



**“NIIT Limited Q2 FY2016 Investor Conference Call”**

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**Moderator**

Good Day, Ladies and gentlemen and welcome to the NIIT Limited Q2 FY2016 Investors Conference Call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – Managing Director and Vice Chairman, NIIT Limited. Thank you and over to you, sir.

**Vijay Thadani**

Good afternoon Ladies and Gentlemen, thank you very much for joining us for the quarter two investor call. I have with me Rahul Patwardhan – the Chief Executive Officer; his team consisting of CFO – Rohit Gupta, Kapil Saurabh, Udai Singh, Shivan Bhargav, Sapnesh Lalla and also P. Rajendran and Rajendra Pawar – who is the Chairman of the company, joining us on this call.

So I would now hand you over to Rahul Patwardhan to take us through the quarter two highlights and then we would open it up for question-and-answers.

**Rahul Patwardhan:**

Hi, Good afternoon everybody. Good to have all of you on this call. I am pleased to report that we are moving forward on our plans that we laid out post the restructuring in quarter four on course. NIIT's growth and profitability continues to move up steadily on the back of continued strong performance of the corporate learning group and the reenergization of the skills and career group. In addition, we have kicked off the renewal phase of the transformation that I had talked about last quarter for SCG or the skills and career group with the launch of StackRoute, an NIIT TV which will provide the platform for acceleration of growth in the future. And in parallel we have also been working on strengthening the management capability of the company to support the scaling of the growth in the future. So I will take you through some highlights of the NIIT performance overall and a little bit about each of the businesses and then I will hand it over to you for question-and-answers.

So NIIT overall has grown 5% year-on-year in this quarter, we have had a 13% YoY growth in revenue for the go forward business, so if you exclude the government school's business and some international geographies that we had told you that we would be exiting then the overall NIIT growth is actually 13% year-on-year which is quite healthy. Our EBITDA is now 9% for quarter two and this is an improvement of 230 basis points YoY. Our PAT has grown 102% year-on-year to Rs. 208 million which is also up about 39% compared to last quarter. Our overseas revenue which is the combination of our CLG business in US and Europe and our business in China and emerging markets is now 63% of the total portfolio of NIIT revenue compared to 59% last year same quarter. Our DSO days are down to 86 days from 93 days end of last quarter, our net debt is also down to Rs. 965 million as against Rs. 1,053 million end of quarter one and our operating ROC is also up to 10.1% compared to 4.5% last quarter.

To look at the CLG business, it has been rock steady and it's consistency is at a 16% revenue growth year-on-year, constant currency growth was 12%, our EBITDA has also been very

steady at 12%, all as anticipated and planned. Our MTS revenue has risen to 91% of the total revenue compared to 89% at the end of quarter one. We have added one significant new customer in MTS in this quarter which is Citibank but we also had a number of other customers, seven other customers who are all marquee customers who will potentially become MTS customer in the future. Our order intake has grown 15% YoY, our pending order book has also grown 20% YoY and our pipeline has strengthen considerably during this quarter and Sapnesh would probably talk about this later.

In the Skills and Careers business (SNC), we have been able to demonstrate 1% growth in this business in this quarter. I do want to emphasize that we had some businesses in our international geographies which we have exited which had substantial revenue as a one-off in the same quarter last year. So when you look at our go forward revenue we have actually grown 13% in the skills and career business, this is very significant for us, I think the ship has turned around, back to growth has definitely happened. And when you compare that with minus 3% in quarter one and on an average (-18)% through last year this is clearly something that we had laid out to achieve and I can state with confidence that we have now turned the ship around.

Our international business in SNC, which is China and emerging markets, these if you recall in the restructuring phase we said that we had various issues which we dealt with and I am happy to report that the entire China plus emerging markets business is now growing well and is also profitable. Our EBITDA for the overall SNC business is now 7% for this quarter and last year the same quarter it was 3%, so again on the back to profit direction we have made good progress. Our order intake is up 6% YoY for this business, very important for our India business in skills and careers, we have 300 plus business partners operational today, we had near about 500 in the same quarter last year. In spite of bringing down the 500 rough centers to roughly around 300, this quarter we have actually increased our revenue 9% which basically demonstrates the plan to reenergize and make every center as a multi-skilling center which I talked about last quarter has borne concrete results. Our beyond IT revenue has grown to 40% as against 39% in Q1, again supporting our strategy to diversify our portfolio and reduce our exposure to only IT training.

StackRoute in NIIT, StackRoute was launched in August, we were very successful in getting it over subscribed, our first batch is now full but more importantly we are getting tremendous traction from the corporate sector as you can see from all the news articles, almost all the major IT services companies have a major challenge to retrain people with the digital skills and I think we are well positioned as a company to step in and StackRoute in fact is a very timely launch.

