investor's eye

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Index

Axis Bank

Reco: Buy

Stock Update

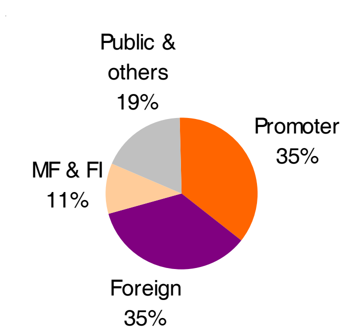
Earnings growth ahead of estimate, asset quality remains stable

CMP: Rs1,422

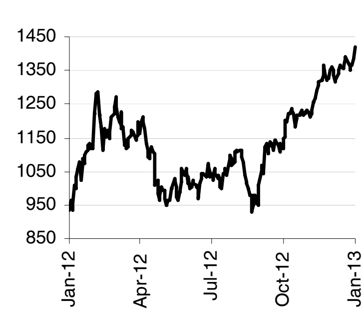
Company details

Price target:	Rs1,570
Market cap:	Rs60,760 cr
52 week high/low:	Rs1,428/917
NSE volume: (no. of shares)	19.8 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (no. of shares)	27.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	23.8	34.0	49.8
Relative to Sensex	-0.6	15.9	15.2	19.5

Result highlights

- Axis Bank's Q3FY2013 results were above our estimates as the net profit grew by 22.2% year on year (YoY) to Rs1,347.2 crore. The growth in profit was driven by a steady growth in the net interest income (NII) and a sequential decline in provision (Rs386.8 crore vs Rs509.4 crore in Q2FY2013).
- The NII growth of 16.6% YoY was ahead of our estimate, which was driven by a sequential expansion in the net interest margin (NIM; 3.57% vs 3.46% in Q2FY2013) and a healthy growth in the advances (up 20.7% YoY).
- Led by a strong growth in the retail advances (up 44.5% YoY), the total advances increased by 20.7% YoY. The current account and savings account (CASA) ratio showed a marginal decline of 50 basis points on a quarter-on-quarter (Q-o-Q) basis to 40%.
- The asset quality remained stable as gross and net non-performing assets (NPAs) were largely similar to that of Q2FY2013. Further, the slippages were lower on a Q-o-Q basis while the restructured loans were marginally higher at Rs368 crore (vs Rs509.4 crore in Q2FY2013). One-third of the restructured loans have performed for over one year after the moratorium period.
- **Valuations and outlook:** Axis Bank's Q3FY2013 results were ahead of estimate due to an expansion in the margin and a lower than expected provision. We expect the bank's earnings to expand at a CAGR of 18% over FY2012-15. We maintain our Buy recommendation on Axis Bank with a price target of Rs1,570 (1.9x average of FY2014E and FY2015E book values [BVs]). Currently, the stock trades at 1.9x FY2014E BV and 1.6x FY2015E BV.

Results Rs cr

Particulars	Q3FY2013	Q3FY2012	YOY %	Q2FY2013	QoQ %
Interest earned	6,964.9	5,777.0	20.6	6,687.2	4.2
Interest expense	4,470.1	3,636.7	22.9	4,360.3	2.5
Net interest income	**2,494.8**	**2,140.3**	**16.6**	**2,326.9**	**7.2**
Other income	1,615.4	1,429.8	13.0	1,593.1	1.4
Total income	**4,110.2**	**3,570.1**	**15.1**	**3,920.0**	**4.9**
Operating expenses	1,748.7	1,510.9	15.7	1,741.7	0.4
- Employee cost	615.1	542.0	13.5	577.9	6.4
- Other costs	1,133.6	968.9	17.0	1,163.8	(2.6)
Operating profit	**2,361.5**	**2,059.2**	**14.7**	**2,178.3**	**8.4**
Prov for contingencies	386.8	422.3	(8.4)	509.4	(24.1)
PBT	**1,974.7**	**1,636.9**	**20.6**	**1,668.8**	**18.3**
Tax	627.5	534.6	17.4	545.3	15.1
PAT	**1,347.2**	**1,102.3**	**22.2**	**1,123.5**	**19.9**
NIM (%)	3.57	3.75	-18 bps	3.46	11 bps
Gross NPA (%)	1.10	1.10	0 bps	1.10	0 bps
Net NPA (%)	0.33	0.39	-6 bps	0.33	0 bps

NIM surges 11 basis points QoQ to 3.57%

Axis Bank's NIM increased by 11 basis points QoQ to 3.57% contributed by a rise in yield on advances (up 10 basis points QoQ to 10.86%) and a marginal decline in the cost of funds (down 2 basis points QoQ to 6.52%). The change in asset mix in favour of the retail and small- and medium-enterprise (SME) segments contributed to an increase in yield on advances. Consequently, the NII increased by 16.6% YoY, slightly ahead of our estimate. Going ahead, the management expects the NIM to remains stable at ~3.5% levels.

