

BUY

Jetking Infotrain

Rating Mix

CMP	Rs59
Target Price	Rs144
Time Period	1 year

Stock Info

Sector	IT
Market Cap (cr.)	34
52 Week High/Low	128/45
Average Volume	2299
Face Value (Re.)	10
BSE Sensex	17,924
Nifty	5,429

Shareholding Pattern

Promoters	44
MF/Banks/FIs	2
FII /NRI's/ OCB's	4
Indian Public /Others	50

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Contract worth over Rs33cr from the government of Gujarat to train students in computer hardware and networking will create a new business opportunity. Tie up with Sikkim Manipal University (SMU) will increase the current order book and thus, will help to boost earnings in quarters to come. At current levels valuation looks cheap. Currently it is trading below its intrinsic value which discounts the stock and gives investors an opportunity to buy at current levels.

Jetking Infotrain which operates on a robust business model is ready to tap opportunities in Gujarat - Jetking Infotrain Ltd being the leader in hardware and networking business has been awarded a contract worth over Rs. 33 crores by the Government of Gujarat to train students in Computer Hardware and Networking. This contract will be executed over the next three years partly by partners and partly by Jetking itself. This contract definitely has opened up a whole new business opportunity for Jetking which will also help to increase their sales.

Promising Tie up with leading higher education provider will help to boost their earnings in future - Jetking in association with Sikkim Manipal University (SMU) has launched a 3 year degree program BSc -IT (IMS). So far 15 centres are active and have enrolled 28 students for this program. This will help them to generate more income and in turn will create positive cash inflows.

Trading at a fairly low P/E gives investors a chance to buy at current levels- Jetking has solid fundamentals and is set on a strong growth trajectory and is trading at a low P/E multiple in the markets. Historically it has traded at an average P/E of 8x. Currently it is trading at PE of 3x FY2012E EPS. This gives investors a chance to accumulate the stock at current levels. Hence, **we recommend BUY with target price of Rs144.**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales	46	41	47	54
% chg	(4.2)	(12.1)	15.4	15.0
Adj Profit	9.6	6.6	11.1	18.0
% chg	(24.6)	(32.0)	68.9	62.6
EBITDA (%)	36.2	29.2	27.7	36.8
Adj EPS (Rs)	16.3	11.1	18.8	30.5
P/E (x)	3.6	5.3	3.1	1.9
P/BV (x)	1.1	1.0	0.8	0.6
RoE (%)	33.6	19.2	27.7	36.4
RoCE (%)	50.3	28.8	27.7	36.0
EV/Sales (x)	0.3	0.3	0.3	0.1
EV/EBITDA (x)	0.8	1.1	1.0	0.2

Investment Rationale

Jetking is one of the leading Hardware and Networking training institute.

It has trained over 4,00,000 students in its 116 centres spread across India. Jetking operates through a franchisee model which ascertains lower operating costs and scalable business model. Jetking has trained more than 32,000 students in FY2011. Jetking has the goal of training 35,000-40,000 students in FY12. They are also planning to open 3 mega centres in FY2012.

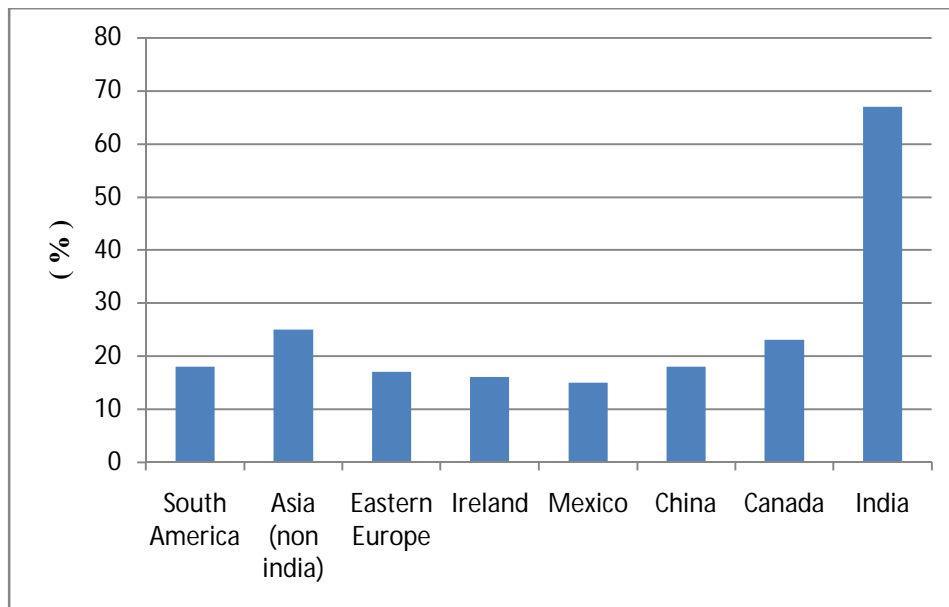
A unique segment: Every person trained at their centre is guaranteed a job.