Apart from that we had NIIT TV which got launched, it is only 15 days since we launched but I am happy to report to you that we have registered users already from 82 countries as of couple of hours ago and we are getting traction almost every hour. Very early days of course, this is going to provide a platform for growth in the future, I do not expect and in fact right now our services are free NIIT TV, so they are not talking about any impact on the revenues in the next couple of quarters for sure.

I will stop here and open the floor for questions.

- Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abhishek Kumar from JM Financial. Please go ahead.
- Abhishek Kumar:** My first question is on the CLG business, talking about the deal that you announced Citibank, just wanted to understand the implication or the significance of this deal, first in terms of this deal positioning NIIT in the banking and financial space and second what sort of financial implication we can expect with this deal going forward?
- Sapnesh Lalla:** So Citibank is our second major customer in the banking sector, banking financial services and insurance these are key segment for us. Till about a couple of years ago we had focused predominantly on insurance and last year we made significantly investments in sales and marketing specifically for the banking segment. Our first customer was Bank of America and going forward with Citi it boosts our confidence to ensure that there are more banks who are looking favorably at our services. This is also the first banking customer we have in EMEA, we started with Citibank in EMEA, I think the time will tell how much we grow in Citi but it is a very positive move for us.
- Rahul Patwardhan:** To add, EMEA represents 54 countries, the current contract is in the space of strategic sourcing which is one of the towers that we have in this service line. So since this is a strategic relationship it is obviously our intent to deliver good services, expand the reach to cover entire EMEA and hopefully with good quality service be able to extend it beyond and more important also into other towers. So the potential obviously, there is a lot of potential upside but we have to deliver quality and gain trust, gain respect through actual delivery.
- Abhishek Kumar:** Digging a little bit deeper into this deal, I know it is not an order book but if we have to compare this deal with the HSBC deal which was announced a couple of years back, although I know this deal is specifically for the EMEA region, is there any parallel that we can draw in terms of the potential size that we could scale this customer to?
- Rahul Patwardhan:** There are very few things other than what you saw in the press release that we can actually talk about in public about this opportunity, it is significantly different from the HSBC deal in the sense that HSBC deal was a comprehensive outsourcing opportunity whereas this is a single tower outsourcing opportunity and over time this deal has potential to grow.
- Abhishek Kumar:** Now more broadly on CLG, this quarter I was just trying to reconcile the revenue visibility number that we published, the order intake this quarter was higher than the revenue plus we have got Citibank which I am sure increases the revenue visibility to an extent. Still the revenue visibility number is down from \$200-odd million to \$190 million, so how should we reconcile this?

- Rohit Gupta:** I think if you were to look at quarter one in context to quarter two and see quarter one as a quarter where we closed five managed services deal compared to one this quarter, that really explains the chopiness and that is just the nature of this business, there are some quarters where more organizations end up making these decisions compared to other quarters. I think you should look at it more from a broader perspective rather than a quarter-on-quarter perspective.
- Abhishek Kumar:** So from the full year perspective our basically view of achieving 15% growth for this year that does not change?
- Rahul Patwardhan:** Yes, absolutely not and in fact with the orders that have come in in Q1 and this order and our current view that we have of the pipeline, our confidence in achieving the number of 15% growth for the year has only gone up so it solidified our confidence for that number.
- Abhishek Kumar:** My last question is on the skills and career group, this quarter obviously we saw I think 4 crores of decline in operating expenses, I think when we did the restructuring we talked about Rs. 25 crores full year cost savings. So going forward should we expect on a YoY basis at least this kind of decline in cost for the next two quarters?
- Rahul Patwardhan:** Yes, the cost savings that we promised as a result of restructuring are baked in, in the sense that they bound to happen. Having said that, there is a product mix in the SNC segment, there are different component to the SNC business which are slightly different cost structures and that can translate to slightly different numbers, so it is not something that you can draw directly. The other thing is also that we had a salary increase in quarter two so we do not see the full impact actually of the cost restructuring. But most important, we have increased confidence in the back to profit since we have been able to get to that in this quarter. But keep in mind that quarter three, quarter four traditionally in this business are weaker quarters in terms of revenue because of the seasonality but we are still saying by the end of the year this business overall will be back to growth, back to profit.
- Moderator:** Thank you. Our next question is from the line of Ravi Menon from Elara Securities. Please go ahead.
- Ravi Menon:** If I could ask you again about the Citi contract, I thought that you had already given us a lot of color about this, just a clarification here. I thought that the BSE filing was done about mid-October, so is that asset been counted towards the announcement of the deal for this quarter and also into the order intake?
- Rahul Patwardhan:** Yes, good question. The deal was actually signed in the last quarter or the quarter two which is September 30th actually was the date it was signed, but we only announced it because we had to get the appropriate permissions through the regulatory process within Citibank, so it took a few days for us to be able to announce it.