Retail advances continue to drive loan book growth

During Q2FY2013, the advances grew by 20.7% YoY. This was primarily driven by the retail advances, which grew by 44.5% YoY (up 8.5% QoQ). The high growth rate in the retail advances was in line with the management's strategy to expand the proportion of the retail advances (26.8% in Q3FY2013) gradually, increasing it to about 30% in a couple of years. Moreover, the SME advances have also shown a healthy growth of 22.2% YoY (up 7.1% QoQ).

Strong traction in retail liabilities, CASA ratio dips marginally

Overall, the deposits grew by 17.2% YoY, mainly driven by the term deposits (up 20.3% YoY). Healthy traction was seen in the retail term deposits, which increased by 30% YoY and constituted 39% of the total term deposits. However, the CASA ratio declined slightly on a Q-o-Q basis (40% vs 40.5% in Q2FY2013), mainly due to a slower growth in the current account deposits (up 2% YoY). The daily average CASA balances have declined to 35.8% from 37.4% in Q3FY2012. The bank continues to focus on the retail liabilities to reduce dependence on the wholesale funds.

Asset quality remains stable

The asset quality was stable in Q3FY2013 as gross and net NPAs were broadly similar to the preceding quarter. The slippages also declined to Rs541 crore (vs Rs628 crore in Q2FY2013) while the recoveries and write-off were to the tune of Rs181crore and Rs207crore respectively. The bank also restructured Rs368 crore of advances during Q3FY2013, which increased the proportion of restructured loans to 2.4% of the advances book. Going ahead, the stress on asset quality may arise due to some of the infrastructure exposures. The management continues to guide that the impairment in the asset quality (restructuring + slippages) will be restricted to Rs1,000 crore per quarter, which is manageable in our view.

Provisions drop sequentially

The provisions declined by 8.4% YoY and 24.1% QoQ on the back of lower slippages. The bank provided Rs325 crore towards the NPA and Rs56 crore on standard advances while there was a write-back of Rs35 crore on investments. The provision coverage was healthy at 81%, excluding the written-off accounts. The bank has guided for credit cost to be around 85-90 basis points of advances but we have assumed higher provisions on conservative basis.

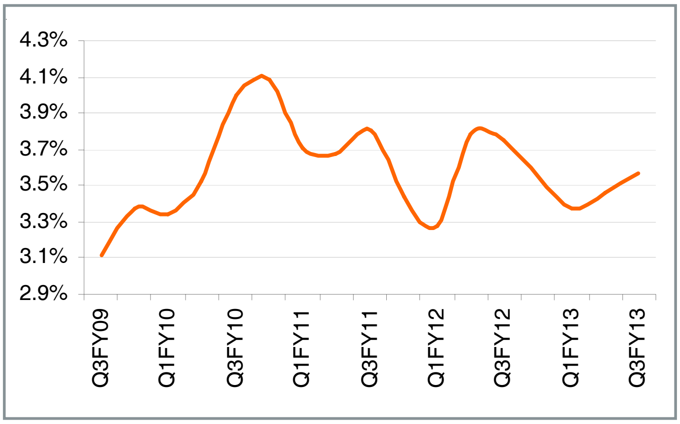
Non-interest income up by 13% YoY

The non-interest income of the bank grew by 13% YoY on the back of an increase in the treasury profits (Rs159 crore vs Rs118 crore in Q3FY2012). Overall, the fee income grew by 15% YoY, mainly driven by the retail (up 35% YoY), agriculture and SME segments (up 16% YoY). However, the corporate fee income growth was subdued showing a growth of -3% YoY. Meanwhile, the cost-to-income ratio declined on a Q-o-Q basis to 42.5%.

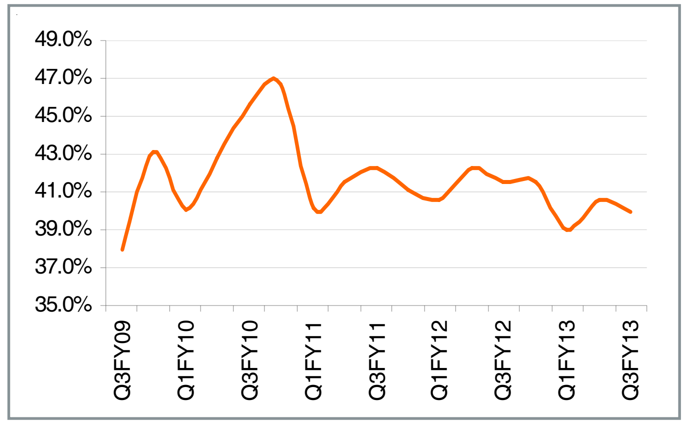
Valuations

Axis Bank's Q3FY2013 results were ahead of estimates due to expansion in margins and lower than expected provisions. Meanwhile, the bank's strategy to grow in the retail business is yielding positive results as proportions of both the retail assets and liabilities have expanded. The bank's tier-I capital adequacy ratio was at 10.27% including the 9MFY2013 profit. Going ahead, the asset quality could see some stress due to slippages on certain corporate exposure, but we expect the same to be within manageable limits. We expect the bank's earnings to expand at a CAGR of 18% over FY2012-15. We maintain our Buy recommendation on Axis Bank with a price target of Rs1,570 (1.9x average of FY2014E and FY2015E BVs). Currently, the stock trades at 1.9x FY2014E BV and 1.6x FY2015E BV.

