

October 28th, 2009

BUY

HIGH RISK

PRICE Rs.83

TARGET Rs.116

INFORMATION TECHNOLOGY

EARLIER RECO

BUY	
Price	Rs.77
Target	Rs.116
Date	August 4, 2009

SHARE HOLDING (%)

Promoter	30.0
FII	16.6
FI / MF	22.5
Body Corporates	7.6
Public & Others	23.3

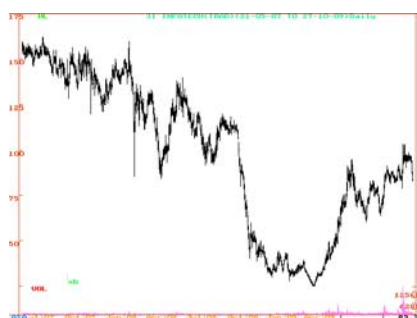
STOCK DATA

Returns Code	TIIN.BO
Bloomberg Code	III@IN
BSE Code	532628
NSE Symbol	3IINFOTECH
Market*	Rs.13977.2 mn
Capitalization	US\$ 298.7 mn
Shares Outstanding*	168.4 mn
52 Weeks (H/L)	Rs.103 /25
Avg. Daily Volume (6m)	1,305,646 Shares
* Fully diluted	

Price Performance (%)

1M	3M	6M
(1)	5	89

200 Days EMA Rs.73

Part of  Bonanza

Muted Q2FY10 results

- During Q2FY10, 3i Infotech Ltd. (3i) has reported a muted performance with its Consolidated Revenues increasing by 4.8% QoQ to Rs. 6,262.6 mn. During the period, its Products Services (PS) and Transactions Services (TS) Revenues increased by 6.6% and 16.9% on QoQ basis to Rs. 1,999.7 mn and Rs. 2,303.6 mn respectively, while its IT Services business revenues decreased by 8.3% QoQ to Rs. 1,932.3 mn. The decline in IT services business was mainly due to completion of some contracts in domestic market which were not renewed.
- Its EBITDA increased by 1.0% QoQ to Rs.1,202.9 mn, while its EBITDA margins decreased by 70 bps QoQ to 19.2%, mainly due to a 150 bps increase in SG&A cost as percentage of sales. Its APAT after minority interest decreased by 10.2% QoQ to Rs.528.8 mn and its APAT margins decreased by 140 bps to 8.4% on QoQ basis, mainly due to higher provision for interest, depreciation and tax.
- During the quarter, 3i raised Rs. 3178 mn through issue of 37.5 mn equity shares to QIB's. As proposed, the money raised will be utilized mainly for reducing its borrowings. This will reduce interest cost and result in higher net profit margins.
- Its order book as on September'09 remained healthy at Rs. 15,700 mn, as compared to Rs. 14,500 mn as on June'09. The outstanding order book includes estimated revenues for next 12 months from long term service contracts.
- The Company has incurred a capex of Rs 2.5 bn for setting up of 6000 kiosks. The management expects kiosk business to break even at operating level in FY10 with expected revenues of Rs.360 mn.

OUTLOOK & VALUATION

3i has delivered a muted performance during H1FY10. However, the Company expects good traction happening in the emerging markets especially for BFSI industry. In the US, 3i is the largest outsourced transaction processing provider with more than 700 mn payments processing on annual basis. With acquisition of JP Morgan Treasury Services' National Retail Lockbox Business (NRLB), which also contributed about Rs.300 mn in Q2FY10, the Company expects further strengthening of its position in the US market. On the whole, 3i is much better placed as compared to many of its peers and has a well-balanced business mix in terms of geographical spread & portfolio of offerings.

Going forward, with muted H1FY10 performance and expected reduction in debt due to part repayment through QIB issue, we have revised our estimates for FY10E & FY11E. While we have marginally reduced our APAT estimates for FY10E, we have increased for FY11E APAT estimates, largely based on lower interest costs. At the CMP of Rs.83, the stock is available at an attractive valuation of 6.5x FY10E earnings of Rs.12.8 & 5.2x its FY11E earnings of Rs.16.0. We maintain our "BUY" rating on the stock, with a price target of Rs. 116.

KEY FINANCIALS (Consolidated)

Y/E	Sales	APAT	APAT	EPS	PER	ROCE	ROE	EV/EBITDA
Mar.	(Rs mn)	(Rs mn)	(%Ch.)	(Rs.)	(x)	(%)	(%)	(x)
FY09	22856	2560	45.0	19.6	4.2	12.7	32.4	6.8
FY10E	25399	2160	(15.6)	12.8	6.5	10.0	18.0	6.2
FY11E	28407	2718	25.8	16.0	5.2	11.0	17.3	5.2

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Major Wins across Geographies & Verticals

During Q2FY10, the Company has won several deals across all of its verticals, some of which are as follows:

- One of **North America's** largest electricity and natural gas providers upgraded its order for our Payment Solution product.
- **Western Europe geography:** 3i signed a deal with a leading bank for their internal portal development. It also has signed a 5 year deal for Framework with a leading financial institution there. Also a major stock broking firm signed a deal for AWACS in the Western Europe geography.
- **MEARC geography:** One of the top three banks in the Kingdom of Saudi Arabia has signed a deal for Kastle ULS – Loan Origination in the MEARC geography. 3i also received an order for Kastle ULS and Credit Risk from a leading financial institution engaged in mortgages in MEARC geography. It also bagged an order for Premia 10 Composite from one of the largest insurance companies in the Middle East. The company will deploy its solution across all their branches.
- **APAC geography:** It signed a deal for Kastle Integrated Treasury and Market Risk Management Solution with a leading financial institution, wholly owned by the Ministry of Finance Royal Thai Government. A leading insurance company in the South Asia geography has entered into an agreement for the BPO activities of address verification and premium collection. Also, a leading insurance company in South Asia renewed its support and maintenance contract for Premia.
- A renowned banking and insurance company in **India** placed an order for the MFund asset management and investment management solutions to address the requirements of their back office and front office system.
- It won a deal from a prestigious university in New Delhi, **India** to build a Data Center as well as to implement a high performance computing facility for use of all post-graduate research students.

QUARTERLY RESULTS (Consolidated) (Rs.mn)

Y/E March	Q2FY09	Q1FY10	Q2FY10
Total Revenues	6015.9	5977.6	6262.6
% Ch. QoQ	28.4	(1.5)	4.8
% Ch. YoY	116.5	27.6	4.1
Cost of revenue	3556.4	3598.9	3723.5
% Ch. QoQ	30.6	(1.5)	3.5
% Ch. YoY	138.1	32.2	4.7
% STO	59.1	60.2	59.5
SG & A	1210.2	1188.2	1336.2
% Ch. QoQ	28.5	(3.0)	12.5
% Ch. YoY	98.4	26.1	10.4
% STO	20.1	19.9	21.3
Software Dev. Cost	107.0	0.0	0.0
Total Expenditure	4873.6	4787.1	5059.7
% Ch. QoQ	29.2	(1.8)	5.7
% Ch. YoY	122.5	26.9	3.8
% STO	81.0	80.1	80.8
EBITDA	1142.4	1190.5	1202.9
% Ch. QoQ	25.3	0.0	1.0
% Ch. YoY	94.2	30.6	5.3
% Margin	19.0	19.9	19.2
Interest	236.2	341.9	363.1
% Ch. QoQ	30.9	22.4	6.2
% Ch. YoY	80.8	89.5	53.7
% of STO	3.9	5.7	5.8
EBTD	906.2	848.6	839.8
% Ch. QoQ	24.0	(6.8)	(1.0)
% Ch. YoY	98.0	16.1	(7.3)
% Margin	15.1	14.2	13.4
Depreciation	153.2	285.8	304.4
% Ch. QoQ	29.6	22.5	6.5
% Ch. YoY	196.2	141.7	98.7
% of STO	2.5	4.8	4.9
PBT excl. OI	752.9	562.8	535.4
% Ch. QoQ	22.9	(16.9)	(4.9)
% Ch. YoY	85.5	(8.2)	(28.9)
% Margin	12.5	9.4	8.5
Other Income	52.8	43.8	58.9
% Ch. QoQ	67.5	6.8	34.5
% Ch. YoY	(13.1)	39.0	11.6
% Margin	0.9	0.7	0.9
PBT incl OI	805.7	606.6	594.3
% Ch. QoQ	25.1	(15.6)	(2.0)
% Ch. YoY	72.6	(5.8)	(26.2)
% Margin	13.4	10.1	9.5
Tax	86.4	(22.7)	22.4
% Ch. QoQ	36.5	(145.9)	(198.7)
% Ch. YoY	138.3	(135.9)	(74.1)
% of PBT	10.7	(3.7)	3.8
APAT	719.3	629.3	571.9
% Ch. QoQ	23.8	(5.9)	(9.1)
% Ch. YoY	67.1	8.3	(20.5)
% Margin	12.0	10.5	9.1
APAT after Min.Int.	683.5	588.8	528.8
% Ch. QoQ	16.5	(8.8)	(10.2)
% Ch. YoY	70.5	0.4	(22.6)
% Margin	11.4	9.9	8.4
Exceptional Item	0.0	278.7	0.0
RPAT	683.5	867.5	528.8

PROFIT & LOSS (Consolidated) (Rs.mn)

