

"NIIT Limited Q2 FY19 Earnings Conference Call"

October 25, 2018





MANAGEMENT: MR. RAJENDRA S PAWAR - CHAIRMAN

MR. VIJAY THADANI – MANAGING DIRECTOR &

VICE CHAIRMAN

MR. SAPNESH LALLA – CEO, NIIT LIMITED

MR. AMIT ROY - CHIEF FINANCIAL OFFICER, NIIT

LIMITED

Mr. Ganesh Krishnamurthy – Head, Product Development & Deployment, NIIT Limited

MR. PRADEEP NARAYANAN – HEAD (SCHOOL

LEARNING BUSINESS), NIIT LIMITED

MR. KAPIL SAURABH – INVESTOR RELATIONS, NIIT

LIMITED



Moderator:

Good day, ladies and gentlemen, and welcome to the NIIT Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – Managing Director and Vice Chairman of NIIT Limited. Thank you and over to you, sir.

Vijay K. Thadani:

Thank you. Good afternoon. Welcome to this call which has been set up to discuss the results of the second quarter for the financial year '18-19. I do know it is a busy day for all of you and thank you for making the time to be with us. I have with me, the full leadership team of NIIT as well as Mr. Pawar, the Chairman as well as Mr. Rajendran, the Joint Managing Director and we will all be available to you for answering questions. Right now the initial brief will be given by Sapnesh and he will handle all the questions relating to the operations, if there are any other questions we would be all very happy to pitch in. So with these words, I hand you over to Sapnesh and after that we can get into the Q&A. Thank you.

Sapnesh Lalla:

Thanks, Vijay. Thanks, everyone for joining and your interest in NIIT. Let me take you very quickly through our second quarter results highlights. I am pleased to share that execution on our stated strategy is starting to deliver results. We are continuing to accelerate customer acquisition and growth in our Corporate business including getting large contracts and starting to deliver on them.

In our Skills and Careers business, we are seeing significant traction in our New Career Courses that we launched in June. We are seeing significant traction for the deep skilling that our Stackroute initiative offers as well as the recently announced initiative on talent pipeline as a service. Across all three initiatives, we are seeing strong visibility and customer traction. We achieved double-digit growth with double-digit margin. I know we still have a way to go but it is a great milestone to achieve. Our revenue in the second quarter was up 10% YoY at Rs.2,285 million and our EBITDA is at 10% at Rs.219 million. The growth is led by the Corporate Learning business which grew 28% recording the third successive quarter in which we have grown 25% or more. We will talk about this business in a little more detail little bit later in the call.

Overall, we improved all three parameters that are high priority for NIIT at this time, profitability, liquidity and capital efficiency. EBITDA margins improved by 105 basis points YoY. Our net debt improved to 599 million versus 1,052 million last quarter. Our capital efficiency, our ROCE improved 593 basis points to 13.6 % versus 7.7% last year.

Getting into details for each one of our businesses, the corporate business now contributes 71% of NIIT's overall revenues. The revenue of corporate business stood at Rs.1,616 million, it is up 28% YoY and 7% on QoQ basis. The revenue was up 18% YoY on constant currency basis. This was the third successive quarter of (+25%) revenue growth for this business. The EBITDA was at 238 million, up 21% YoY and 8% on QoQ basis. This was partially aided by the



depreciation of the rupee. Growth and currency help offset some of the increases in salary-related cost as well as the increased cost because of transitioning activity that we are conducting for three contracts that are currently in transition including a large contract that we had acquired about a quarter and a half ago.

We continue to invest in sales and marketing and have seen acceleration in our pipeline as well as potential opportunities. The margin of this business is at 15%, up 15 basis points on QoQ basis. We added one new MTS customer in the Life Sciences sector and expanded our engagement with three existing customers and in addition renewed a large contract for an additional three years. We now have 40 managed training services customers and as a result of that our visibility has improved 16% YoY and is at \$226 million. Further, NIIT has been selected as a 'Partner of Choice' for a large comprehensive RFP and we are currently in exclusive contracting negotiations. Once contracted, this would be our third comprehensive deal over the last 1.5-years. While this has been a very strong period for new customer acquisition, we are noticing a temporary slowdown in volume of work in a couple of our existing customers that are going through M&A related restructuring. This is likely to persist in Q3 as well and start to recover as we get into Q4. The new contracts that we have won will help us accelerate growth in the next financial year. One of these significant contracts as you know is the RECO contract which we are working on from a transitioning perspective and this contract will start generating revenue from the 1st of July next year.