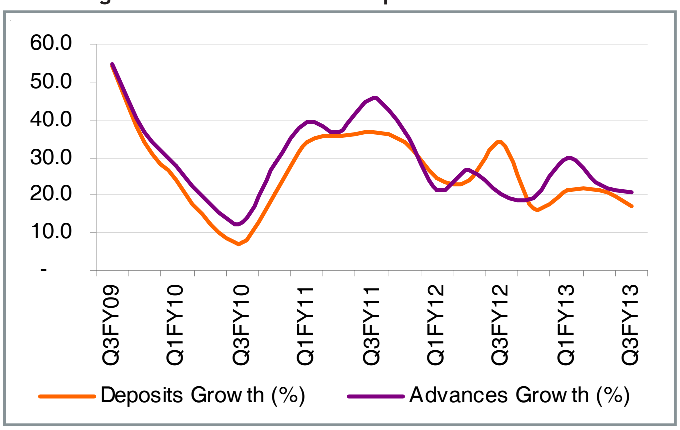
Trend in NIM



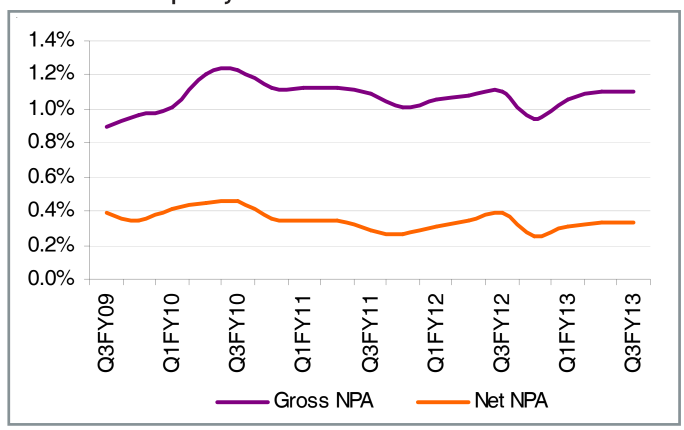
Trend in CASA



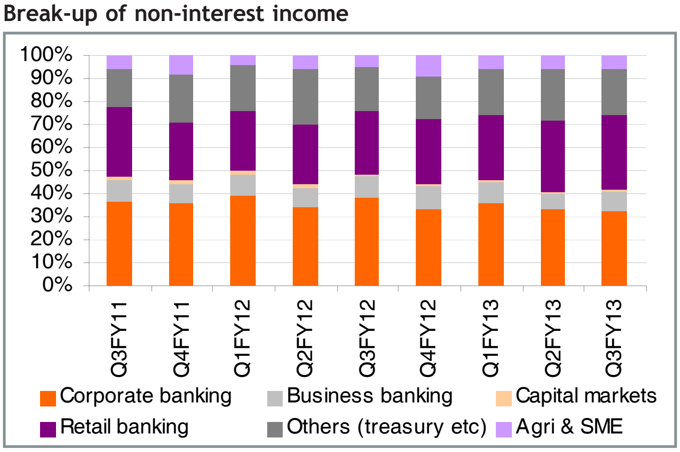
Trend of growth in advances and deposits



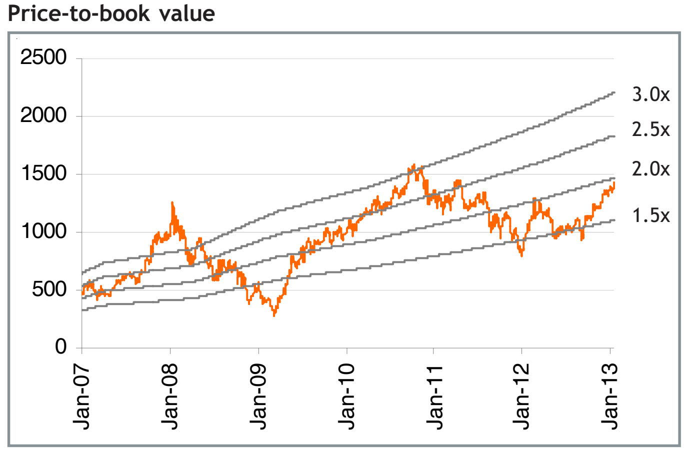
Trend in asset quality



Break-up of non-interest income



Price-to-book value



Financials

Profit and loss statement

Rs cr

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net interest income	6,563	8,018	9,451	11,050	13,319
Non-interest income	4,632	5,420	6,562	7,722	8,992
Net total income	11,195	13,438	16,013	18,772	22,311
Operating expenses	4,779	6,007	6,890	7,996	9,277
Pre-provisioning profit	6,416	7,431	9,123	10,776	13,033
Provision & contingency	1,280	1,143	1,690	2,170	2,658
PBT	5,136	6,288	7,434	8,606	10,375
Tax	1,747	2,046	2,475	2,866	3,455
PAT	3,388	4,242	4,958	5,740	6,920