Jetking can easily attract people to their training centres with their 100% job guarantee. Jetking services an interesting segment of society. Their target customer segment is people from economically challenged backgrounds. There is no other company that has a strong presence in this space. Jetking seems to have hit the sweet spot where they not only train a large segment of society and place them in jobs so the return on education for these people is very high.

IMS: Infrastructure management services

The market segment they target doesn't have too much competition. The company is able to easily attract students as they are targeting a one of the largest segment of society. The hardware infrastructure segment is facing a massive boom in India. The remote infrastructure management is enabling companies to cut costs by outsourcing this part of their operations to India.

Exhibit 1 service provider offshore capabilities



Source- NASSCOM REPORT

The above chart states that India has huge potential in order to cater various services as India is leading in service industry. This will create a huge demand for infrastructure management services and also thus will attract foreign capital into this field.

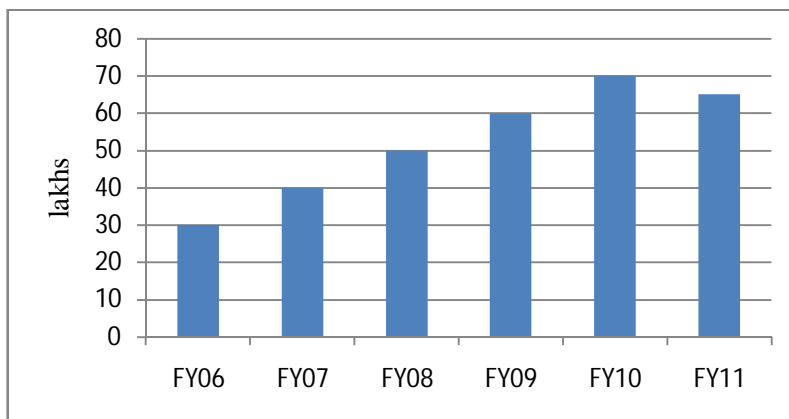
According to NASSCOM this sector is set to grow at 50%-60% over the next five years in India. The global market will grow to US\$1,745mn to US\$2,130 in the same time frame. Of this segment India will contribute 20% of the revenue. This means at this growth trajectory India will capture US\$260mn of the total global industry. This will create about 375,000 IT jobs in the sector. This segment employs most number of networking professionals and will benefit Jetking tremendously as they are in the business of training network professionals.

PCs are fuelling growth in the hardware market.

India is one of the fastest growing IT markets in the world, the fastest growing PC market in the Asia-Pacific region, and also the country with the fastest growth in Internet usage in Asia Pacific region. The hardware sector currently accounts for around 56% of total IT spending and is growing faster than other sectors of this industry. Looking at the frenzy in the PCs marketplace, it is fairly clear that PCs are fuelling growth in the hardware market.

This shall boost India's prospects to be the fastest growing PC market in the Asia Pacific region. With this continued growth, India shall become the second largest PC market in the region by 2013.