Y/E March	FY09	FY10E	FY11E
Total Revenues	22856.4	25398.8	28407.1
% Ch. YoY	89.6	11.1	11.8
Cost of revenue	13657.8	15239.3	17186.3
% Ch. YoY	111.6	11.6	12.8
% STO	59.8	60.0	60.5
SG&A	4638.9	5257.5	5783.3
% Ch. YoY	75.5	13.3	10.0
% STO	20.3	20.7	20.4
Software Dev. Cost	215.7	0.0	0.0
% Ch. YoY	(46.9)		
% STO	0.9		
Total Expenditure	18512.3	20496.8	22969.6
% Ch. YoY	94.8	10.7	12.1
% STO	81.0	80.7	80.9
EBITDA	4344.1	4902.0	5437.5
% Ch. YoY	70.4	12.8	10.9
% Margin	19.0	19.3	19.1
Interest	949.5	1325.0	1100.0
% Ch. YoY	88.0	39.5	(17.0)
% of STO	4.2	5.2	3.9
EBTD	3394.6	3577.0	4337.5
% Ch. YoY	66.1	5.4	21.3
% Margin	14.9	14.1	15.3
Depreciation	700.6	1226.1	1410.0
% Ch. YoY	187.2	75.0	15.0
% of STO	3.1	4.8	5.0
PBT excl. OI	2694.0	2350.9	2927.5
% Ch. YoY	49.7	(12.7)	24.5
% Margin	11.8	9.3	10.3
Other Income	193.1	230.0	275.0
% Ch. YoY	5.5	19.1	19.6
% Margin	0.8	0.9	1.0
PBT incl OI	2887.1	2580.9	3202.5
% Ch. YoY	45.6	(10.6)	24.1
% Margin	12.6	10.2	11.3
Tax	220.5	271.0	384.3
% Ch. YoY	45.8	22.9	41.8
% of PBT	7.6	10.5	12.0
NP Before MI	2666.6	2309.9	2818.2
% Ch. YoY	45.6	(13.4)	22.0
% Margin	11.7	9.1	9.9
APAT after Min. Int.	2560.4	2159.9	2718.2
% Ch. YoY	45.0	(15.6)	25.8
% Margin	11.2	8.5	9.6
Exceptional Item	259.6	278.7	
RPAT	2820.0	2438.6	2718.2

Source : Company, Sushil Finance Research Estimates

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31 st March	FY09	FY10E	FY11E
SOURCES OF FUNDS			
Share Capital	1,307.5	1,692.5	1,702.5
Reserves & Surplus	8,062.6	12,897.5	15,206.6
Total Equity	9,370.1	14,590.0	16,909.1
Preference Sh. Capital	1,000.0	1,000.0	1,000.0
Net Worth	10,370.1	15,590.0	17,909.1
Secured Loans	9,393.7	5,818.6	4,945.8
Unsecured Loans	12,626.7	11,651.7	10,486.5
Total Loan funds	22,020.4	17,470.3	15,432.3
Minority Interest	211.6	361.6	461.6
Capital Employed	33,696.6	33,421.9	33,803.0
APPLICATION OF FUNDS			
Goodwill	17,004.0	17,310.9	17,310.9
Gross Block	7,997.3	9,596.8	11,036.3
Less: Depreciation	2,330.1	3,556.2	4,966.1
Net Block	5,667.2	6,040.6	6,070.2
Cap. WIP	1,256.5	1,200.0	1,000.0
Fixed Assets	6,923.7	7,240.6	7,070.2
Investments	36.0	96.6	96.6
Sundry Debtors	4,831.0	5,355.3	5,995.8
Cash & Bank Bal	3,196.1	1,300.7	1,426.6
Loans & Advances	3,315.4	4,036.0	4,280.5
Inventories	110.6	121.7	133.8
Unbilled Revenues	2,773.6	2,992.2	3,190.9
Curr. Assets, Loans & Adv.	14,226.7	13,805.8	15,027.7
Curr. Liabilities	4,268.3	4,753.4	5,360.7
Provision	611.6	703.3	808.8
Curr. Liab. & Prov.	4,879.9	5,456.7	6,169.6
Net Current Assets	9,346.8	8,349.1	8,858.1
Def. Tax Assets (Net)	386.1	424.7	467.2
Total Assets	33,696.6	33,421.9	33,803.0

FINANCIAL RATIO (Consolidated)

Y/E March	FY09	FY10E	FY11E
GROWTH (%)			
Net Sales	89.6	11.1	11.8
Adjusted Net Profit	45.0	(15.6)	25.8
EBITDA	70.4	12.8	10.9
EPS	44.8	(34.8)	25.1
CEPS	61.4	(19.8)	21.2
Gross Fixed Assets	118.2	20.0	15.0
Capital Employed	63.9	(0.8)	1.1
VALUATION			
EPS (Rs.)	19.6	12.8	16.0
CEPS (Rs.)	24.9	20.0	24.2
BVPS (Rs.)	71.7	86.2	99.3
PER (x)	4.2	6.5	5.2
PEG (x)	0.1	(0.2)	0.2
P/CEPS (x)	3.3	4.1	3.4
P/BV (x)	1.2	1.0	0.8
P/S (x)	0.5	0.6	0.5
EV/EBITDA (x)	6.8	6.2	5.2
EV/Net Sales (x)	1.3	1.2	1.0
PROFITABILITY			
ROCE (%)	12.7	10.0	11.0
ROE (%)	32.4	18.0	17.3
EBIDTA Margin (%)	19.0	19.3	19.1
EBDTA Margin (%)	14.9	14.1	15.3
Net Profit Margin (%)	11.2	8.5	9.6
Tax/PBT (%)	7.6	10.5	12.0
TURNOVER			
Debtor Days	77	77	77
Creditor Days	114	114	114
Net Fixed Assets (x)	4.0	4.2	4.7
Total Assets (x)	0.7	0.8	0.8

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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