Balance sheet

Rs cr

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Liabilities					
Networth	18,999	22,809	26,874	31,581	37,256
Deposits	189,238	220,104	261,924	314,309	378,428
Borrowings	26,268	34,072	36,047	40,785	50,481
Other liabilities & provisions	8,209	8,643	10,105	12,243	14,899
Total liabilities	242,713	285,628	334,949	398,918	481,064
Assets					
Cash & balances with RBI	13,886	10,703	14,144	17,130	18,732
Balances with banks & money at call	7,522	3,231	3,929	4,715	5,109
Investments	71,992	93,192	102,775	115,235	138,743
Advances	142,408	169,760	203,711	249,547	305,694
Fixed assets	2,273	2,259	2,485	2,982	3,579
Other assets	4,632	6,483	7,905	9,309	9,207
Total assets	242,713	285,628	334,949	398,918	481,064

Key ratios

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Per share data (Rs)					
EPS	82.5	102.7	120.0	138.9	167.5
DPS	16.3	18.6	21.6	25.0	30.1
BV	462.8	552.0	650.4	764.3	901.6
ABV	452.7	540.5	635.3	746.0	880.7
Spreads (%)					
Yield on advances	8.4	9.9	9.7	9.6	9.5
Cost of deposits	4.5	6.0	5.9	5.8	5.7
Net interest margins	3.4	3.3	3.3	3.3	3.2
Operating ratios (%)					
Credit to deposit	75.3	77.1	77.8	79.4	80.8
Cost to income	42.7	44.7	43.0	42.6	41.6
CASA	41.1	41.5	40.4	39.4	38.4
Non interest income/ Total income	41.4	40.3	41.0	41.1	40.3
Return ratios (%)					
RoE	19.3	20.3	20.0	19.6	20.1
RoA	1.6	1.6	1.6	1.6	1.6
Assets/Equity (x)	12.1	12.6	12.5	12.6	12.8
Asset quality ratios (%)					
Gross NPA	1.1	1.1	1.2	1.3	1.2
Net NPA	0.3	0.3	0.3	0.3	0.3
Provision coverage	74.2	73.3	75.1	76.1	76.7
Growth ratios (%)					
Net interest income	31.1	22.2	17.9	16.9	20.5
PPP	22.2	15.8	22.8	18.1	21.0
PAT	34.8	25.2	16.9	15.8	20.6
Advances	36.5	19.2	20.0	22.5	22.5
Deposits	33.9	16.3	19.0	20.0	20.4
Valuation ratios (%)					
P/E	17.2	13.9	11.9	10.2	8.5
P/BV	3.1	2.6	2.2	1.9	1.6
P/ABV	3.1	2.6	2.2	1.9	1.6

Bajaj FinServ

Reco: Hold

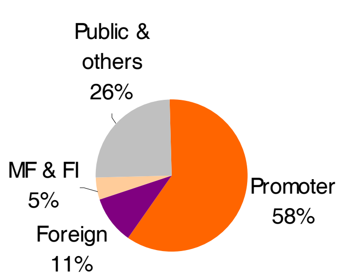
Stock Update

Steady growth in earnings

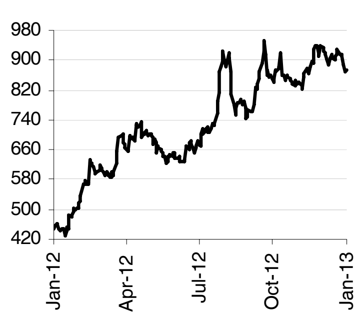
CMP: Rs874

Company details	
Price target:	Rs892
Market cap:	Rs13,904 cr
52 week high/low:	Rs979/427
NSE volume: (no. of shares)	1.7 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (no. of shares)	6.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.8	0.9	28.2	95.0
Relative to Sensex	-10.6	-5.6	10.2	55.5

Result highlights

During Q3FY2013 Bajaj FinServ reported a consolidated net profit of Rs248.7 crore (up 46.2% year on year [YoY]) led by a strong growth in the lending business (Bajaj Finance) and the general insurance business. The income from the operations showed a robust growth of 35.7% YoY to Rs1,119.8 crore, leading to a strong 41.8% year-on-year (Y-o-Y) growth in the operating profit.

Life insurance—earnings growth steady, premium growth slips though

The life insurance business reported a combined profit of Rs331 crore in Q3FY2013 (policy holders' surplus of Rs231 crore) showing a growth of 17.0% on a Y-o-Y basis. However, the gross written premium (GWP) declined by 9.9% YoY with the renewal premiums declining by 17.8% YoY. The assets under management (AUM) declined by 0.9% on a quarter-on-quarter (Q-o-Q) basis to Rs40,249 crore.

General insurance—strong growth in profitability

The general insurance business reported a profit of Rs91 crore in Q3FY2013 as against a profit of Rs60 crore in Q3FY2012. The gross premiums increased by 22.6% YoY during the quarter while the combined ratio stood at 98.7% (including motor pool losses). As required by the Insurance Regulatory and Development Authority (IRDA), the company provided Rs53 crore (Rs42 crore in Q3FY2012) for motor pool. The profit growth was strong despite a rise in the claims ratio (60.5% vs 58.1% in Q3FY2012).