**Moderator:** Thank you. Our next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

**Manik Taneja:** My question was with regards to the skills and careers group, if you could talk about the progress of the interventions that you have been making both with regards to converting some of the centers into multiple training centers? That is question number one. The second question essentially is that while one has seen an overall turnaround in terms of revenue growth for the skills and career segment, one has still continued to see a decline on the IT training side. If you could give us some outlook on both IT as well as beyond IT courses?

**Rahul Patwardhan:** I will make a few comments then I will ask Shivan Bhargava who is on the phone also to give his comments and views on this. Overall we did say that the transformation process is a three stage process, stage one is perhaps the easiest of the lot which is to do a cost restructuring, no doubt it had significant impact internally within NIIT which should not be underestimated because it does have an impact on operations in the short run after restructuring, we completed that in Q4. Then we said we will get into reenergizing and in reenergizing we said for the remaining centers and the remaining workforce we now will try to push the efficiency improvement of the channel and our own centers to driving every product to every center and therefore generate revenue growth as well as improve profitability of each center operations and therefore the overall operation. We have been able to deliver concrete improvements on that one metric and I will ask Shivan to talk about a few more, the one concrete metric which I mentioned earlier was 9% absolute revenue growth of the business partner channel for this quarter YoY on a much smaller number of business partner centers, so that is a very clear indication that that strategy has delivered results. Shivan, would you like to add any more comments on the reenergizing metrics?

**Shivan Bhargava:** Sure. Just to answer the question on the multi-skilling centers, when we started this financial year and when we took this objective of converting most of our centers, all our centers into multi-skilling centers we were at around 20%. Currently those multi-skilling centers we have ensured that the capability of all our centers to the extent of 60% of our sectors can go ahead and sell all the range of our products, now that has enabled us to grow substantially as far as the channel partners are concerned, channel partners have in fact said we have grown by 9% in this quarter at the back of 7% growth in the previous quarter. So for both the quarters channel partners have grown substantially. Within this I think our BFSI portfolio has done very well and has benefitted by making most of our channels as multi-skilling centers where we have grown by 108% compared to last year year-on-year. On the IT side which was your second question, I can only go ahead and say that we are seeing fresh ready news coming back very strongly in our own centers where we normally monitor the fresh revenues it has actually grown by 12% in this quarter.

**Manik Taneja:** If you could give us some sense in terms of, is the launch of something like StackRoute essentially drive or there is a demand for the older courses as well on the IT training side?

**Shivan Bhargava:** So let me give you a small snapshot on the same. Yes, StackRoute is going to give us the benefit, the entire IT industry is buoyant at this point in time, it is also buoyant towards the niche technology in the reskillig areas that we have all heard in the newspapers and read in the newspapers. But at the same point in time and at the base of the pyramid level also the normal technology that we have been filling over a period of time there also the growth we can go ahead and see as it can be demonstrated by, the fresh revenues growing at the rate of 12%. Simultaneously we are also looking at launching products which are commensurate to today's environment, let me inform you all that we have launched Python, Hadoop, and Testing as our products over the last 30 days.

**Manik Taneja:** And while you guys do mention the growth rate for the improvement in the growth rates on the channel partners side, if you could give us some breakup of the revenues between our own centers and channel partners that will essentially be helpful in understanding how each of the two segments are doing?

**Rahul Patwardhan:** Yes, at this point of time we do not report separate numbers for these, but what I could give you one metric is that 18 of our own centers have also shown growth year-on-year, so even in our own centers we are talking about a smaller number of centers from what we had last year same quarter. And of the operational centers that we have today, 18 of them which is about 65% of our total centers have actually shown growth. So I think there are many metrics which are indicating that ship has turned around on all fronts, but order book which had been weak because of the de-growth in the past has kind of masked some of the actual growth that is happening in terms of fresh registrations. So as we get into further quarters we will start seeing improvements.

**Manik Taneja:** So Rahul a longer term question, is there any indication in terms of outlook that now you would want to share for the skills and careers group, say two years, three years down the line what kind of a profitability level do you see for the segment?

**Rahul Patwardhan:** At this point of time I would like to repeat the statement that I made at the beginning of the year in May, we would bring this business back to growth, back to profit. Yes I know we have already brought it back to growth, back to profit this quarter also the strongest quarter of the year as you know well if you have been tracking us. At the end of the year we are very confident that we will be able to report back to growth, back to profit for the whole year, that is one. Obviously we are working to see how we can raise the growth numbers and the profit numbers, but the platform that we have put in place, StackRoute, NIIT TV and the whole range of new products that Shivan talked about will provide strong platform for growth next year and beyond. And that is a renewal phase which is the technology enablement and business model change of the skills and career business and the product portfolio change will drive the future growth on top of the base much more efficient operation that we have put in place over the last six months.