Our Skills & Careers business contributed 27% to the NIIT revenue in Q2. Revenue was at 617 million in Q2 versus 727 million last year. As we have been sharing this business is in transition where the traditional business models and offerings are being replaced systematically with new offerings including new career programs, the Stackroute initiative for deep skilling, full stack developers as well as the talent pipeline as a service initiative. The EBITDA improved on YoY basis and is at 10 million versus 3 million same quarter last year. Improving product mix and cost rationalization has helped offset the negative impact of operating leverage and cost inflation.

For the first half, we have seen a strength to positive EBITDA from (-23) million as compared to last year first half. Over the last couple of quarters, we have focused on a couple of key initiatives. This includes the new career programs, the deep skilling initiative under Stackroute as well as the talent pipeline as a service initiative. Each of these initiatives are starting to build momentum and resulting in improved visibility and order intake. Overall order intake in S&C has grown 6% YoY aided by these initiatives. For Stackroute, we now have substantial mandates from 9 IT services majors including key GIC for creating full stack developers who will be operational on digital technologies on day one. Also, with our talent pipeline as a service initiative, we have mandates from eight BFSI and technology organizations for creating almost 10,000 professionals in the current financial year.

Our Schools business contributed 2% to NIIT's revenue in Q2. I am happy to share that we have completed all our government school contracts. This has been a long period of planned ramp down on government school contracts but we have successfully concluded execution on all our



commitments. We are now in the transition phase which includes hand-offs of projects and of course collections for two projects that have just ended in Assam and Chhattisgarh.

For our private school business, the second quarter is a seasonally weak quarter. Having said that, the private schools business was slower than where we would have liked it to be partly due to regulatory uncertainty. The new products that we have launched in maths and science as well as the Practice Plus platform are seeing good interest from schools and we expect to drive growth in private schools this year. However, given the regulatory uncertainty, we expect a lot of decisions to be bunched up in the fourth quarter.

Revenue for Q2 was at 51 million. EBITDA was negative; 28 million, driven predominantly by lower revenue in private schools as well as transition cost related to government schools. Practice Plus platform now has over 400,000 registered users including 1.5 lakh parents who engage periodically with us on the platform. Overall, for NIIT, revenue was up 10% YoY at Rs.2,285 million, EBITDA was at Rs.219 million, up 23%, YoY. EBITDA margin is at 10%. Depreciation is now less than 4% of sales, reflecting a shift to a lighter asset model; however, I would like to remind you that we have been working on transition related cost for our RECO contract which will start depreciating as we start accruing revenue next year. Operating profit before tax is at 82 million, up over 300% as compared to last year. Our EBIT is up at 84% YoY to 135 million. The profit after tax is at 259 million, up 104%. YoY. Our net debt has seen sharp improvement in the second quarter. We are at 599 million at the end of Q2 versus 1052 million at the end of last quarter. There was a temporary increase in net debt last quarter; however, to a great extent that has been corrected. Our ROCE is at 13.6% versus 7.7% last year, it is up 593 basis points on YoY basis. Those were a summary of my prepared comments. I would like now to see if there are any questions from the audience and we will do our best to answer your questions. Operator, if you can open lines for questions now.

Moderator:

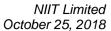
Thank you very much. We will now begin the question-and-answer session. We will take the first question from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon:

I just had a couple of questions. First on the revenue visibility and how that has increased. We have seen that the growth rate for revenue visibility is now coming off a little bit and that is increasing a little slower than how we are growing revenue. So going into FY'20, do you think that this could be kind of a leading indicator that we should see CLG revenue growth starting to slow down?

Sapnesh Lalla:

The growth in visibility is a function of our revenue as well as the contracts that we book every quarter. As I mentioned, we worked on five new contracts as well as grew substantial amount of our revenue. I also mentioned that we have won one contract which is currently in contracting, a large contract. I think from an overall perspective, you will continue to see growth in visibility; however, in several quarters it is lumpy, there are times when we have big renewals, there are times when we win big contracts which result into substantial growth in visibility and then there are times when we win average number of contracts. So, I think from an overall perspective, you see lumpiness in growth in visibility. I do not think that is an indicator of the strength of the





business. I think the right indicator for the strength of the business is actually the visibility which is at USD 226 million at this time.