Exhibit 2 Total PC sales in India

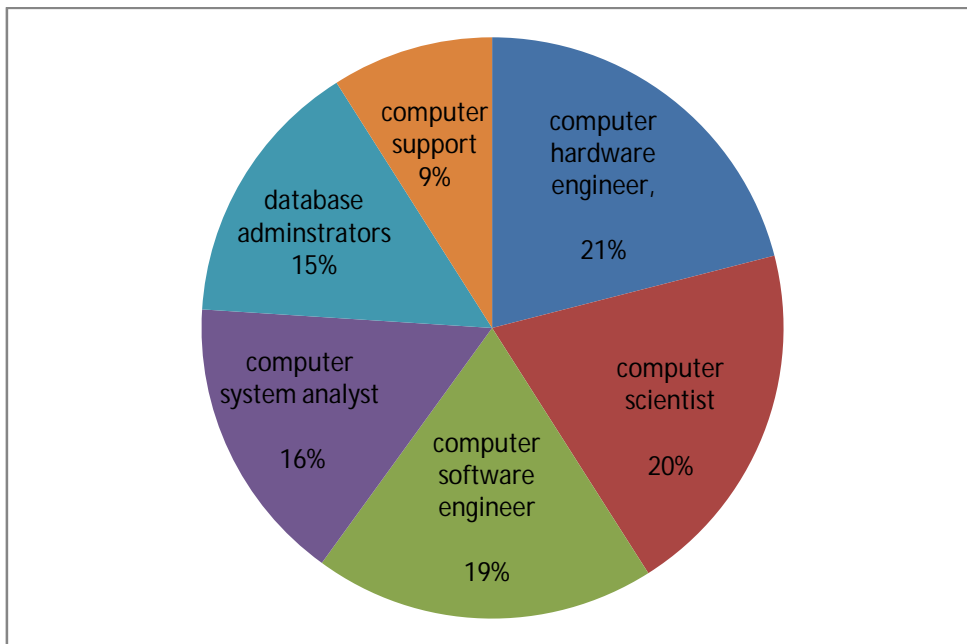


Source- NASSCOM REPORT

Recent surveys have revealed that the electronics and hardware sector in India is expected to grow above \$60 billion. Computer Hardware and Networking is projected to be one of the fastest growing sectors for job opportunities. Hardware and Networking Professional can find employment in public and private sector.

Out of IT (information technology) - Hardware jobs pay the most money.

Exhibit 3 Hardware jobs pay the most money



Source- NASSCOM REPORT

The above chart clearly indicates huge scope for making career in hardware industry. As population is increasing and also initiative by government to promote education has helped hardware industry to grow and create employment.

Education sector - Sector that promises big growth in future

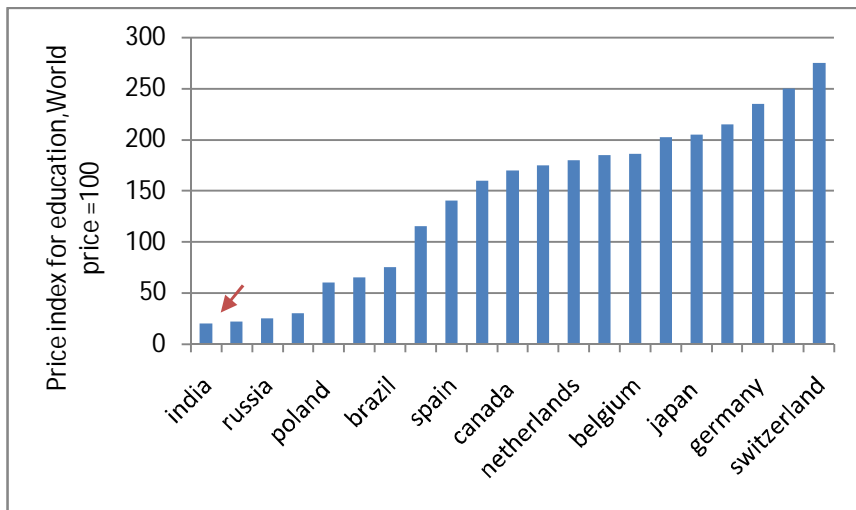
Finance Minister Pranab Mukherjee announced a 24% hike in the budget 2011 for allocation in education sector. An allocation of Rs.52,057 crore, with an increase of 24% over the year 2010. This shows tremendous growth in education space over the years to come.