Bajaj Finance—strong growth continues

Bajaj Finance showed a strong growth in profit (up 33.4% YoY to Rs160 crore) in Q3FY2013. The growth in the profit was driven by a strong uptick in the net interest income (NII), which grew by 27.4% YoY to Rs504 crore. The deployments of the company grew by 11.9% YoY to Rs5,200 crore during the quarter while its AUMs expanded by 9.6% quarter on quarter (QoQ) to Rs16,844 crore.

Results Rs cr

Particulars	Q3FY13	Q3FY12	YoY %	Q2FY13	QoQ %
Income from operations	1,119.8	825.2	35.7	1,007.8	11.1
Other income	0.9	0.4		0.3	
Total income	**1,120.7**	**825.6**	**35.7**	**1,008.1**	**11.2**
Expenses	300.1	246.8	21.6	285.4	5.2
Operating profit	**820.6**	**578.8**	**41.8**	**722.8**	**13.5**
Interest	320.8	207.2	54.8	293.2	9.4
PBT	499.8	371.6	34.5	429.6	16.3
PBT from ordianry activties	499.8	371.6	34.5	429.6	16.3
Tax	138.7	117.0	18.5	119.0	16.6
Profit from ordinary activities	361.1	254.6	41.9	310.6	16.3
Less minority interest	112.4	84.5	33.0	93.8	19.9
Net profit	**248.7**	**170.1**	**46.2**	**216.8**	**14.7**

Valuations

Bajaj FinServ has delivered steady numbers for the third quarter of FY2013 on the back of a strong growth by Bajaj Finance and the general insurance business. Though the life insurance business remains profitable, but the adverse environment and regulatory prescriptions could affect the premium growth, which, in turn, could affect the future profits.

We believe the increase in the foreign direct investment (FDI) limit to 49% by the government will be sentimentally negative for the company as the company has given an option to its joint venture partner to raise its stake at a pre-agreed price till 2016. However, the company can take shelter under ambiguity in the Reserve Bank of India (RBI)'s circular (transfer of shares to a foreign entity at a fair value). While the profit growth remains steady, the stock has appreciated significantly, leaving little room for upside. We upgrade our recommendation to Hold and maintain price target of Rs892.

Life insurance—premium growth decelerates

The GWP of Bajaj Allianz Life Insurance Company (BALIC) declined by 9.9% YoY to Rs1,508 crore during Q3FY2013 from Rs1,674 crore in Q3FY2012 mainly due to a decline in the renewal premiums. However, the new business premium increased by 2.5% YoY, which is better than the -0.9% (during April-November FY2012) growth recorded by the other private sector players.

During Q3FY2013, the company reported a total surplus of Rs331 crore (including Rs231 crore of policy holders' surplus). The solvency ratio of the life insurance company stands at 631% as against the regulatory requirement of 150%. Despite the tough conditions, the company expects about 15% growth in the new premiums in FY2013. However, the growth in the renewal premiums may remain subdued during the period.

General insurance—earnings grew by 21.9 % YoY

The general insurance business reported a profit of Rs91 crore (a 51.7% Y-o-Y growth) in Q3FY2013. In line with the increased provision requirement by the IRDA on motor pool, the company recorded a provision for motor pool loss of Rs53 crore as against Rs42 crore in Q3FY2012. The company provided for one-third of the motor pool losses prescribed by the IRDA (Rs150 crore) in FY2012 and the remaining will be spread over FY2014. The GWP grew by 22.6% to Rs950 crore for Q3FY2013 as against Rs775 crore for Q3FY2012. The combined ratio including the motor pool loss stands at 98.7%.

Strong traction in the lending business

Led by a strong growth in the core income, the earnings have grown by a robust 33.4% YoY to Rs160 crore (Rs120 crore in Q3FY2012). The growth in profits was driven by a strong uptick in the NII, which grew by 27.4% YoY to Rs504 crore. The deployments of the company grew by 11.9% YoY to Rs5,200 crore during Q3FY2013 whereas its AUMs grew by 41.3% YoY to Rs16,844 crore. The capital adequacy ratio (CAR) of Bajaj Finance stood at 17.5% in Q3FY2013. The company will raise Rs743 crore via a rights issue which will further strengthen the CAR.

Stand-alone performance

On a stand-alone basis, the company recorded a profit of Rs11.1 crore in Q3FY2013 as against a profit of Rs14.5 crore in Q3FY2012.