- Manik Taneja:** And the last question was on tax rates, are there any potential losses that we are carrying for the business that we have exited because of which we could continue to enjoy a lower tax rate going forward as well?
- Rohit Gupta:** So for tax rate what you see is the consolidated position, we have taxation in different companies for our different subsidiaries. We do have some losses in NIIT which we will utilize as far as this year is concerned, but some of the subsidiaries that we have outside of India do have taxable profits. So on an overall basis our effective tax rate will remain in the same vicinity as we have seen in the past.
- Manik Taneja:** So our Q1 tax rate was about 30%, Q2 is about 15%, how should we look at the full year tax rate?
- Rohit Gupta:** So our effective tax rate would be about 25%.
- Moderator:** Thank you. Our next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.
- Chetan Vaidya:** Sir my question is on NIIT TV, at what stage you will believe that it is time to start monetizing the initiative?
- Rahul Patwardhan:** Good question. Monetization of NIIT TV will happen in a number of different ways. First, every single person who registers today on NIIT TV is an additional lead for our education and skills and career business, so there is an opportunity for us to start cross selling and offering them products which we currently already have in our brick and mortar centers both in a blended form or in the physical centers. What we are seeing is that we will have a much wider catchment in terms of our lead pool compared to what we traditionally have been able to have through the marketing efforts that we have been doing both ATL as well as BTL as well as digital marketing. The numbers are growing very fast over the last 15 days, at this point of time I do not want to disclose any numbers but I can say that as I mentioned before we are already getting enquiries from all over the world and not just from India, so that is interesting statistic that I would like to be able to report on maybe a couple of quarters down the line as these numbers build up. The second is that when the people come on to NIIT TV as a portal and they taste the quality of our free services that we are currently offering, there will be a requirement for add-on services, for example if I do Java codes and I learnt everything and now I want to get certified so that I can actually demonstrate that I have the skill to employer, I need to get a certification for which I will have to come and do a value added service at an NIIT center and we have an partnership with Pearson VUE with a large number of training centers where we can offer that certification. Similarly, many of the people who would come on to the portal may also be looking for placement services or number of other value added services, so we intend to start monetizing these. This year I would expect any contribution from this would be minimal, I do not plan to rollout any actual monetization offerings in this quarter for sure but in terms of the first part of the opportunity which is accessing a wider pool of people, that is something we

will start monetizing immediately in terms of being able to offer paid product from our physical network centers to the new audience.

**Chetan Vaidya:**

Sir, in a way you are taking many initiatives to increase the number of intake for the skill and career group, so what kind of revenue should we be expecting from this NIIT TV, what kind of expectation should be built up?

**Rahul Patwardhan:**

I would strongly recommend that you do not project revenues definitely for this year or next because the focus of this platform per se is to remain a free platform, as an engagement platform, the spinoff benefit is difficult to quantify at this point of time, so at this point of time I would recommend be conservative about any revenue projections that you might want to make about NIIT TV.

**Chetan Vaidya:**

So on the cost front you think it will be done from the existing resources, so what is the total expenses that will be incurred before we start monetizing?

**Rahul Patwardhan:**

It is a good question, unlike a start-up organization who would have to have built the entire platform, the infrastructure, the courses including having to actually recruit faculty you have to deliver these courses or pay somebody to deliver these courses, we have all these in place already because what we have done here is to take courses that are actually running where faculty is sitting in studios today in a physical centers, are conducting courses which are being attended by students all over India already. All we have done here is redirect that content from the studio to the world at large or the virtual world through a portal, so the cost of building the portal is the only actual incremental cost that we have had and this has been done really fast, from start to finish this was done over two months, so quantum we are talking about is not actually very large. But yes, we are going to have keep spending a little bit of effort everyday to increase the functionality and effectiveness of the portal. But compared to anybody else who is in this space our cost would be very incremental.

**Chetan Vaidya:**

And sir my second question in the school learning group, we are exiting the government contract but the IT bit revenue percentage from the quarter one has from 30% has come down to 26%, why is that so?

**Rahul Patwardhan:**

Yes, so we have had the government contract for Andhra Pradesh and Telangana got over around July and therefore it has had an impact on the revenues for their school business, that has been the primary reason for our drop in revenues in this quarter.

**Chetan Vaidya:**

Sir, the IP led revenue was 30% of the school revenue in the quarter one, now they are 26%. Now if you are exiting the government contract and you are adding new schools which I believe are the IT based revenue than why that even revenues are falling and the IT based percentage is also falling?

**Rahul Patwardhan:**

Yes, I understood your question now. This quarter has been a little muted for the school business. As you know we have gone through a transformation, we have created a separate

subsidiary, a lot of effort was gone into that. We are also in the process of finalizing the selection of a new business leader who would be coming on board hopefully very soon. There is also strategy review of this business given what we are trying to do with this business. So this quarter has been a little bit lower than what I would have liked it to be for this business. I would like to be able to share once the new business data comes on board, the business direction but clearly this is also a quarter which is not very strong in this business for the private sector schools because most decision in private sector schools happens in quarter one and quarter four. So I think the quarter that really matters going forward will be quarter four.