Ravi Menon: Secondly, if you could tell us what is the total CAPEX for RECO and what is the amortization

that we should expect and how long?

Sapnesh Lalla: I think the amortization would be over the duration of the contract which is between five and

seven-years. We have an option to continue the contract for two additional years after the first five year period. So the CAPEX would depreciate across the term of the contract. Specifically, the CAPEX that is being incurred for RECO we typically do not share project wise CAPEX but suffice it to say for client confidentiality reasons and many other competitive reasons, we cannot disclose this information; however, what I would like to say is that like I mentioned, the CAPEX

is within control and would get depreciated over the term of the contract.

Ravi Menon: Given that this is going to add amortization line, should we expect that then the EBITDA should

improve when the RECO contract kicks in?

Sapnesh Lalla: That is correct.

Ravi Menon: On the government schools contract cost and your closing cost for that, how long should we

expect that to persist?

Sapnesh Lalla: I would mention a couple of things. Overall, the schools business including the government

schools business is now a part of our business and therefore the related costs are also not

humongous; however, the tail will take a couple of quarters to wind down.

Moderator: Thank you. We will take the next question from the line of Ashish Kacholia from Lucky

Investment Managers. Please go ahead.

Ashish Kacholia: Sir, in the Corporate Learning Group presentation slide, you mentioned you have been selected

as a partner of choice for one comprehensive RFP currently under contracting. Can you talk a

little bit about this?

Sapnesh Lalla: Not a hell of a lot but what I would say is very significant RFP, very competitive and well fought.

I think they chose us over very substantial field of competitors and really like the capabilities that we brought to the table. They are among the top-5 in their category, they are a large office

automation company.

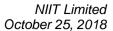
Ashish Kacholia: Any sense on the overall number of transactions coming into the market, any positive trends on

that?

Sapnesh Lalla: Like we have said, we are seeing more opportunities coming as evidenced from the acceleration

that we have had in our deals. So we are seeing more opportunities come in the market and I

think that is evidence of organizations such as NIIT being able to deliver reliably the results on





outsourcing contracts. We have a very strong funnel. Like I said that we have a large opportunity that is in closure, that is in contracting at this time. We also have an additional three contracts which are in contracting. So we have gotten off to a good start in October and I think we have a fairly significant funnel to support activity going forward.

Ashish Kacholia: This transaction that is currently under contracting, this is not the Pitney Bowes transaction, this

is some other transaction, right?

Sapnesh Lalla: That is correct, the Pitney Bowes transaction was I think a quarter and a half ago.

Ashish Kacholia: Any indication that you can give about the size of this particular contract?

Sapnesh Lalla: We will once the contracting is completed.

Moderator: Thank you. We will take the next question from the line of Sangeeta Purushottam from Kochito

Advisors. Please go ahead.

Sangeeta Purushottam: My question actually relates to the School Learning Group and the Skills & Careers Group.

Starting with the School Learning Group, the EBITDA loss that we have seen is a little more than 50% of the revenue and it was high in the first quarter also. Is this primarily because of the cost associated with the government school contracts which are being wound down and going forward once the impact of the government school contracts is over, would the business generate

positive EBITDA?

Sapnesh Lalla: A very good question. I think the way to think about it is that the predominant part of the

government schools business is done; however, like I have mentioned earlier there is a little bit of a tail in terms of cost that are left. Predominantly, costs related to hand over of the project as well as collecting payments from the government. That said, those costs should wind down over the next couple of quarters. The thing about the private schools business is that it is very substantially seasonal and a majority of the decisions in terms of the schools are made in our 4th quarter and then we have a left over in Q1. So, we see growth to continue in Q4 and that is several times of what you see in other quarters. So, from an overall perspective, if you look at this business, you will have to take a yearly view of this business rather than a quarterly view of

this business. For the year, this business will be profitable and with growth.

Sangeeta Purushottam: So basically what you are saying is that if we take out the impact of the wind down of the

government schools, then on a yearly basis, business will have both positive EBITDA and

positive PBT or only positive EBITDA for this year?

Sapnesh Lalla: I think positive EBITDA for the year.

Sangeeta Purushottam: When do you expect it to get to positive PBT level?