Bajaj Allianz Life Insurance Rs cr

Particulars	Q3FY13	Q3FY12	YoY %	Q2FY13	QoQ %
Gross written premium	1,508	1,674	(9.9)	1,592	(5.3)
New business premium	669	653	2.5	651	2.8
Renewal premium	839	1,021	(17.8)	941	(10.8)
Policyholders Surplus	231	220	5.0	220	5.0
Shareholders surplus	100	63	58.7	88	13.6
Profit / (Loss) for the year	**331**	**283**	**17.0**	**308**	**7.5**

Bajaj Allainz General Insurance Rs cr

Particulars	Q3FY13	Q3FY12	YoY %	Q2FY13	QoQ %
Gross Written Premium	950	775	22.6	976	(2.7)
Net Earned Premium	694	563	23.3	639	8.6
Underwriting profit/(loss)	62	48	29.2	49	26.5
Provision for Motor Pool	(53)	(42)	26.2	(54)	(1.9)
Interest and dividend income	122	96	27.1	117	4.3
Profit before tax	131	102	28.4	112	17.0
Profit after tax	**91**	**60**	**51.7**	**78**	**16.7**

Bajaj Finance Rs cr

Particulars	Q3FY13	Q3FY12	YoY %	Q2FY13	QoQ %
Total income	825	603	36.8	736	12.1
Interest and finance charges	321	207	54.8	295	8.9
Net interest income	**504**	**396**	**27.4**	**441**	**14.3**
Expenses	271	219	23.7	252	7.6
Profit before tax (PBT)	233	177	31.9	189	23.2
Profit after tax (PAT)	**160**	**120**	**33.4**	**129**	**24.4**
Earnings per share (EPS), basic and diluted	38	33	17.3	31	23.5
AUM	16,844	11,919	41.3	15,370	9.6
Deployments	5,200	4,649	11.9	4,334	20.0

Valuation and outlook

Bajaj FinServ has delivered steady numbers for the third quarter of FY2013 on the back of a strong growth by Bajaj Finance and the general insurance business. Though the life insurance business remains profitable, but the adverse environment and regulatory prescriptions could affect the premium growth, which, in turn, could affect the future profits.

We believe the increase in the FDI limit to 49% by the government will be sentimentally negative for the company as the company has given an option to its joint venture partner to raise its stake at a pre-agreed price till 2016. However, the company can take shelter under ambiguity in the RBI's circular (transfer of shares to a foreign entity at a fair value). While the profit growth remains steady, the stock has appreciated significantly, leaving little room for upside. We upgrade our recommendation to Hold and maintain price target of Rs892.

Valuation matrix

Particulars	Stake (%)	Value per share
Life Insurance (Appraisal Value)	51	504
General Insurance (12x FY14E earnings)	51	127
Bajaj Finance (2x FY14 BV)	61	232
Investments & Windmill		29
Total		**892**

NIIT Technologies

Reco: Hold

Stock Update

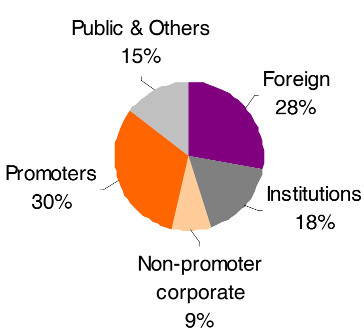
Maintain Hold, revise price target to Rs305

CMP: Rs277

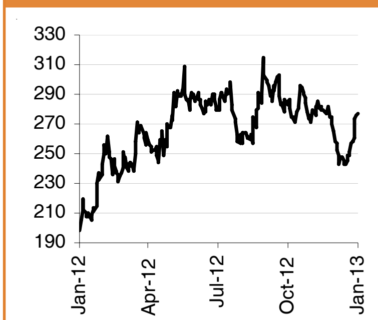
Company details

Price target:	Rs305
Market cap:	Rs1,652 cr
52 week high/low:	Rs325/196
NSE volume: (no. of shares)	1.3 lakh
BSE code:	532541
NSE code:	NIITTECH
Sharekhan code:	NIITTECH
Free float: (no. of shares)	4.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	-2.6	-1.2	42.6
Relative to Sensex	1.2	-8.8	-15.1	13.8

Result highlights

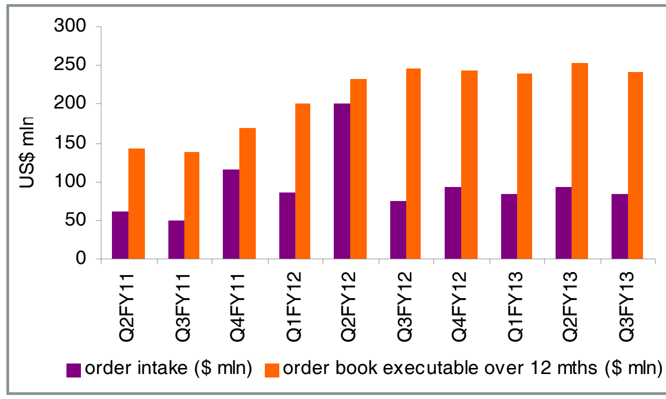
- **Forex gains lead to outperformance:** NIIT Technologies (NIIT)'s numbers for Q3FY2013 were broadly in line with our expectations. However, a higher than expected foreign exchange (forex) gain (Rs12.6 crore) led to an outperformance at the net income level. The revenues were up by 2.9% quarter on quarter (QoQ) and 18.8% year on year (YoY) to Rs514.4 crore (ahead of our expectation of Rs499.6 crore). However, excluding the hardware revenues of Rs22 crore the revenues were up by 0.3% QoQ to Rs492.4 crore.
- The revenue disappointment continues in the GIS (Geographic Information Systems) segment (owing to issues in the APDRP programme, with revenues dropping by 14% QoQ to Rs19.7 crore with a negative operating profit margin [OPM] of 7% (in Q2FY2013 the margin was 1%). The management expects some improvement in the revenue run rate in Q4FY2013, which is a seasonally strong quarter for the GIS business. On the other hand, it expects a steady margin of 20-22% by Q1FY2014.
- The revenues from the Room Solutions business further declined by 8% QoQ to Rs33.7 crore on account of a major catastrophe events like, Hurricane Sandy and others, which has caused losses to the reinsurers in the last few quarters. The management expects things to improve by Q1FY2014.