Some Facts

- FDI inflows in the education sector during the period April 2000 to September 2011 stood at US\$449mn , according to the Department of Industrial Policy and Promotion (DIPP)
- According to the 2011 census, the total literacy rate in India is 74%. The female literacy rate is 65% and male literacy rate is 82%
- The country has 544 university level institutions, which includes 261 state universities, 73 state private universities, 42 central universities, 130 deemed universities, 33 institutions of national importance and five institutions established under various state legislations, according to the Ministry of Human Resource Development (HRD) Annual Report 2010-11
- The country has around 79 centrally funded institutions, which includes 15 Indian Institutes of Technology (IITs), 11 Indian Institutes of Management (IIMs) and 30 National Institutes of Technology (NITs)

Price of Education in India is the cheapest

Exhibit 4 Education in India is the cheapest



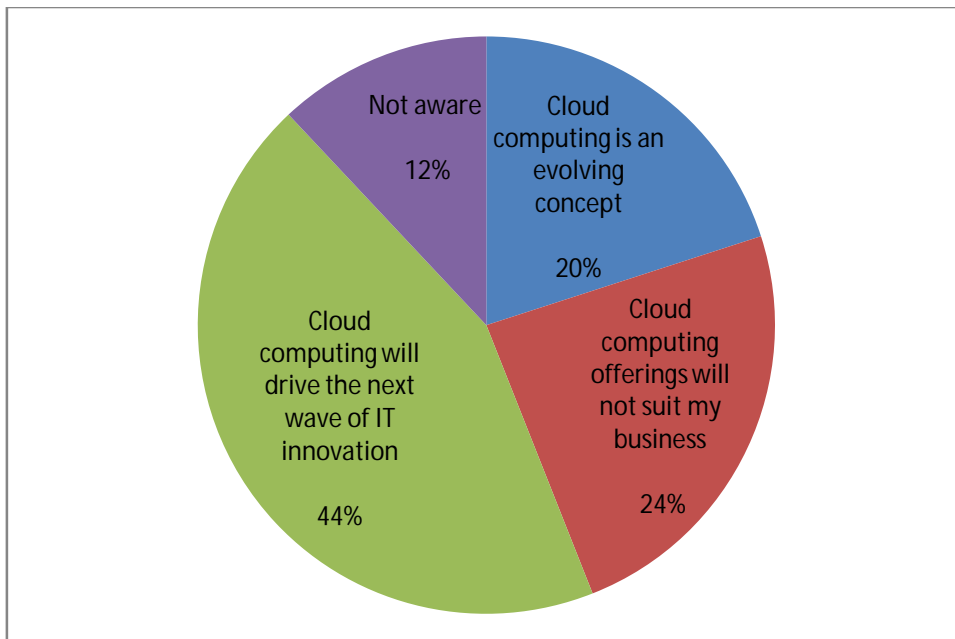
- Public spending in education accounts for more than 60% of overall education spending in India. Yet, current educational facilities are inadequate in terms of both quantity and quality. As seats available for tertiary education are sufficient for just 12% of the population in the age group that needs such education. In addition, perceived quality gaps are driving even lower-income students to shift from public education to private education.
- Given the serious budget constraints faced by the government, large private participation is required to create adequate access and improve the quality of education

Cloud Computing -The next "big" IT revolution.

Jetking has already taken the first step with introducing a course on Tablet usage and maintenance. We will also be introducing a course on managing the Cloud.

Cloud computing is a technology that uses the internet and central remote servers to maintain data and applications. Cloud computing allows consumers and businesses to use applications without installation and access their personal files at any computer with internet access. This technology allows for much more efficient computing by centralizing storage, memory, processing and bandwidth.

Exhibit 5 Cloud Computing



Source: EY survey — Cloud adoption in India, 2010

As the above pie chart clearly indicates that cloud computing is an evolving concept and it will be a new revolution in IT sector. As we know Jetking is a huge brand, courses on cloud computing will definitely boost up its revenues.

