



“NIIT Limited
Q2 FY '24 Earnings Conference Call”
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Moderator:

Ladies and gentlemen, good day, and welcome to NIIT Limited Q2 FY'24 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 star then zero 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 Thadani:

Thank you. Good afternoon, everyone. Thank you very much for joining this call. I have to reiterate that we appreciate your time given that it's a busy results season, and you decided to spend this one hour with us. We truly appreciate. Obviously, we thank you for your continued interest in NIIT Limited and for asking us the questions, which also indicate us as well as from us to go forward in the right direction.

Today, the agenda is to provide an update on the second quarter of the fiscal year 23-24. And therefore, Q2 FY '24 is the call. And I would start with some highlights. I have our full team here, Mr. Rajendra Pawar, Chairman of the Company; Mr. Sapnesh Lalla, Director of the Board, Mr. Rajendran, Joint Managing Director; Mr. Sanjeev Bansal, our new CFO; and Mr. Kapil Saurabh from Investor Relations as well as other senior members of the team.

So, before I get into the details, I just want to talk about the seasonality of the business that we are in NIIT Limited, which is also what earlier called of the Skills and Careers business. We basically look at two kind of learners, those who are in early career and those who are professionals.

And the business has seasonality because there are certain quarters of the year when each of these two are not available in as much as many numbers as we would like them to be. And therefore, a little bit of seasonality does crimp in. Quarter 2 is typically a very good quarter for us, and it is in that context that we are talking of this business. So, we normally talk of the business on a year-on-year basis -- year-on-year growth because that takes away the seasonality impact.

However, given what we saw happening in the last 2 quarters, quarter 4 of last year and quarter 1 of this year, when there was a total hiring freeze on -- from Tier 1 global systems integrators. This time, we are in a recovery phase, and therefore, we decided that the best thing to do is to talk about the results on a Q-o-Q and talk about the recovery process that we are seeing.

And of course, also share the Y-o-Y number, where the volumes have recovered to an extent, but not to a full extent and I'll talk about that. Revenue for quarter 2 was INR814 million, which was up 30% quarter-on-quarter, but down 13% year-on-year, which is compared to last quarter's results when the revenue was down 33% year-on-year.

Right now, this -- we have recovered from there to quite an extent. This recovery in volumes, even though volumes is there despite the environment remaining very challenged and is driven by a 69% growth in enrolments quarter-on-quarter. We saw a healthy uplift in both technology

and BFSI programs, and the growth is also across Early Career and in Work Pro numbers. So, if you were -- considered ourselves at the metrics, which as Technology and Work Pro on 1 axis - Technology and BFSI on 1 axis and Early Careers and Work Pro on the other, then in all four quadrants --- in all the row totals and column totals, we have seen growth across the quarters.

However, in Technology segment, the year-on-year growth has not recovered to the levels that we were there last year, though we made a significant progress quarter-on-quarter. We'll discuss more about that as we go forward. This was contributed by a deliberate focus, which we had on Tier 2 global systems integrators who welcomed our contributing to improving their talent profile.

Higher GCC penetration. GCC is rather segment, which has been growing. Our own focus on GCC has been increasing. And I think in this quarter, we saw it had the GCC penetration, which contributed to the quarter-on-quarter growth. And the one which actually contributed very significantly for this was the significant expansion that we had in BFSI. This resulted in StackRoute & TPaaS, the two stacks that we track, growing 93% quarter-on-quarter and is now contributing 32% to quarter 2 revenues.

At the back of this, however, the volume of trading by Tier 1 GSIs, which typically contributes a very significant portion of the revenue remain compressed. This explains the Y-o-Y shortfall and upon recovery represents very meaningful growth opportunity because we do believe that the Tier 1 GSI hiring freeze is temporary.

We don't know whether it's for a couple of quarters or more. But as soon as that recovers, that recovery will sit on top of the sustained growth that we have -- we are beginning to experience in the segment that we focus on.

Revenue mix from Early Career learners was INR398 million as compared to INR 300 million, which was 21% Q-o-Q. Contribution from Early Career learners was 49% to quarter 2 revenue. In Work Pro segment, we saw a revenue of INR416 million, which was 41% Q-o-Q. The contribution from Work Pro segment increased to 51% as compared to 47% last quarter.

It contributors to this Work Pro segment was some very interesting programs whether it was full stack developers for working professionals, digital architects, digital versatilists as well as pivotal roles in banking, which were to do with digital transformation, branch management and wealth management.

Overall, BFSI showed growth both in revenue and enrolment for Early Careers as well as working professionals, both quarter-on-quarter and year-on-year. While in Technology, all round growth in enrolments, revenue growth, however, was in working professionals. And overall, I think quarter-on-quarter it probably was up, while year-on-year, there was a decline.