Sapnesh Lalla:

This business has growth potential and as you know we have brought out a number of products on math as well as science and English this past year. These products will start taking fruit and start returning money towards profit. So I think over the next year or so, you should start seeing improvements in profitability. I will let Pradeep who heads that business also comment a little bit about the trajectory of this.

Sangeeta Purushottam:

Just a related question, Pradeep, is that strategically how do you look at this business because it is a small percentage of your overall business and with the low base that it has, for it to really make sense it should be growing at something like 40, 50% a year, do you see that happening, what is the uniqueness about your products because while I do appreciate that the market is huge, there are a number of learning products in the market, so how do you compare with what is available and what is going to be really your growth driver?

Pradeep Narayanan:

First and foremost, I think the NIIT's Schools business has a range of products which if we look at any competing company does not have. Therefore, we now gotten to a position where we can go and be right through the year and that kind of position we are beginning to achieve that now. So we can expect that we will have better quarters, each quarter is getting better through the year over the next couple of years, that is one. #2, given the fact that we have increased our product portfolio, we should see a better growth possibility. I definitely see that we should get aggressive with each passing quarter and our products getting more and more accepted. So that is the other thing. We also have changing some of the way we are kind of positioning and selling and pricing our products. That will also give us advantages over the next few quarters. The new products which we launched towards the end of last year was a bit late in terms of being able to reach out to the full potential. We are going to do much better this year and that will give us a substantial increase in our revenues in Q4. So overall I am quite optimistic about how we are going to do in the next few quarters.

Sangeeta Purushottam:

So how do you think in terms of the numbers on this business, let us say that this is a year of sort of cleaning up the government schools business, establishing a base, etc., from here onwards if we take FY19 as a base going forward, do you think business has the potential to grow at say 30% per annum for the next two years or the growth will more likely be in the 15, 20% kind of range, how to actually see the scenario unfolding? How will the cost move – is this something where the business is partly productized, so your cost do not move in proportion to your sales, could you just give some sense about it? Where I am coming from is that if it is such a small business today, it makes sense to have it in the portfolio only if we think that it has huge strategic importance and in three or four years' time we see it is becoming 10, 15% of our total business, otherwise, why bother with such small numbers.

Pradeep Narayanan:

So in relation to the overall size of the company, yes, it is currently small and the intent is to make it a significant business, by itself it should stand in its own feet to begin with, that is the starting point with which I kind of run this business. So overall I still think about (+20%) growth is what we are looking at immediately, over a period of time, we should be looking at more aggression.



Sangeeta Purushottam:

My second question was on the Skills & Careers growth. What I wanted to get a sense was I do understand that there are a lot of new offerings you come out with which you have been talking about for a while and here the market opportunity definitely seems to be in place. Now, going forward, again how do you think this will take a little bit of time to pan out in terms of the growth numbers and at what kind of EBITDA percentage do you breakeven at a PBT level in this business?

Sapnesh Lalla:

Let me answer the first part first and let me know if I got the question right. I think your first question was what is the future for this business, is this business going to achieve growth and then what is needed to achieve positive PBT. I think as you have seen we have not achieved growth yet, however, over the last few quarters, if you were to draw a line on growth, our negative growth is shrinking and if you plotted that line into future, we will start seeing positive growth back ended towards the current half, so towards Q4 is when we will start seeing some growth. The three key initiatives that I have mentioned has very substantial potential. Whether we look at Stackroute which focuses on reskilling programmers into full developers as well as project managers into engineering managers and that population size today is 4 million in India; however, this problem or this market is not limited to India, it is a problem that is pervasive across all IT services companies as well as product companies. So, the market is substantial on just that one initiative. The second initiative which is the best like I said we have mandates for 10,000 folks at this time and every quarter we are able to get about two or three new mandates, in fact, we have already won one significant mandate in the month of October. Again, substantial potential, as you look at the Indian economy, the two areas that are growing from a job growth perspective are information technology and BFSI and we have significant presence in both of these and the value proposition makes a lot of sense. The third initiative is around new products and so on and so forth. So each of these three initiatives could be as large as the company or the business today. I think once we have two or three strong growth quarters, we will start seeing positive PBT.

Moderator:

Thank you. We will take the next question from the line of Nikhil Vaishnav from VD Investments. Please go ahead.

