immediate outlook for this division. Many analysts fret that a slowdown in the IT could bring down NIIT's earnings with it.

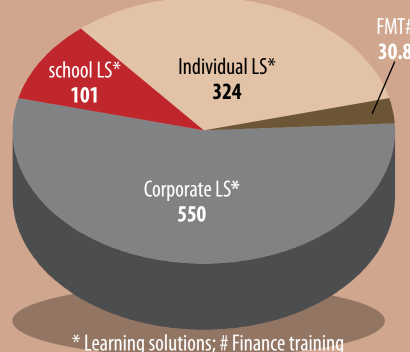
While that remains a real danger, Angel's Shah is hopeful about NIIT maintaining "a decent growth rate" even if there is a slow down in the next few quarters. NIIT's management is even more optimistic: Thadani vehemently dismisses all talk of a slow down and predicts that IT spending will "continue to grow at a decent pace".

While there is one camp that believes that India's glorious IT story is set to come to an end, Thadani insists that that isn't the case. "Certainly, the IT story in India is no longer a cost arbitrage story," he says. "India now offers both value and scale offering. Companies like Infosys and Wipro operate just like some of the best companies in the world. The industry's fundamentals continue to remain strong."

IT'S ELEMENTARY

Element K buyout has buoyed revenues in the corporate learning segment in FY08

Segment wise revenue breakup in Rs cr



* Learning solutions; # Finance training

BHUPINDER SINGH

LOGGING IN

Individual learning registrations have increased by 30% (yoy) over the last three quarters

Period	Jun '06	Sep '06	Dec '06	Mar '07	Jun '07	Sep '07	Dec '07	Mar '08
Registrations	81776	96284	51850	80632	92357	126573	66335	104085
QoQ growth (%)	-	17.74	-46.15	55.51	14.54	37.05	-47.59	56.91

Chinese connection

NIIT doesn't just have operations in India, it also runs learning centres in a country that many Indian companies consider a business rival: China.

Starting off in 1997, the Indian company today has 171 centres across China and claims to be the country' second largest IT education provider.

Enrollments, he says, are growing about 35 per cent every year: "Coming from a small base, growth from China is expected to be faster than that of India. Today, China accounts for 15 per cent of ILS revenues. That figure should go up to 20 per cent in 2-3 years."

Obviously, Thadani is spreading his bets. "India is far ahead of China and should continue to remain that way, but in the long run both countries will do well," he adds.

Financials

For the year ended March 2008, NIIT's net revenues were up by 27 per cent at Rs 1,006.83 crore. Net profit rose by 32 per cent to Rs 75.6 crore on the back of an improved product mix that produced a higher margin band.

Revenues from the ILS division (including finance and management training) jumped by 40 per cent from a year ago to Rs 350 crore; operating margins also added 452 basis points at 18 per cent .The jump is attributed partly to the higher IT training margins and higher volumes from the finance and management training business, which completed its first full year of operations and generated revenues of Rs 30.8 crore.

According to Angel's Shah, "Revenues from ILS IT should grow at 25-30 per cent in the next 2-3 years and ILS should continue contributing more than 50 per cent to operating profit. Operating profit margins should be 21-22 per cent in the same period."

The School Learning division also grew by 19 per cent following the company's renewed focus on this segment. Operating margins improved by 134 basis points to stand at 13 per cent. Says Shah: "SLS should see revenue growth of 20-25 per cent over the next 2-3 years while margins of this segment should be 13-14 per cent. On contribution to total revenues, SLS should account for 2-3 per cent more than current levels."

Revenues from the corporate learning division grew by 21 per cent in fiscal 2008. While volumes rose by 29 per cent, currency fluctuations hit operating margins, which slumped to 5 per cent. Shah believes that in the medium term, operating margins could stay tethered at 6-8 per cent, while he forecasts 8-10 annual growth in revenues from this segment.