Results Rs cr

Particulars	Q3FY13	Q3FY12	Q2FY13	YoY %	QoQ %
Net sales	**514.4**	**433.0**	**500.1**	**18.8**	**2.9**
Direct costs	338.3	273.6	320.3	23.6	5.6
Gross profit	176.1	159.4	179.8	10.5	-2.1
SG&A	94.8	81.4	95.0	16.5	-0.2
EBITDA	81.3	78.0	84.8	4.2	-4.1
Depreciation & amort.	14.2	9.2	13.8	54.3	2.9
PBIT	67.1	68.8	71.0	-2.5	-5.5
Other income	12.6	17.4	-11.5	-27.6	
PBT	79.7	86.2	59.5	-7.5	33.9
Tax	23.0	22.4	14.6	2.7	57.5
PAT	56.7	63.8	44.9	-11.1	26.3
Minority interest	0.6	-0.2	1.8		-66.7
Net profit	56.1	64.0	43.1	-12.3	30.2
Equity capital (FV Rs10/-)	59.1	59.1	59.1		
EPS (Rs)	9.5	10.8	7.3		
Margin (%)					
GPM	34.2	36.8	36.0		
EBITDA	15.8	18.0	17.0		
EBIT	13.0	15.9	14.2		
NPM	10.9	14.8	8.6		
Tax rate	28.9	26.0	24.5		

- During the quarter, the revenues from the Morris Communications joint venture (JV) rose by 15% QoQ to Rs30.3 crore whereas Proyecta reported revenues of Rs14.4 crore, showing a growth of 13% QoQ.
- The EBITDA margin fell by 120 basis points QoQ to 15.8% (our expectation was 15.3%) on account of the transition cost associated with the Morris Communications JV (negative 40 basis points), the losses in the GIS segment and drop in the margin of the Room Solutions business. The management expects the margins to see a marginal improvement in Q4FY2013 and some significant improvement by Q1FY2014.
- The net other income for the quarter was up by 30% QoQ to Rs56.1 crore (ahead of our expectation of Rs50.6 crore). The outperformance was primarily driven by a higher than expected forex gain of Rs10.3 crore against a forex loss of Rs15.1 crore in Q2FY2013.
- **Valuation and view:** Improvement in the margin and consistency in the earnings performance remain the two key events that could trigger NIIT's re-rating from the current levels. However, we remain sceptical about any meaningful improvement in the margin in the medium term owing to issues in two of the high-margin segments, GIS and Room Solutions. Besides, there is a lack of clarity regarding the steady state margins in the new deals. We maintain our Hold rating on the stock with an increased price target of Rs305 (target multiple rolled over to FY2015 earnings estimate).

Order booking remains decent



Source: Company & Sharekhan Research

Operating matrix

Particulars	Q3FY13	Q3FY12	Q2FY13	YoY %	QoQ %	Remarks
Geography (%)						
Americas	37	37	38	18.8	0.2	➢ India business reported 23% Q-o-Q growth, driven by higher hardware revenues bookings.
EMEA	40	39	39	21.8	5.5	
APAC	11	13	13	0.5	-13.0	
India	12	11	10	29.6	23.4	
Industry verticals (%)						
BFSI	31	36	33	2.3	-3.4	➢ BFSI vertical reported 3.4% Q-o-Q drop, affected by a decline in the room solutions revenues (down 8% QoQ). Government vertical up by 64.6% QoQ driven by higher revenue booking in some of the recent projects, like CCTNS.
Transportation	42	38	42	31.3	2.9	
Retail & Manufacturing	6	7	6	1.8	2.9	
Government	8	5	5	90.1	64.6	
Others	13	14	14	10.3	-4.5	
Client contribution (%)						
Top 5 clients	34	29	32	39.3	9.3	➢ Top clients show a strong growth for the quarter.
Top 10 clients	48	44	47	29.6	5.0	
Top 20 clients	65	58	64	33.1	4.5	
Others	35	42	36	-1.0	0.0	
Service lines (%)						
ADM	63	62	64	20.7	1.3	➢ SI and PI reported a strong growth of 14% QoQ driven by higher India revenues.
IP Asset based	9	13	10	-17.8	-7.4	
Managed services	12	12	11	18.8	12.2	
System Int. & Package Impl	10	7	9	69.7	14.3	
BPO	6	6	6	18.8	2.9	