Nikhil Vaishnav:

Sir, my first question is related to School and Learning business. Actually I want to know how much revenue we got from last government project out of total revenue of Rs.5.1 crores?

Sapnesh Lalla:

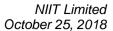
We have got Rs.5 million this quarter as revenue from government.

Nikhil Vaishnav:

So in Q3, we can see decrease in revenue in School and Learning business because we do not have any new contracts in this business?

Sapnesh Lalla:

We will not have any revenue related to government projects in Q3 and Q4, like I said, this was the last quarter in which we would have revenue from government projects. From an overall private schools business perspective, we see growth and like I said you should think of this business on a yearly basis rather than QoQ basis because most of the contracts and decisions related to contracts get bunched in our Q4.





Moderator: Thank you. We will take the next question from the line of Nemish Shah from Emkay Investment

Managers. Please go ahead.

Nemish Shah: I just wanted to understand what was the FOREX loss for this quarter?

Sapnesh Lalla: 9 million in other income.

Nemish Shah: What was it same quarter last year?

Sapnesh Lalla: 5 million same period last year.

Moderator: Thank you. We will take the next question from the line of Saurabh Ginodia from Stewart &

Mackertich. Please go ahead.

Saurabh Ginodia: Sir, if you go through the presentation Slide #10, there has been a significant increase in the

number of headcount both on YoY and as on QoQ, so if you can just talk a little bit about what

was the reason for the increase?

Sapnesh Lalla: Very good question. Fairly significant percentage of that increase is in the corporate business.

As you would expect this is the business that is growing and therefore need account to service customers. The second significant part of growth was in our Stackroute business. Again, to cover commitments with customers, for both of these the additions have been in direct revenue

generating headcount.

Saurabh Ginodia: Do you anticipate further increase in the headcount number?

Sapnesh Lalla: As the businesses grow given that we are in services business, we anticipate growth; however,

our endeavor is to improve productivity on QoQ basis. Also, with the large contract that is currently in contracting, we will see growth in numbers as that contract completes transition.

Saurabh Ginodia: Will it be possible for you to break down your headcount in terms of percentages within all the

three business segments in which you operate?

Sapnesh Lalla: We should be able to, but we will update you over e-mail. If you let us know your e-mail or let

Kapil know your e-mail, we will be happy to.

Saurabh Ginodia: My last question will be with respect to your Corporate Learning Group. Your Corporate

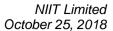
Learning segment has been growing at a very good pace. What could be the peak level of

operating margin this business segment can generate going forward?

Sapnesh Lalla: While we are improving productivity but whatever gains we get, we reinvest in sales and

marketing. Given that there is substantial headroom that is still left, we would like to for the next

few quarters continue to invest in sales and marketing. So you will not see very substantial





increase in terms of improvement in margin but you will see some improvement in margins as we go forward in quarters. So maybe next year you will see some improvement in margins.

Saurabh Ginodia: But this band of 15-17% will be the norm for the segment?

Sapnesh Lalla: That is true, it might buffet a little bit, but yes.

Moderator: Thank you. We will take the next question from the line of Sangita Vishwakarma from VD

Investment. Please go ahead.

Sangita Vishwakarma: We have our net debt reduced to Rs.599 million but our finance cost here increased to Rs.5.61

crores from Rs.4.6 core QoQ. So why it has increased?

Sapnesh Lalla: I think if I understood it right, you wanted to know while the net debt has come down why has

the interest cost gone up, is that the question? So I think two, three reasons; one, while the net debt at the end of the quarter is down substantially but the average gross debt across the quarter has been higher and therefore the interest to service that debt has been higher. I think there is a second question which is more towards the accounting standards which is where if we buy software or incur CAPEX across period of a few years, then we have to take an interest cost to cover the fact that we are paying for that CAPEX over a period of few years, so that is the notional interest cost but it does appear as interest cost in the books. The third one to some extent really is because of the currency volatility, the rupee is down and therefore the FOREX loans appear larger and therefore the interest on those loans appear higher. I would say could be the

predominant levers.

Sangita Vishwakarma: In School Learning business, five new career programs. We have launched apart from this. Any

new courses you can see in FY'19?

Sapnesh Lalla: We have an aggressive schedule of new courses that we plan to launch. We will be launching

new programs this quarter as well as in the coming year and I am going to request Ganesh Krishnamurthy who heads Product Development and Deployment at NIIT to spend a couple of

minutes.