**Chetan Vaidya:**

And sir niit.tv that initiative that we have taken, how it will complement our existing structure that we have?

**Rahul Patwardhan:**

So right now this is being run as a completely separate team because we want to really ensure that we treat it like a start-up organization but leveraging all the investments that we have in our current brick and mortar business. We also have detailed discussions on the obvious question whether NIIT TV will cannibalize our existing business at the brick and mortar centers and everybody from the business partners as well as all our staff in all our centers are very clear that the impact will actually be incremental because the quality of NIIT will be much more visible and available out there in the market. A lot of local competition which is very low cost but even though quality will now be threatened by NIIT TV and that is one of our concrete strategies, we want to make it difficult for them to operate because NIIT TV now is a serious competitor directly into the homes of the students who would otherwise be going to these centers. We also want to create a competitive move against the many e-learning companies, small ones that have started up in India because we will be able to offer a much wider aperture of courses and most important it is not just e-learning, we have live courses and we have on-demand courses and we have a whole plethora of additional learning services making it a much-much richer platform than a typical startup e-learning organization.

**Moderator:**

Thank you. Our next question is from the line of Debashish Mazumdar from Edelweiss. Please go ahead.

**Debashish Mazumdar:**

Sir I have two, three broader question, so let me start with the corporate learning group. So what I have noticed that one of your major competitor in US recently reported a slowdown in their revenue numbers and there is a significant fall in their estimated numbers by the analysts there. So just wanted to get some sense what is your take around your competition numbers and what is the kind of visibility you are having there in the corporate learning group revenue there and what is the constant currency growth you have reported in this quarter in the corporate learning group number?

**Sapnesh Lalla:**

So there was a bunch of question, I do not answer all of them in sequence, pardon me. I think the first one was around general physics and their muted numbers for the first two quarters. I think if you dig deeper into those numbers I think their outsourcing business which is really where we compete with them is growing at a reasonable pace, however some of their energy business or the work that they do or engineering work that they do which is project business

with utilities has slowed down. So from an overall perspective I do not think there is a slowdown of any sorts to be read in general physics numbers nor would you see that from our numbers. I think that was your first question, what was the second question?

**Debashish Mazumdar:** On constant currency.

**Sapnesh Lalla:** Constant currency we grew by about 12%.

**Debashish Mazumdar:** And my second question is around your SCG part of the business, recently you have received a Airport Authority deal, just wanted to check this a kind of B2B shift that management is talking about for long. So what is the kind of B2B share of revenue we have in the SCG group currently?

**Rahul Patwardhan:** We currently do not report a split of the overall SCG business, but I can say that you are right in reading that we are giving higher priority to that business given that we have such a good business outside India we should also be giving priority to large multinationals with a large base in India and Indian multinational who have a large base in India but also operations overseas. So that is happening and we are seeing good traction, while I am not ready to report specific numbers but the growth rate of this business is good. Airport Authority is just one of these contracts, most of our contracts are in the multi-national and in the private sector.

**Debashish Mazumdar:** So one follow-up question here, recently we have seen that kind of Infosys and TCS kind of companies are spending millions of dollars in their training, so is there any deal we got from that part?

**Rahul Patwardhan:** Yes, I would like to highlight that in our B2B business in India we have already been doing training in IT for most of the IT services companies if not all, but with StackRoute we have an offering which is really exciting these companies because they have a major task on their hand, over the next 12 to 24 months a very large part of their workforce needs to be re-skilled in a whole plethora of digital technologies, it is a complex task because the average age of the IT professionals in these companies is not 22 anymore, it is now more like 35. And second, the range of technology that they need to be trained on are quite large and quite different from the skill set that many of the people have today. So company like NIIT with a presence all over India and with an offering like StackRoute is exactly what they have been looking for, so we are hoping to be able to gain mileage on this. The one thing that we are very clear about is we do not want to dilute quality because that is really what has appealed to all these companies, so the speed at which we may grow this business maybe deliberately paced so that we are able to ensure that we do not dilute quality and gather a premium and then scale up as we go along.

**Debashish Mazumdar:** So when you move to B2B for Indian individual earning business, is it any change in the receivable days cycle and initial investment pattern?

**Rahul Patwardhan:** Well, obviously they are two different businesses so our individual business by definition you get money upfront or at least in installments, in advance of delivering the service while in the

corporate business you may get some advances but there will also obviously be some parts of the payment delivered after the service which is typical to a corporate business. What we are being very careful about is to focus only on companies that operate extremely professionally as multinational. In any case we are not interested in medium sized or small companies because the potential for us is insignificant compared to what we do internationally. So we do not anticipate DSO day problems but yes there is a different kind of business.

