

## Event Update

# NIIT Technologies Ltd

Bloomberg Code: NITEC IN

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**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

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### 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 (%)

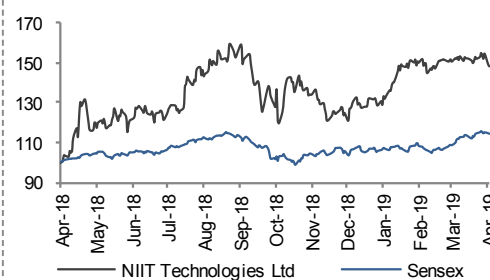
Promoters	30.6
FIIs	37.3
DIIs	18.6
Others	13.6

### 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

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## 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 Wishworks:

NIIT Technologies Ltd acquired 53% stake in Wishworks, 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, Wishworks 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. Wishworks 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 Wishworks' price-to-sales ratio for FY19E to be 2x, the deal is valued at approx. \$ 42 Mn. Based on this, we expect Wishworks to contribute 2.4% to Q1FY20E revenue of NIIT Tech.

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

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