Ganesh Krishnamurthy: Thank you, Sapnesh. So we do have our plans in place for some of the interesting products over

the next few quarters. You will hear us launching products in the commercial art and creative design space. We intend to partner with some of the leading technology companies in this space. We are also building out programs on cyber security, again it is an interesting collaboration, we will talk about that pretty soon. Going beyond that, we also intend bringing programs for our working professionals and as part of our management portfolio, again collaboration with an important US-based university in the space of supply chain management. So these I will talk about now but rest assured you will see us coming with new products, both large as well as small

ones every quarter.

Sangita Vishwakarma: What is your gross debt till now and what is rate of interest?



Vijay K Thadani: Gross debt is about Rs.200 crores and rate of interest is 9%.

Sangita Vishwakarma: How do you see 2H FY19 in Skills and Careers, Corporate and School Learning business any

outlook you would like to give?

Sapnesh Lalla: Like I mentioned in my opening comments, the outlook for the corporate business continues to

be strong and our key initiatives in our Skills and Careers business continue to generate visibility and so from an overall perspective, we feel that our key initiatives will continue to propel us in

the right direction.

Moderator: Thank you. We will take the next question from the line of Rishabh Vasa from Almondz Global

Securities. Please go ahead.

Rishabh Vasa: Sir, my question is regarding the borrowings only. Like we have long-term borrowings of around

Rs.124 crores in our books. So why it has gone up substantially compared to the March year-

end which was around Rs.93 crores?

Sapnesh Lalla: I am going to invest our CFO, Amit, to answer this question.

Amit Roy: The total debt is around the same Rs.190-200 crores, but which are within 12-months period, it

comes under other liabilities, hence the number is less there and if you add that it is Rs.200

crores.

Rishabh Vasa: But I am talking about the non-current borrowings which has gone up from Rs.93 crores to

around Rs.124 crores which is long-term borrowings?

Amit Roy: No-no, long-term borrowings, as of 30th September, we have paid some borrowings also and

there are some borrowings which are within 12-months period, it has to come from the longterm borrowing to short-term borrowing if you add these two it is at the same level, that is the

point, that is IndAS application.

Vijay K Thadani: I think what he is trying to explain to you is there is no change in the level of borrowings, the

way the accounting is done as per IndAS and grouping changes, that is all, nothing else. If you would like further detail, you can send a specific question and Kapil Saurabh will be able to explain to you, or our CFO, Mr. Roy will be able to explain to you. But you can also say there

is no change as such in our borrowing.

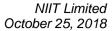
Rishabh Vasa: In terms of our Skills and Careers Group which has shown around 13% QoQ growth, so can we

expect similar kind of growth in the next two quarters also?

Sapnesh Lalla: I think the way you should look at the Skills and Careers business is on YoY basis rather than

QoQ basis because it is seasonal; however we do expect like I had pointed out earlier to see

some growth as we get towards the end of the year.





Rishabh Vasa: In School Learning Group, Q3 will be muted and Q4 we will see some kind of growth, right?

Sapnesh Lalla: That is correct, the predominant number of school decisions are made in our Q4.

Moderator: Thank you. We will take the next question from the line of Kaushik Poddar from KP Capital

Markets. Please go ahead.

Kaushik Poddar: In your previous conference calls, you have talked about your intention to divest in IT

technology. Now NIIT Technologies is doing very well, probably one of the best performers in the IT sector. I know when the divestment will happen, but is it possible for you to give a guidance as to what are the criteria or what are the milestones you are looking for when you will

decide Q2 to divest NIIT Technologies?

Sapnesh Lalla: I will request Vijay to talk about it.

Vijay K Thadani: Kaushik, first of all, a very good question and a very good timing of the question. You are right,

NTL is doing very well. The question is, is this the right timing or not. That always will be an

important question because the number of parameters have to meet....

Kaushik Poddar: If you can just detail the parameters in that sense?

Vijay K Thadani: I think it is difficult to define the parameters, the timing has to be right, the pricing has to be

right, the party has to be right and the future of the investments that or the company that we have seated over the last 37-years should also be right. I think all these are consideration. I do not think it makes you any wiser though you would have gone in any case, but I think that is all I

can say right now.