**Debashish Mazumdar:** And what about the initial investment requirements?

**Rahul Patwardhan:** This is a business where typically we are talking about faculty going into a customer location and delivering courses. So essentially the only cost base that you really have is either content development which we have a lot of content available already or faculty and we adopt a model here which is highly variable faculty based, so investments frankly are not significant.

**Debashish Mazumdar:** One last part question, what is the cost of developing the things like NIIT TV?

**Rahul Patwardhan:** Very small, extremely small at this point of time.

**Debashish Mazumdar:** Because we are already having content with us?

**Rahul Patwardhan:** Yes, we have the content, we have the faculty who are anyway delivering courses, so let me give you an example. A faculty in our existing model before NIIT TV was sitting in a studio somewhere in India, maybe Chennai and conducting a Java course from a studio and that was being beamed to about 100 centers or 300 centers all over India, that is already happening. What we have done is we have taken a feed out of that studio and put it onto NIIT TV, so now you sitting at home can watch that same course that was being delivered into an NIIT center. So therefore the only cost additional to us is the cost of building that platform and that is not really a very major cost at this stage, and functionality obviously there will be more investments. But again it is basically manpower investment in building a platform.

**Moderator:** Thank you. Our next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

**Kaushik Poddar:** In case of the school learning group, what is the way ahead, are you planning to bring in a partner or something?

**Rahul Patwardhan:** Yes. I will restate what we have said post our April 1 restructuring, we created a separate subsidiary, number one. The intent in creating the separate subsidiary was specifically to make sure that the investments required to grow this business to its full potential will be possible to bring into this legal entity which would obviously be by finding additional partners who will contribute to growing the business, given that this is our third business and our overall investment capability obviously the priority has been going to the corporate business and then to the S&P business. At this point of time the first step that we have to do is we are bringing in highly professional leadership into this business and I mentioned before that we spent the last two three months screening and searching for an appropriate business leader, we are at the final

stages of doing that and I hope in the not too distant future I will be able to announce the joining of the business leader. We have been working in parallel on planning for this business but obviously the new business leader will have to have his imprint on that plan. So as we go into our results for Q3 which could be sometime at the end of Jan, I hope to be able to share something a bit more specific and I said the same thing in July that is when we are at the end of Q3 I will be able to talk more about the schools business.

**Kaushik Poddar:** See on the skill group you have talked about training 1 crores people in five years or something, so I have not seen anything whatever you have said on this issue.

**Rahul Patwardhan:** There are two important points over here, NIIT is already in the skilling business, it has always been since 1981 and we have trained 35 million people in the last 34 years, so the numbers are already there and with or without Skill India we are in this space. What we have done in the last year is aligned all our courses so that they are an SQF or QP aligned so that they align to the specifications of the various sector skill councils so that companies that are going to be recruiting people against those specs will find our courses also aligned. The second thing that we are doing is the NIIT TV, we are able to reach the numbers that need to be trained, we felt that the traditional chalk and talk model will be almost impossible to scale up to the numbers that need to be achieved and that is why we are invested in NIIT TV as one more reason and today what we are seeing in NIIT TV is we have people registering from all over India, many of them from small towns, villages, all kinds of places which kind of reinforces that we are on the right track though it is very early days, it is just 15 since we launched. But to this we will be able to offer very low price point courses to a much wider audience and that I think is much more fitting to what is required to be done to address its skilling problem.

**Kaushik Poddar:** But when do you think this will take up, this skilling with inputs from NIIT TV?

**Rahul Patwardhan:** Well, number one, it has taken off as 6th of October, I guess your question is when will it start earning revenues?

**Kaushik Poddar:** Yes, that is what I was trying to get at.

**Rahul Patwardhan:** So at this point of time our intent is to keep NIIT TV free till we gain a certain volume in terms of registered users and regain their spec and appreciation of the quality of the service that we have on the portal and only after that am I willing to talk about monetization. So please do not break any revenue growth in this from NIIT TV.

**Moderator:** Thank you. Our next question is from the line of P. Sachdev from P&Y. Please go ahead.

**P. Sachdev:** My question is more on the macro side, can we safely assume the NIIT brand pull factor is coming back what we saw in the 90s because of the measures mentioned in the initial commentary and few questions back.

**Rahul Patwardhan:** Yes, I think you have kind of hit the nail on the head in terms of essence of the transformation that we are trying to achieve in the IT space. NIIT has always stood for being a pioneer in

bringing out the latest and the newest stuff in the IT space before everybody else lauded out right from 1981 onwards and every year. What we are trying to do now with StackRoute with NIIT TV and a whole other series of other initiatives that we have not yet talked about to regain the primacy of position in the minds of IT professionals, serious IT professionals in the industry as well as individuals who are serious about entering into the IT profession as the only place or the most valuable or highest quality place to go to for IT training.