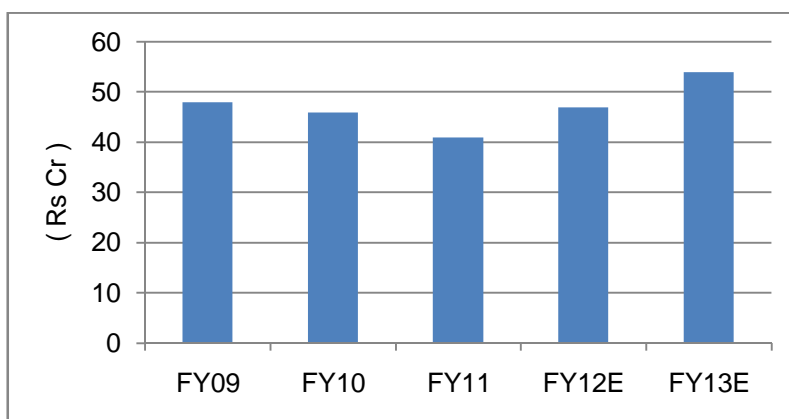
Entry into Vietnam

Jetking has tied up with a local university in this Southeast Asian country. Jetking Infotrain signed an international agreement with FPT University in Hanoi to set up 'Jetking Learning Centres' for capacity building and talent development in Vietnam. This will have a positive impact on their sales.

Financial Overview

Sales to grow at 15% CAGR over FY11- FY13.

Exhibit 6 Sales



Source: Equitorials Research

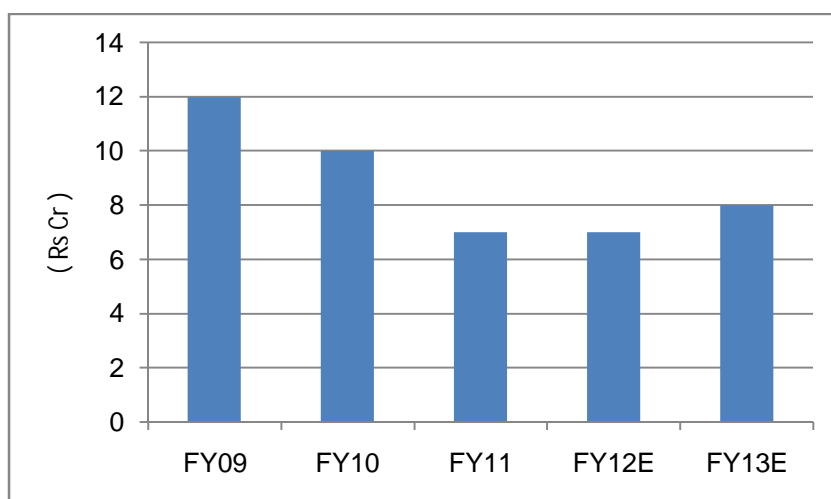
The last two years have been eventful for the IT industry, vocational training segment and Jetking. After these turbulent times, your Company is now seeing a ray of sunshine. During FY11 it posted sales worth close to Rs41cr. From here onwards we expect revenues to register 15 % CAGR over FY11-FY13.

Key drivers that will speed up the Sales

- New courses like Mobile Application Development, Tablet PCs, and Laptop Repairing will enhance sales.
- Contract worth close to 33 cr from Gujarat government and tie up with Sikkim Manipal University will increase their order book.
- Cloud computing – Course on managing the cloud will also contribute towards sales.
- Entry into new Vietnam market

PAT to remain up through 2013

Exhibit 7 PAT performance



Source: Equitorials Research

The PAT has decreased more than 50% over FY10 to FY11 due to high raw material prices, closing of 5 franchisees in the year FY11. The forecasted PAT numbers looks stable and is expected to increase in FY13.