Kaushik Poddar: But do you have a timeline, maybe one year, two years or three years, I do not know, what is the

timeline you have in mind?

Vijay K Thadani: No, I do not think there is a timeline that I can define for you. The timeline will be when it

happens it happens.

Kaushik Poddar: Mr. Lalla, while detailing the result, you talked about that the overall company of 10% operating

profit margin that you have shown for this quarter, you also mentioned that you are looking for a higher operating profit margin in the future. Do you have something of a target as far as

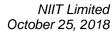
operating profit margin is concerned maybe two years down the line?

Vijay K Thadani: I think that is a good one. Sapnesh can answer that.

Sapnesh Lalla: That is a great question. For the whole company, the potential is substantially higher than where

we are today. As you would have noticed, the Skills and Careers business will start to get into growth zone as we go towards the end of this year. Once it is growing, and we start taking

advantage of the operating leverage, we will start seeing improvement in our margins. I think





from an overall perspective, the Skills & Careers business at its peak has done upwards of 24% as margin. So I think there is very substantial potential for that business to improve on margin. Like I had mentioned earlier, the corporate business will be in the 15-17% band. So as both of these businesses get to steady state, we should see 15-17% margin. But that is dependent on the Skills and Careers business achieving growth, related parameters as well as beating operating leverage.

Vijay K Thadani:

I think if I was to add a line to that, there has been an overhang in our margins of businesses that we are exiting, for example, government schools business, the exiting of government schools business has taken nearly four or five years in a gradual manner has put pressure on the margins and now we have the last tail in which we have no revenue but we will have some expenses for the time-being. This overhang is also getting over. So I think on an overall basis, not on every quarter, but the margins will start showing improvement as you are seeing we are doing even this year and I think going forward therefore to reach a margin of 15-17% does not appear to be an out of reckoning, it is easy to achieve as soon as the overhang of the exiting business is over.

Kaushik Poddar:

Your capital that is employed in government schools, you will be slowly getting it back in another probably two, three quarters. So can we expect net debt to be a zero level next year down the line?

Vijay K Thadani:

So first of all, I think you should know that the government has taken very long to pay, we have been able to get every penny from the government though delay and the delayed money has lost a lot of opportunity, but the fact remains at a principle level, even some of the VRs which we wrote off two or three years ago we kept fighting for that and in the last quarter we got some of that back which are appearing in our other income. So first of all, the capital that is employed in the government business is not anyway significant now, it is south of Rs.50 crores. What is important right now is at this point of time, the debt levels are coming from the working capital requirement of a growing business which is Corporate Learning Group as also what we have been developing and investing for this large mega project RECO which will start generating revenue from next July onwards. As soon as that revenue peaks in, the net debt will come down to zero very-very quickly.

Moderator:

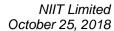
Thank you. We will take the next question from the line of Siddhart Vora from Reliance Life Insurance. Please go ahead.

Siddhart Vora:

Just wanted to ask, any options which we have considered to monetize our stake for NIIT Tech, it may not be necessarily the company selling off the company to someone else, is there any restrictions to the way we hold our stake currently which prohibits us from doing that?

Vijay K Thadani:

No, there are no restrictions. We came examining all options and I think all options are on the table, but right now we have not felt the necessity.





Siddhart Vora:

I am not saying that the sell-off the company but some other ways, I would say just an example like how Cox & Kings and Quess was done where their holding was given as a share to the shareholders, anything of that sort?

Vijay K Thadani:

What we have to examine is every option that you choose has to create value for our existing shareholders, that is number one; Number two, has to be a value which can be sustained over a period of time. For NIIT Limited, it is a very important asset which has a role to play in the future plans of NIIT Limited only. So, I think in that overall context, we keep looking at all options and this option that you talked about is also an option that is worth looking at, so I guess we will add that in our ...

Moderator:

Thank you. We will take the next question from the line of Kshitij Bansal from Albatros Capital. Please go ahead.

Kshitij Bansal:

There is a lot of automation happening within the IT sector and this might be happening on some kind of you can say commoditized set of skills but I am just trying to sort of understand your perspective, how do you see this kind of impacting your business going forward and although you did it put some color, but how do you believe the management can circumvent this particular shift that is happening in the IT industry?

