

## Event Update

# NIIT Technologies Ltd

Bloomberg Code: NITEC IN

India Research - Stock Broking

**BUY**

## BPEA to Acquire 56% Stake in NIIT Technologies Ltd

**The Deal:** Baring Private Equity Asia (BPEA) has entered into a Share Purchase Agreement on 06 Apr, 2019 with NIIT Ltd and NIIT Technologies Ltd to acquire 14.93 Mn shares constituting 23.22% of total share capital from NIIT Ltd. Another SPA was signed on 06 Apr, 2019 with NIIT Technologies Ltd and families of Rajendra Singh and Vijay Kumar Thadani to acquire 4.35 Mn shares constituting 6.98% stake in NIIT Technologies Ltd. Thus, total number of shares to be acquired is 18.85 Mn constituting 30.2% of the total equity. Total consideration for this offer is Rs. 2627 crore payable in cash.

BPEA will make an open offer for acquisition of 26% stake by acquiring 16.22 Mn fully paid up equity shares of face value Rs. 10 at a price of Rs. 1394 per share, aggregating to total consideration of Rs. 2262 crore payable in cash. Hence the total number of shares for purchase is 35.08 Mn representing 56.02% stake in NIIT Technologies Ltd for a consideration of Rs. 4889 crore. This deal is conditional upon regulatory approval which can take 3 to 4 months.

Credit Suisse acted as the exclusive financial advisor to NIIT Ltd and other promoter entities. Shardul Amarchand Mangaldas & Co acted as the legal advisor to NIIT Ltd. J. Sagar Associates and Ropes & Gray acted as legal advisors to BPEA.

## Valuation and Outlook

BPEA has done valuation of NIIT Tech shares at Rs. 1394 per share which is at 7% premium to NIIT Tech's closing price of Rs. 1298 as on April 12, 2019 and at a 10% discount to our target price of Rs. 1539. BPEA has considered earnings estimate at P/E of 18x for FY20E and P/E of 15-15.5x for FY21E.

### Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	28021	29914	37137	46049	55071
EBITDA	4795	5013	6685	8289	9913
EBITDA Margin (%)	17.1	16.8	18.0	18.0	18.0
Adj. Net Profit	2501	2802	4335	5733	6962
EPS (Rs.)	41.0	45.9	70.4	93.1	113.0
RoE (%)	15.3	16.2	22.4	25.1	25.6
PE (x)*	10.7	18.8	18.4	14.0	11.5

Source: Company, Karvy Research, \*Represents multiples for FY17 - FY18 are based on historic market price

For private circulation only. For important information about Karvy's rating system and other disclosures refer to the end of this material. **Karvy Stock Broking Research is available on Thomson Reuters & Bloomberg (Code: KRVY<GO>)**

### Recommendation (Rs.)

CMP (as on Apr 12, 2019)	1298
Target Price	1539
Previous Target Price	1612
Upside (%)	19

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	79953 / 1150
52-wk High/Low (Rs.)	1425 / 876
3M Avg. daily value (Rs. mn)	30.1
Beta (x)	1.1
Sensex/Nifty	38767 / 11643
O/S Shares(mn)	61.8
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

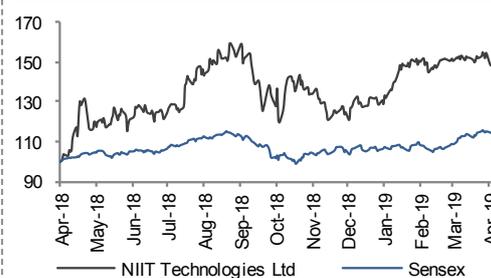
Promoters	30.6
FIIIs	37.3
DIIIs	18.6
Others	13.6

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(1)	11	16	46
Relative to Sensex	(6)	4	3	28

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analysts Contact

**Konpal Pali**  
 040- 3321 6690  
 Konpal.Pali@karvy.com

**Sarath Jutur**  
 sarath.jutur@karvy.com

## Impact:

**NIIT shareholders to benefit:** NIIT Ltd is expected to have Rs. 2000 crore cash inflow from sale. It is more than the market cap of the company when the deal was announced. We thus believe to see handsome dividend payout to shareholders of NIIT Tech. As per management of NIIT Technologies, they will have to judiciously look at utilization of cash. Stake sale in NIIT Tech would see big improvement in NIIT Ltd's cash flows.

**No major changes expected:** The management of NIIT Technologies believes that BPEA will support their strategies to progress and also would not impact its employees, clients and shareholders negatively. We expect addition of new clients from BPEA's portfolio as it happened when Blackstone acquired Mphasis. Baring might also improve its capital allocation policy just as they did in Hexaware after acquiring it.

However, the top management believes that in the future BPEA will bring in some key changes in the top management. It remains to be seen how the new management, if at all the changes take place will decide on the future strategic road map of the company and how the top clients of the company would receive it.

## Acquisition of Whishworks:

NIIT Technologies Ltd acquired 53% stake in Whishworks, a MuleSoft & Big Data Specialist. Remaining stake will be acquired in next 2 years. This acquisition will help NIIT Tech in enhancing its digital capabilities in digital integration space. As Incessant Technologies acquisition opened up opportunities to work on PEGA platform with new clients, Whishworks will do the same with MuleSoft platform. There is a market demand for such capabilities as well. As per management, there are around 250 SMEs focused around MuleSoft in its portfolio. Whishworks has a portfolio of 25 clients. It had a revenue growth of 30%+ in FY18. It will be margin accretive to NIIT Tech. The deal is supposed to be completed within 4 months. Also, management mentioned Whishworks' price-to-sales ratio for FY19E to be 2x, the deal is valued at approx. \$ 42 Mn. Based on this, we expect Whishworks to contribute 2.4% to Q1FY20E revenue of NIIT Tech.

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

## Connect & Discuss More at

 1800 419 8283 (Toll Free)

 [research@karvy.com](mailto:research@karvy.com)

 Live Chat



## Disclaimer

- **Analyst certification:** The following analyst(s), **Konpal Pali, Sarath Jutur** who is (are) primarily responsible for this report and whose name(s) is/are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.
- **Disclaimer:** Karvy Stock Broking Limited [KSBL] is registered as a research analyst with SEBI (Registration No INH200003265). KSBL is also a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production, profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. Actual results may differ materially from those set forth in projections.
- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts, primarily responsible for this report and whose name(s) is/ are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Konpal Pali, Sarath Jutur** Research Analysts did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

## Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India  
Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

For More updates & Stock Research, visit [www.karvyonline.com](http://www.karvyonline.com)