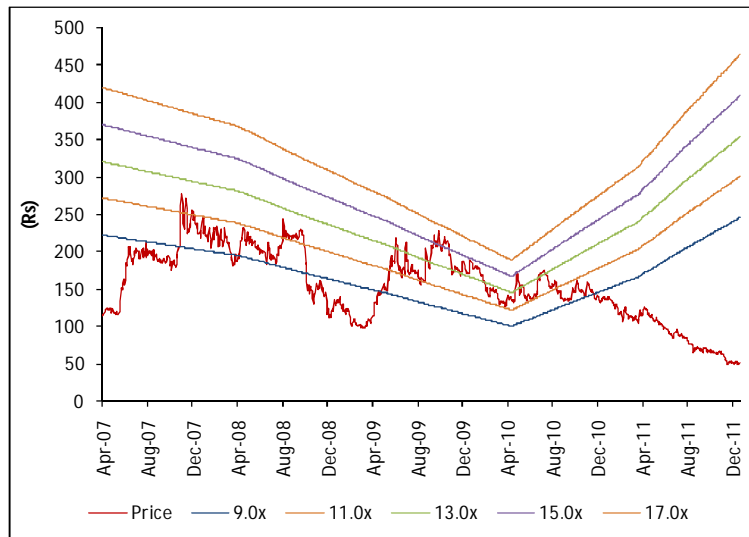
Key reasons behind decline in PAT over FY10 to FY11

- Increase in Raw material cost
- Decrease in income from franchisee operations due to shut down of some franchisees
- Income from course material has declined significantly at the rate of 40%.

Outlook and valuation

The order worth Rs33cr from government of Gujarat and tie up with Sikkim Manipal University will be company's two key growth drivers. Revenues will increase at a rate of 15 % CAGR over FY11-13.

Exhibit 8 Valuation



Source: Equitorials Research

We have arrived at a P/E of 10x (assumption CoE-14%, RoE- 40%, Growth 4%). However, historically the stock has traded at an average of 8x its one year forward EPS. Hence we have arrived at Target price of Rs144 discounting 8x FY12E EPS of Rs 18. Hence we recommend BUY.

Risks and Concerns

General slowdown in economy

US backlash against outsourcing

Cut or freeze on IT spend

Increasing Competitive activity

Profit & Loss Statement

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Gross sales	48	46	41	47	54
Less: Excise duty	-	-	-	-	-
Net Sales	48	46	41	47	54
Other operating income					
Total operating income	48	46	41	47	54
<i>% chg</i>	20.9	(4.2)	(12.1)	15.4	15.0
Total Expenditure	27	30	29	34	34
Net Raw Materials	6	7	7	8	8
Other Mfg costs	-	-	-	-	-
Personnel	8	8	10	12	12
Other	-	-	-	-	-
EBITDA	21	17	12	13	20
<i>% chg</i>	23.8	(21.4)	(29.1)	9.6	52.7
<i>(% of Net Sales)</i>	44.1	36.2	29.2	27.7	36.8
Depreciation & Amortisation	2	2	2	2	2
EBIT	20	15	10	11	18
<i>% chg</i>	31.8	(24.8)	(32.5)	11.5	62.6
<i>(% of Net Sales)</i>	40.5	31.8	24.4	23.5	33.3
Interest & other Charges	0	0	-	-	-
Other Income	1	1	1	0	0
<i>(% of PBT)</i>	3.1	4.1	6.0	0.9	0.6
Recurring PBT	19	15	10	11	18
<i>% chg</i>	31.8	(24.6)	(32.0)	11.5	62.6
Extraordinary Expense/(Inc.)	-	-	-	-	-
PBT (reported)	19	15	10	11	18
Tax	7	5	3	4	6
<i>(% of PBT)</i>	35.7	32.9	30.6	35.0	35.0
PAT (reported)	12	10	7	7	12
Add: Share of earnings of associate					
Less: Minority interest (MI)	-	-	-	-	-
Prior period items					
PAT after MI (reported)	12	10	7	7	12
ADJ. PAT	13	10	7	11	18
<i>% chg</i>	31.8	(24.6)	(32.0)	68.9	62.6
<i>(% of Net Sales)</i>	26.1	20.5	15.9	23.5	33.2
Basic EPS (Rs)	21.7	16.3	11.1	18.8	30.5
Fully Diluted EPS (Rs)	21.7	16.3	11.1	18.8	30.5
<i>% chg</i>	(12.1)	(24.6)	(32.0)	68.9	62.6

