

India Ratings Affirms NIIT at 'IND AA-/Stable

India Ratings -New Delhi/Mumbai- 25 September 2012: India Ratings has affirmed NIIT Limited's National Long-Term Rating at 'IND AA-'. The Outlook is Stable. A list of additional rating actions is provided at the end of this commentary.

The affirmation factors in the improvement in NIIT's credit profile and strengthening of its balance sheet post divestment of its US-based Element-K business for a cash consideration of around USD110m. The Element-K business had lower margins (FY11: EBITDA margin 8.5%) than NIIT's consolidated margins of around 12%-13% and required significant intellectual property renewals which involved continued capex.

Net debt/EBITDA improved to 0.06x in FY12 (FY11: 1.9x) as NIIT lowered its debt levels to INR1,087m in FY12 using cash proceeds of USD60m from the divestment. Liquidity also improved with a cash balance of INR1bn as at end-March 2012, unused fund-based limits of INR1bn at end-June 2012 and low debt maturities. Element-K was acquired at USD36.5m in FY07.

The affirmation also continues to reflect NIIT's position as the pioneer and market leader in information technology (IT) training, and its status as one of the largest companies in the corporate training segment. The ratings also benefit from NIIT's established brand name and its wide training centre network. The ratings continue to be supported by the company's stable financial profile as marked by a low net cash cycle and no major capex plans. India Ratings has taken a consolidated view of NIIT's business and financials for the purpose of the rating.

However the ratings are constrained by NIIT's moderate consolidated EBITDA margins (FY12: 12%, FY11: 13%). The FY12 margins were lower due to one-time costs related to new delivery models, initial investments in non-government school business and one-time ramp-up expenses in managed training services (MTS) businesses. A scale-up in MTS and non-government school businesses should lead to an improvement in profitability in the short-to-medium term. Q1 being a lean quarter and operating leverage being fairly high, Q113 consolidated EBITDA margins were weaker at 5% in Q113 (Q112: 7.6%).

NIIT's individual learning business (56% of FY12 consolidated revenue) is facing a challenging operating environment with weak domestic IT hiring, leading to weaker student sentiment and lower enrolments although pick-up is expected in H213. NIIT aims to recover from this slowdown by adding new short-term IT training courses while also increasing non-IT courses and leveraging on new training delivery models.

In its corporate learning business (24 % of FY12 consolidated revenue), NIIT continues to focus on IP-based and annuity-based businesses (MTS contracts) providing visibility on future revenue stream and profitability. The current order book includes nine key global customers with overall revenue visibility of USD125m over the next five years.

In the school learning business (20% of FY12 consolidated revenue), NIIT is highly selective on government instructional and computing technology (ICT) contracts which are more capital intensive to improve margins and cash release. The revenue decline in the government ICT business from maturity of old contracts is offset by an increasing focus on non-government schools segment via integrated product offerings branded as 'nGuru'. NIIT added 267 schools in Q113 and 687 private schools in FY12, and is increasing its sales staff to improve reach.

WHAT COULD TRIGGER A RATING ACTION?

Positive: Future developments that may lead to positive rating action include a significant improvement in business profile resulting in a sustained improvement in consolidated EBITDA margins coupled with continued low financial leverage.

Negative: Future developments which may lead to negative rating action include consolidated net adjusted

financial leverage (net adjusted debt/EBITDAR) exceeding 2.75x on a sustained basis due to any pressure on revenue and/or margins, and/or on account of any significant debt-led capex/ acquisitions.

Rating actions on NIIT's debt instruments are as follows:

- INR1,000m fund-based working capital bank lines: affirmed at National Long-Term 'IND AA-' and National Short-Term 'IND A1+'
- INR1,600m non-fund-based working-capital bank lines: affirmed at National Long-Term 'IND AA-' and National Short-Term 'IND A1+'
- INR500m existing long-term bank loans: National Long Term 'IND AA-' rating withdrawn as the instrument has been repaid in full
- INR600m commercial paper programme (within the fund-based working capital bank lines): affirmed National Short-Term 'IND A1+'
- INR900m long-term debt (reduced from INR1,000m): affirmed National Long Term 'IND AA-'
- INR400m short-term debt: affirmed at National Short-Term 'IND A1+'

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Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Applicable criteria, 'Corporate Rating Methodology', dated 12 September 2012, are available at www.indiaratings.co.in.

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