At Rs 101, the stock trades at 20 times its estimated fiscal 2009 and 15 times its estimated fiscal 2010 earnings and is a good stock to buy on declines. ◻

NIIT

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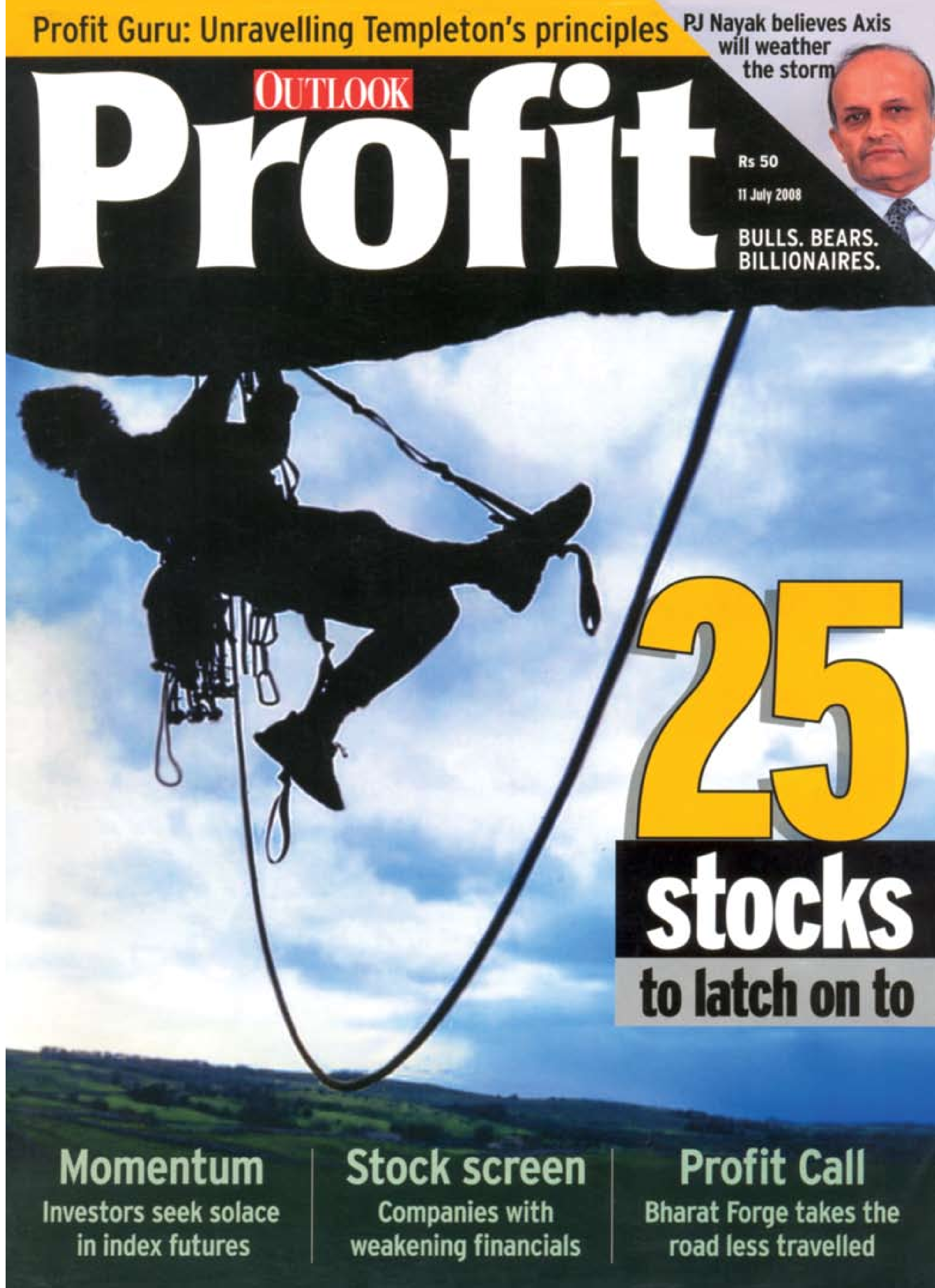

Profit

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Despite the macro

Coping with volatility is never easy. Stocks have plunged about 30 per cent this year; many of them have hit 2008 lows. Gone are the days when investors rushed to buy equities at every decline; now, they're adopting a more cautious approach, even joining the selling as markets tumble. At least that's what it looks like given the steep fall in stock prices and dwindling volumes.

True, there are genuine concerns about whether the sizzling pace of economic growth will be maintained as inflation surges to record levels. With so much uncertainty swirling around the markets, investors face a tricky dilemma: should they wade into the markets at current levels or should they cut their losses?

To be sure, stocks are headed for stormy weather this year, but that certainly does not make stocks a complete no-no. Despite all the loud noises being made about inflation and economic growth, the truth is that Indian stocks have never been driven by macroeconomic fundamentals.

For proof, consider this: before 2003, GDP growth rarely exceeded 6 per cent; our forex reserves could hardly be described as adequate and our fiscal deficit was stubbornly high. Interest rates were high too, but India Inc, for the most part, seemed able to cope. With so much against it, our equity markets actually performed quite well. More than 80 per cent of the actively managed domestic mutual funds beat the benchmark until 2003, barring a couple of years which saw the tech boom and bust and two market scams.