Source: Company and Sharekhan Research

Key management commentary

- The management expects macro headwinds to subside; however, challenges remain in some pockets. Overall, the management expects FY2014 to be better than FY2013.
- On the key verticals, the travels and transportation vertical is witnessing a decent traction and expects demand to improve in the coming quarters.
- The banking, financial services and insurance (BFSI) vertical is likely to remain soft on account of macro uncertainties; more so in the Room Solutions business, as reinsurers were affected by some catastrophic events in 2012.
- The margins are expected to show some meaningful improvement by Q1FY2014, with transitions getting over in the Morris Communications JV and improvement in the margins of the GIS and Room Solutions businesses.

Other highlights of Q3FY2013 performance

- During Q3FY2013, NIIT made a net addition of 265 employees, taking the total headcount to 7,882 employees; the attrition rate dropped marginally QoQ to 12.5%. The utilisation rate dropped to 78.4% from 79.8% in Q2FY2013.
- The cash and cash equivalents at the end of Q3FY2013 stood at Rs285.6 crore vs Rs232 crore in Q2FY2013. The debt on the books decreased to Rs9.2 crore on account of Rs21.5 crore of payment of a GBP loan during the quarter.
- The company hedged $47.9 million at Rs56.71/$ against $48.39 million at Rs55.69/$ as at the end of the previous quarter.
- The days sales outstanding days were up by one day to 76 days from 75 days in the previous quarter.

Valuation and view

Improvement in the margin and consistency in the earnings performance remain the two key events that could trigger NIIT's re-rating from the current levels. However, we remain sceptical about any meaningful improvement in the margin in the medium term owing to issues in two of the high-margin segments, GIS and Room Solutions. Besides, there is a lack of clarity regarding the steady state margins in the new deals. We maintain our Hold rating on the stock with an increased price target of Rs305 (target multiple rolled over to FY2015 earnings estimate).

Valuations

Particulars	FY12	FY13E	FY14E	FY14E
Revenues (Rs cr)	1576.5	2028.3	2357.2	2668.6
EBITDA margin (%)	17.0	16.2	16.4	16.5
Net profit (Rs cr)	197.2	209.6	250.0	281.1
EPS (Rs)	33.1	35.2	41.9	47.1
PE (x)	8.4	7.9	6.6	5.9
EV/EBITDA (x)	5.3	4.2	3.1	2.2
RoE (%)	23.6	21.0	21.3	20.5
RoCE (%)	29.7	28.0	28.3	27.2
Dividend yield (%)	3.0	2.8	3.3	3.7

Sharekhan Stock Ideas

Automobiles

Apollo Tyres
Ashok Leyland
Bajaj Auto
M&M E
Maruti Suzuki India

Banks & Finance

Allahabad Bank
Andhra Bank
Axis (UTI) Bank
Bajaj Finserv
Bank of Baroda
Bank of India
CanFin Homes
Capital First
Corp Bank
Federal Bank
HDFC
HDFC Bank
ICICI Bank
IDBI Bank
Punjab National Bank
SBI
Union Bank of India
Yes Bank

Consumer goods

Bajaj Corp
GSK Consumers
Godrej Consumer Products
Hindustan Unilever
ITC
Marico
Mcleod Russel India
TGBL (Tata Tea)
Zydus Wellness

IT / IT services

CMC
HCL Technologies
Infosys
NIIT Technologies
Persistent Systems
Polaris Financial Technology
Tata Consultancy Services
Wipro

Capital goods / Power

Bharat Heavy Electricals
CESC
Crompton Greaves
Greaves Cotton
Kalpataru Power Transmission
PTC India
Thermax
V-Guard Industries

Infrastructure / Real estate

Gayatri Projects
ITNL
IRB Infra
Jaiprakash Associates
Larsen & Toubro
Mahindra Lifespace Developers
Orbit Corporation
Pratibha Industries
Punj Lloyd
Unity Infraprojects

Oil & gas

GAIL
Oil India
Reliance Ind
Selan Exploration Technology

Pharmaceuticals

Aurobindo Pharma
Cadila Healthcare
Dishman Pharma
Divi's Labs
Glenmark Pharmaceuticals
Ipca Laboratories
Lupin
Sun Pharmaceutical Industries
Torrent Pharma

Agri-Inputs

Deepak Fert
Tata Chemicals
United Phosphorus

Building materials

Grasim
India Cements
Madras Cements
Orient Paper and Industries
Shree Cement
UltraTech Cement

Discretionary consumption

Eros International Media
Indian Hotel Company
KKCL
Raymond
Relaxo Footwears
Speciality Restaurants
Zee Entertainment Enterprises

Diversified / Miscellaneous

Aditya Birla Nuvo
Bajaj Holdings
Bharti Airtel
Bharat Electronics
Gateway Distriparks
Max India
Opto Circuits India
Ratnamani Metals and Tubes
Sintex Industries