Balance sheet

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS					
Equity Share Capital	6	6	6	6	6
Preference Capital	-	-	-	-	-
Reserves & Surplus	20	26	31	38	49
Shareholders Funds	26	32	36	44	55
Minority Interest	-	-	-	-	-
Total Loans	0	0	0	0	0
Deferred Tax Liability	1	1	-	-	-
Total Liabilities	26	32	36	44	55
APPLICATION OF FUNDS					
Gross Block	20	21	22	23	24
Less: Acc. Depreciation	4	6	7	9	11
Net Block	17	15	15	14	13
Capital Work-in-Progress	-	-	-	-	-
Goodwill					
Investments	10	15	20	20	20
Current Assets	30	37	28	33	47
Cash	3	6	3	3	12
Loans & Advances	19	24	19	23	26
Other	7	8	6	7	8
Current liabilities	30	35	26	22	23
Net Current Assets	(0)	2	2	10	24
Mis. Exp. not written off	-	-	-	-	-
Total Assets	26	32	36	44	55

Cash flow Statement

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	19	15	10	11	18
Depreciation	2	2	2	2	2
Change in Working Capital	(1)	(2)	(3)	(8)	(5)
Less: Other income					
Direct taxes paid	-	-	-	(4)	(6)
Cash Flow from Operations	20	15	9	1	9
(Inc.)/ Dec. in Fixed Assets	(3)	(1)	(2)	(1)	(1)
(Inc.)/ Dec. in Investments	(5)	(5)	(2)	-	-
Inc./ (Dec.) in loans and advances					
Other income					
Cash Flow from Investing	(8)	(7)	(4)	(1)	(1)
Issue of Equity	-	-	-	-	-
Inc./ (Dec.) in loans	(3)	(0)	(0)	-	-
Dividend Paid (Incl. Tax)	(2)	(2)	(3)	-	-
Others	(1)	(0)	(0)	-	-
Cash Flow from Financing	(6)	(2)	(3)	-	-
Inc./ (Dec.) in Cash	6	6	1	0	8
Opening Cash balances	2	2	4	3	3
Closing Cash balances	8	9	5	3	11

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)					
P/E (on FDEPS)	2.7	3.6	5.3	3.1	1.9
P/CEPS	2.4	3.0	4.1	2.7	1.7
P/BV	1.4	1.1	1.0	0.8	0.6
EV/Sales	0.5	0.3	0.3	0.3	0.1
EV/EBITDA	1.0	0.8	1.1	1.0	0.2
EV / Total Assets	0.8	0.4	0.3	0.3	0.1
Per Share Data (Rs)					
EPS (Basic)	21.7	16.3	11.1	18.8	30.5
EPS (fully diluted)	21.7	16.3	11.1	18.8	30.5
Cash EPS	24.6	19.8	14.4	22.1	33.7
Book Value	43.3	54.1	61.8	74.0	93.8
Dupont Analysis					
EBIT margin	40.5	31.8	24.4	23.5	33.3
Tax retention ratio	64.3	67.1	69.4	65.0	65.0
Asset turnover (x)	3.8	3.7	3.2	2.7	2.3
ROIC (Post-tax)	99.1	79.6	53.6	40.7	50.7
Cost of Debt (Post Tax)	7.4	497.7	-	-	-
Leverage (x)	(0.3)	(0.5)	(0.6)	(0.5)	(0.5)
Operating ROE	69.9	300.5	21.8	19.9	26.1
Returns (%)					
ROCE (Pre-tax)	86.5	50.3	28.8	27.7	36.0
ROIC (Pre-tax)	154.1	118.7	77.2	62.6	78.0
ROE	62.5	33.6	19.2	27.7	36.4
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.4	2.2	1.9	2.1	2.3
Inventory / Sales (days)	7.0	7.5	5.2	5.2	5.5
Receivables (days)	45.9	55.8	52.0	53.0	55.0
Payables (days)	30.7	27.5	19.8	20.0	20.0
Working capital cycle (ex-cash) (days)	147.3	209.4	238.9	201.1	206.4
Solvency ratios (x)					
Net debt to equity	(0.5)	(0.7)	(0.6)	(0.5)	(0.6)
Net debt to EBITDA	(0.6)	(1.2)	(1.9)	(1.7)	(1.6)
Interest Coverage (EBIT / Interest)	95.5	128.0	-	-	-

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