While the spectacular performance of stocks in the past five years was a culmination of these factors, that does not, by implication, mean stocks cannot yield returns that could beat inflation if these factors did not exist. That holds a key message for investors: focus on stocks that continue to clock steady profit growth, never mind where the economy/currency/oil prices/interest rates are headed. Stick to stocks whose growth is not dictated by favourable economic conditions. Our cover story this time shortlists 25 stocks that can deliver decent returns despite tough market conditions.

Apart from these, we also have elaborate analyses on three other stocks we find attractive. The first is NIIT which is finally swinging into action by expanding its training business. Next is Sadbhav Engineering, whose order-book, track record and valuations make it a compelling investment case. The third is Bharat Forge. As the company struggles to combat a slowdown in its user industry – automobiles – the management is eyeing new areas of business such as capital goods to de-risk its operations.

No matter how the markets swing, it is always a good time to learn how to invest from the best in the business. Perhaps it's an even better time to visit such ideas in bad times such as these. So from this issue on, we will profile some of the world's best-known investors in a series called Profit Guru. We start with John Templeton, the renowned value investor who made his billions by being one of the first to invest in emerging markets.

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Profit Call

The value of education

Foraying into new training areas and a growing demand for basic IT education in India will keep NIIT busy over the next few years

Mohammed Ekramul Haque

It is a name synonymous with technology education in India. Starting operations a little over two decades ago when the idea of computer education was just taking off in India, NIIT today is one of the best known names in the business.

With thousands of teaching centres across India, the New Delhi-headquartered company now also has operations overseas. More importantly, it has diversified into other, exciting areas of specialised training such as executive education. It is also eyeing projects to equip schools across the country – private and public – with the essentials for IT education (hardware and software).

All these initiatives are expected to bode well for NIIT in the coming years, say analysts.

Education is key

At a recent analysts meeting, chief executive officer Vijay Thadani announced that one of NIIT's goals would be to enter new areas of business by teaming up with top companies in that arena.

Its Imperia venture is a good example of that. Imperia provides executive training via its partners, among them are the Indian Institute of Management in Ahmedabad, Calcutta, Lucknow and Indore. The market for executive education is estimated to be worth Rs 35-40 crore. What sets the 20-odd Imperia programmes apart from other offerings is the premium NIIT can command for its courses. Programmes under the elite brand typically cost Rs 1.2-1.4 lakh – much higher than other courses offered by NIIT. Also, working in NIIT's favour is that there are few adversaries here – the only real competition is HughesNet. A new entrant in this segment, Imperia is fast amassing converts. In banking, NIIT sewed a deal with ICICI Bank and created the NIIT Institute of Finance, Banking and Insurance (IFBI), which offers 6-month courses in banking and insurance. NIIT's partners in the IFBI Programme – apart from ICICI Bank – now include HDFC Bank, Kotak Bank, Yes Bank and ICICI Securities.

It's a strategy that has reaped good dividends. For one thing, associating with market leaders gives NIIT a visibility and acceptability that would have been tougher to achieve had it ventured into these markets on its own.

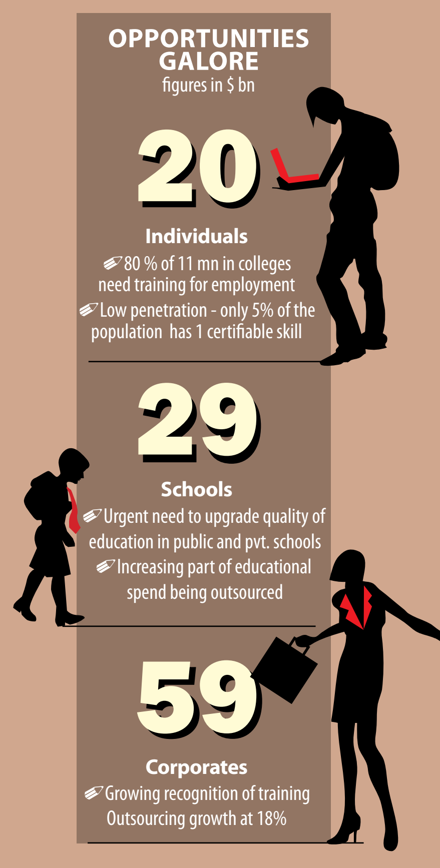
No wonder then, in fiscal 2008, NIIT has trained 10,000 students under the IFBI and Imperia programmes.