**Moderator:** Thank you. Our next question is from the line of Depen Shah from Kotak Securities. Please go ahead.

**Depen Shah:** Can we have some more insights into how scalable is the StackRoute business and in terms of say how can it scale over the next couple of quarters whether we are looking at more cities to add courses? And what could be per student fees, just to get an idea.

**Rahul Patwardhan:** So if you go on our StackRoute portal you will see that our list price that we have for the first course is 2 lakhs, but this is for a course run at our center. Courses done for the corporate customers would typically be at their premises, so many of the fixed cost and the marketing cost would not be incurred therefore the price points would be different. So if you take that and pilot batch is our current center which we have in Bangalore is 72 seater and it has been oversubscribed for the first batch. So we get an idea of what the revenue would be for the first batch from that data. Now what can we do going forward? With the kind of discussions that we have with the corporate customers we are being pulled into other cities because they need us to service them in pretty large numbers in multiple cities. Our challenge is we do not want to scale up faster than we can keep up with quality because we want to make sure that this is a superior product and the feedback from this product is going to be always above the expectations of the customer. So we will obviously be spreading into other cities, we anticipate moving into at least two more cities in quarter four of this year, but then second scale up is around the product portfolio, so the current course that we have is only one of the different full stack areas though it is something called mean stack but we also have an open source stack, there is a securities stack, there is a data sciences stack, so you can have multiple courses. So if you can look at multiplying locations as well as courses that will give you some idea of the trajectory, right now I am not prepared to give you specific forecast in terms of how fast we want to grow.

**Depen Shah:** And on the other front just wanted to know a book keeping question, the capacity utilization of the own centers in the current quarter, that was I think 36% if I am not wrong?

**Rahul Patwardhan:** Yes.

**Depen Shah:** And how much would it be in the same quarter of last year, I do not have the numbers somehow?

**Rahul Patwardhan:** I think it is substantially lower, we mentioned that we reduced the number of centers in quarter four, it was substantially lower in quarter two last year.

- Depen Shah:** And just one final thing, the total contribution of the non-government schools to the schools business in this quarter?
- Rahul Patwardhan:** Sorry, your voice broke off, can you just repeat the question.
- Depen Shah:** The proportion of revenues from the non-government schools to the SLS business in this quarter?
- Rahul Patwardhan:** 68% is NGSA, out of the total schools business.
- Moderator:** Thank you. Our next question is from the line of Ganesh Shetty who is an individual investor. Please go ahead.
- Ganesh Shetty:** Sir our recent initiatives like StackRoute and Airport Authority of India deal, will you be able to optimize our resources quite effectively so that we can protect our margins going ahead sir?
- Rahul Patwardhan:** Your voice was not very clear but I think what I understood was that are these launches going to help us improve the margins of the skills and career business, is that your question?
- Ganesh Shetty:** Yes sir, that is my question sir.
- Rahul Patwardhan:** Yes definitely, so StackRoute for example by positioning this product as a premium product obviously along with that the expectation is at a premium price product and therefore will give us margins. Second, because it is a product being offered not only B2C but also B2B which is the corporate customers obviously the ability to pay and the need for this course and therefore the margins that we can get on this course will be higher than traditional B2C business. The movement in the technology delivered approach will obviously be one more thing that will help us improve margins, but that is something that may take a bit longer. So because as I said we are going to be driving NIIT TV as a free platform for some time. Now the obvious thing is that through reenergizing and through the capacity utilization improvements that will come as a result of reenergizing which we are already seeing because that is why we have come to a profitable performance in SNC in this quarter we hope to keep driving the margins up further.
- Ganesh Shetty:** As we see that our corporate learning business is doing exceedingly well and particularly MTS business and you have also mentioned that there are a number of orders in pipeline and also your experience in scaling up large managed services deals can you explain us that will you be able to be in a high growth path over next six months of time in MTS deal sir?
- Rahul Patwardhan:** Yes, in fact one of the important things to be able to support growth is not just our ability to acquire customers, we believe we are actually doing quite well there but we also need to make sure that our ability to service the customer at the same quality level that we are currently servicing all our MTS customers is paramount. As we grow a number of customers in the corporate sector and they are all Fortune 1000 customers, we cannot afford to have one customer being really unhappy with us. So to be able to do this our internal capacity creation is very important, so on that to let you know that we have been able to look at how can we grow

our capacity for our offshore CLG business delivery and how do we deliver economies of scale while growing the capacity. So we have entered into an arrangement to purchase the existing campus where we have our corporate learning, products, and delivery going on so that we can increase the capacity and this is an agreement to purchase with staggered payment and over a period of three years we will become the owners of this facility. Currently we are able to reduce the rent the way that agreement is structured and the interest cost are less than the rental amount that we have been able to save. So I think we made a pretty good deal in terms of being able to improve the ongoing economies of scale of delivery and that should have some impact overtime on the margin that this business do.