Sapnesh Lalla:

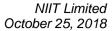
I think it is a very good question. We feel that it is a great opportunity, in fact, our Stackroute initiative has a set of programs around machine learning which deal with Big Data and Automation and Artificial Intelligence. I think as we move forward every programmer or every full stack developer will have to have artificial intelligence and ability to use machine learning to solve a number of problems. So as we move forward over the next few years, people who graduate in computer science will also be expecting to have experience and skills around artificial intelligence. For us it is a great opportunity because it is a new technology, it has a great following, it has a great potential to do many things that currently require manual work and for me it is like way back when programming was helping to automate a number of manual tasks, the next step jump is going to come from artificial intelligence and machine learning, automating other tasks and therefore great opportunity for us to teach digital programmers on how to achieve those tasks.

Kshitij Bansal:

Just one quick follow up, for these kind of programs do you believe that you will be developing specialized customized programs for every client that you might be working with or you believe that there would be a kind of vanilla based level program that would be offered across the board, just your perspective on this?

Sapnesh Lalla:

I think a lot of these things start as custom programs because these are technologies at their fledged state, have different implementation, there are different customers, but over time they start getting into generic programs and I think over the next year or so, we will see generic programs which include machine learning and things like that.





Moderator: Thank you. We will take the next question from the line of Jay Daniel from Entropy Advisors.

Please go ahead.

Jay Daniel: Sir, you had mentioned something of M&A activities among your customers in the Corporate

Learning Group, how will this affect growth in the coming quarter, I thought you said you can

expect some degree of slowdown there?

Sapnesh Lalla: We have seen an M&A activity at least with two large customers and what is that typically does

is it ends up pausing the volume that we see because of restructuring and change in people and so on and so forth. In the past when we have seen this activity, there have been times when the amount of work we do has doubled because it used to be one customer has now achieved significant growth because they acquired somebody else and so therefore our work increases. But what it does do in every instance is it creates uncertainty and therefore the volume of work

goes down; however, in most cases, this is temporary and over time it smoothens up.

Jay Daniel: But getting to the next quarter, how would this impact, I mean, would it mean that your sales

growth for the next quarter drops into single digit, would it be that drastic or ...?

Sapnesh Lalla: I do not think we will drop into single digit but I did want to mention that there will be some

uncertainty overall from a customer acquisition perspective like I have already said we have a number of contracts that are in contracting. So we continuously are increasing the number of customers we have; however, when there is uncertainty in a couple of large customers, we can see some percentage drop in what those customers contribute. Of course, as you are aware, we have 40 customers. So even if there was impact in a couple of customers, it will be two out of

40.

Jay Daniel: In a worst case scenario, could you end up losing these customers?

Sapnesh Lalla: It is very hard to anticipate what will happen, so for example, when Vodafone acquired Idea or

Idea and Vodafone got together, it is very difficult to anticipate what the new management will be and what will drive their decision making. What you can anticipate is that there will be change, whether that change will be advantages for us or disadvantages for us it is hard to tell. What I would say is if you look at our win rates and if you look at how we are accelerating customers in acquisition, our value proposition is resonating with our customers and so I see great promise in terms of when our customers get acquired or customers acquire others, there is

a greater opportunity for them to benefit from a relationship with NIIT.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference

over to the management for closing comments.

Sapnesh Lalla: Thank you very much. Your questions were very insightful. They got us thinking and we really

appreciate the time that you have taken, I know it is a busy season. So thank you very much for the time as well as your kind comments and we look forward to meeting with you in person or

again on the conference call next quarter.



Vijay K Thadani:

I will just add one line that there were a couple of data points which some of you asked for, those data points we would share and we will add an addendum to the call transcript, so that it is available to everyone, and other than that Kapil Saurabh who is the point person from our side to take all the questions and comments which remain unanswered, we would be very happy to hear your feshareedback as well as get into any specific discussions that you would like. So with that, thank you very much for joining us and looking forward to interact with you during the quarter as well.

Moderator:

Thank you. On behalf of NIIT Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

[Addendum]

- 1. Split of Headcount: CLG 53%, SNC 32%, SLG 8%, Shared 6% (numbers do not add up to 100% due to rounding)
- Gross Debt as of Sept 30, 2018: Rs 2084 million Gross debt is split and grouped under Borrowings reported under Current & Non-Current Liabilities, and Other Financial Liabilities in Current Liabilities