Thadani says there are plans for more such joint partnerships in the future.

Recently, NIIT tied up with Genpact, one of the countries biggest business process outsourcing (BPO) outfits to create and offer training programmes in business processes, language skills and business communication.

Vijay Thadani, CEO, expects individual learning business to drive earnings growth

SANJIT KUNDU



Back to school

The rather appalling state of primary and secondary education in the country has also thrown up interesting opportunities for NIIT. With education a priority on the government's reform agenda, some steps have been initiated in that direction.The Sarv Shiksha Abhiyan programme is one such project: it aims to equip 600 districts or 1 million government schools across India with the right tools and infrastructure for educating students. The planned expenditure is about Rs 50 lakh for every district (covering infrastructure and course materials). IT experts believe that about 30 per cent of the government's expenditure of Rs 300 crore (Rs 50 lakh X 600 districts) could be parceled out to private-sector education providers such as NIIT.

NIIT also has its eyes on the ICT@ School programme – a project that focuses on IT training in schools. Given that we have about 60,000 such schools and an estimated spend of Rs 2 lakh for every school, this opens up another Rs1,200 crore market.

In addition, there is also the market for equipping private schools with all the required gear for training students in technology. NIIT services about 981schools out of an estimated 10,000 private schools in the country. The potential for software and content is estimated to be about Rs 3-4 lakh per year per school – a huge opportunity just waiting to be tapped.

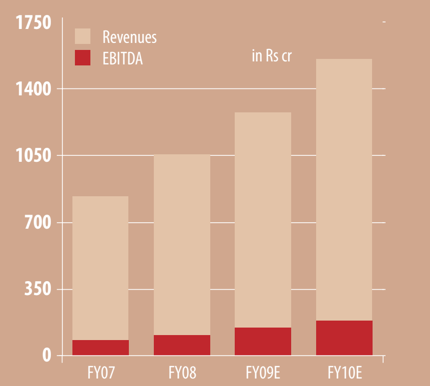
For sure, NIIT is positioning itself well to exploit this. "We have a dual focus, both on government schools and private schools," says Thadani.

The company recently bagged an order from the Andhra Pradesh government to provide IT learning solutions (hardware and software) to over 2,000 schools.

Analysts expect the education sector in India to stay abuzz with new ventures and public-private partnerships.

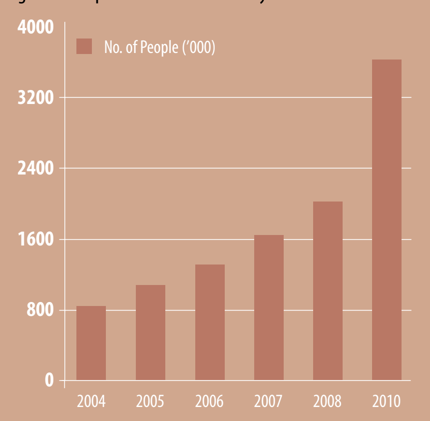
ON COURSE

NIIT's operating profit margins are expected to expand to around 12 per cent by fiscal 2010



NEED OF THE HOUR

Manpower requirement for the IT sector is expected to grow at 34 per cent CAGR over two years



Harit Shah, IT analyst with Angel Broking, forecasts the school learning division of NIIT will grow by 20-25 per cent in the next 2-3 years.

Graduating to the board room

It's not just schools that NIIT is heavily involved in; it also has a significant corporate training services division. This segment got a major boost after NIIT snapped up Element K, a US-based provider of learning solutions and the owner of the world's largest content library with more than 3,500+ courses offered in the US, Canada and India.

The total global training market is estimated to be worth $100 billion+; within that, the estimated outsourcing market (Element K's forte) is worth $5.1 billion. Here, the US is the biggest market, accounting for 62 per cent or $3.2 billion.

Element K has very high-profile partners including Microsoft, Philips, Toyota and Ford Motor, giving it an edge over rivals in the business.

For NIIT, a huge chunk of revenues from the corporate learning solutions come from Element K. And that is expected to continue. "Element K should bring in about two-thirds of corporate learning revenues in the next three years," says Thadani.

That may not altogether be a good thing, say some analysts. A US economic slowdown will directly affect corporate training budgets and that could put Element K right in the line of fire. Despite this, Thadani remains upbeat on the overall prospects of this division. "Globally, while the corporate training industry is growing at 3-4 per cent, in India, it is rising by 30-40 per cent," he points out. He expects this division to bring in 35-40 per cent of total revenues.