**Ganesh Shetty:**

Sir my last question is with our business with the state governments or central government organization, recently in the last quarter we had a news media release that Telangana Government is willing to have partnership with us and there was no breakthrough I think after that and looking at our experience in school business, government school business where we had tough time collecting the receivables how we can go ahead with such deals in future so that we can be asset light as well as we can be sure of our receivables? Sir can you please give some highlights on this. Thank you very much sir.

**Rahul Patwardhan:**

So I think as you rightly pointed out, given our experience with the government school business we are extremely selective about getting into any new government business. As you know more than 53% of our business is corporate business with Fortune 1000 companies outside India, we have some B2B business in India, we also have about 10% of our business outside India and China and emerging markets, so 63% of our business has got nothing to do with government, another 20%, 30% of our business in India has also got nothing to do with the government. So government focused business is going to be very selective, we want to be very sure that we have a cash positive business if we take any government contracts and that is our primary criteria for entering into any tender or any deal with the government and all these deals are personally reviewed by me and the CFO of the company.

**Moderator:**

Thank you. Our next question is from the line of Vaibhav Vatkhar from iWealth Management. Please go ahead.

**Vaibhav Vatkhar:**

Sir my first question is on the Schools and Learning's Groups, by what period will you be phasing out from the government schools? And my second question relates to skills and careers group, so with the current capacity what can be your per quarter run rate and in that are the non-IT revenues that is your banking and all that and IT revenues are they sustainable going on and if it is not then what would be currently than seasonality in them?

**Rahul Patwardhan:**

So let me first address the school question, the government schools as I just mentioned earlier we have exited these contract at Andhra Pradesh, Telangana or rather the contract got over as scheduled. We have three government contracts left, Maharashtra, Chhattisgarh, and Assam, two of them I think finish in two years and the last finishes in about 2.5 years, and last one is in quarter two FY19. As far as skills and careers is concerned I did not get the first part of your

question, but let me answer the question about your or maybe you can clarify your question again.

**Vaibhav Vatkar:** Well, my question is that what is the addressable revenue that you can get seeing your current capacity utilization?

**Rahul Patwardhan:** I would say that capacity utilization currently 36%, theoretical possibility of course is 100% but that is not practically impossible. If you were to fill all our centers to a practical capacity utilization level which could be about 70%, that gives you an idea of the total potential from our own centers and the same would apply roughly to the business partner centers.

**Vaibhav Vatkar:** So for current that you have non-IT revenue is let's say about 42 crores, so going ahead what could be the run rate then, just considering that you are also adding StackRoute programs and all that?

**Rahul Patwardhan:** Yes. So StackRoute is a program being launched through a different platform, so we are deliberately not launching it through our existing centers simply because we are trying to keep it very exclusive. Plus from what I just mentioned, a lot of the StackRoute revenue is likely to happen from the corporate sector which would actually get delivered inside the premises of their own offices. For the rest of the course portfolio we are running them all through our existing own and business partner centers and as I mentioned there is a lot of space and capacity available to grow the business, so that is not a constraint. What we really have to look at however is the demand for each of the individual products in the portfolio, so we have a number of course in IT, number of courses in management, number of courses in banking and we are trying to add courses in other sectors as I mentioned last quarter. So it is a portfolio approach, very much like a chain of store where you have multiple products and you have to make sure that you are driving demand for the portfolio of products.

**Vaibhav Vatkar:** Then what will be your margins going ahead be from this, your target margins would like to get that?

**Rahul Patwardhan:** As I mentioned earlier on the call, we said this year we will be back to growth and back to profit for SNC and right now I am only prepared to stick with that comment. Having said that, obviously the intent is while we scale and increase the capacity utilization the margins should go up over the next two, three years.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to management for their closing comments.

**Rahul Patwardhan:** So this is another quarter behind us after our restructuring, I want to emphasize all the hard work that has been put in by the entire management team and the workforce of NIIT. Without that all working together to the same plan we would not have been able to achieve these numbers. Important thing is to have a very clear plan, and we have; and to execute on that, and we have; and the results have come as expected. We continue to focus on making sure that our

plan for the future is as detailed and we execute on them and have no surprises on our numbers going forward. I would like to hand back now to Vijay to give any closing comments.

**Vijay Thadani**

Thank you. I hope we were in a position to answer all your questions. In case there are any unanswered questions then you can as usual get through to Kapil Saurabh and he will coordinate either answering that question or having a one-on-one meeting as maybe necessary. Thank you once again. I know it is a very busy season of results and for you to have given your time to NIIT and for all your questions which as usual are so educated that they give us new ideas. So we look forward to your continued cooperation, support, guidance, and goodwill. Thank you. Operator, you can close the call now.

**Moderator:**

Thank you very much members of the management. Ladies and Gentlemen, on behalf of NIIT Limited that concludes this conference call. Thank you for joining us and you may now disconnect your line.