Also, we've been able to take advantage of the uncertainty in the environment and have been able to rationalize our cost structure and increase our operating efficiency. As a result of this, along with recovery in revenue, EBITDA improved by INR86 million quarter-on-quarter from

a negative INR64 million last quarter and this was driven by, obviously, a higher revenue level as well as significant cost rationalization initiatives that the company took.

EBITDA margin was at 3% compared to minus 10%. Net other income in quarter 2 was INR137 million. This includes the impact of treasury income of INR112 million. PAT was at INR106 million as compared to INR22 million in quarter 1 and INR47 million last year.

The company is continuing to invest in new products and new channels for growth. capex for the quarter was at INR89 million. We are seeing some early signs of success in training on artificial intelligence and in using generative AI and AI for training.

Company is investing in products to equip customers with AI skills. So, during the quarter, the company introduced new specialized programs in AI for its customers and is also adding components -- AI components across its portfolio programs such as full stack development and digital marketing.

Company is also investing in the use of AI in our pedagogy and platform to improve learning effectiveness and learner experience in addition to contributing to overall efficiencies of the organization. For balance sheet, the balance sheet metrics remained strong. DSO was at 53 days as compared to 63 days last year and 41 days last quarter.

Net cash at the end of the quarter stood at INR6.974 billion. So, despite the challenging environment, we seem to have arrested and have arrested the decline in quarter 1 fairly substantially and I've seen strong sequential improvement in both enrolment and financial performance in quarter 2.

We expect to sustain this sequential growth in subsequent quarters barring seasonality effect, in fact, which may happen in, for example, quarter 4, a little bit. We expect, therefore, H2 FY '24 to go significantly over H2 FY '23. However, given the delay in pickup of hiring in Tier 1 GSIs, we are expecting the full year revenue not to reach our guidance of single-digit growth, but maybe just flat or marginally lower.

Of course, the pickup in hiring happens, of which there are some early signs at least in Tier 2 GSIs, which would benefit substantially. We do expect to sustain profitability in the second half of the year and therefore, expect the earlier projected single-digit margins for the full year.

Overall, as a summary, I would like to say Tier 1 GSI stopping hiring has had a major impact in the last 2 quarters, that is quarter 4 and quarter 1. However, this year -- this quarter, success with the Tier 2 GSIs to increase penetration in GCCs and special focus on BFSI, especially on large pivotal roles has contributed to a robust quarter-on-quarter growth. Also, rationalization and efficiency gains led to positive EBITDA, even though it is at a lower revenue run rate.

Sequential growth will sustain across quarters and barring seasonality impact in quarters like quarter 4. Hiring resumption by Tier 1 GSIs will definitely result in significant benefit whenever that happens. New products, new initiatives will contribute to acceleration next year.

Many of these new products and initiatives are in the final stages of completion, but we will be able to see the benefits only during next year. We remain committed to our long-term vision and the stated aspiration that we have shared earlier. So, I would like to stop right now and open the floor for questions.

Moderator:

We have a question from the line of Ganesh Shetty, an individual investor.

Ganesh Shetty:

Congratulations, sir, for good set of numbers and especially the EBITDA and bottom-line numbers in a bad macro. My question is regarding our TPaaS and the StackRoute offering. So, these are very distinguished offering we have in the market. And I just want to understand whether we are having enough marketing initiative to understand the significance of these products to our prospective clients. Can you please throw some light on this, sir?

Vijay Thadani:

Sure. Thank you very much. First of all, thank you for your nice words. Yes, StackRoute and TPaaS both have done exceptionally well over the years, if you noticed and have always risen up for the occasion whenever the opportunity demanded so. In StackRoute, we have a very specific and differentiated offering and that is really appreciated by our users, whether they are consumers themselves or even corporates to get their fresh hires trained on these boot camps.

We have increased our focus on marketing to a number of initiatives so that the success that you saw it coming through Tier 2 GSIs because those are -- have to be approached to a number of below-the-line initiatives. And a lot of investments were made in below-the-line initiatives, for example, special seminars, which we did for Work Pro to get digital architects, digital architect once framed are the bosses of future full stack developers.

And therefore, they also opened doors for us. And so higher-end technology programs using AI, creating a large engagement base, participating in various forums where we get an opportunity to be visible, including some very proprietary initiatives that NIIT has had over the years, like Confluence definitely improve our visibility.

Having said that, is that enough? Not at all, but we have to balance that with our ability to service them with our product range as well as balancing of multiple other initiatives, which are in focus. But thank you very much for your suggestion. We'll definitely keep that in mind.

As far as TPaaS is concerned, the reach is through individual meetings and again, we visible on multiple forums. I think in that, we have been a little better off. And certain important clients, we were able to add this year, which have contributed this more momentum.

Ganesh Shetty:

Sir, my second question is regarding our initiative to enter into new segments. And during the quarter, can I please know some details whether we have progressed in this regard, at least some progress has happened in entering new segments? Can you please throw some light on this, sir? That's all from me.

Vijay Thadani:

Certainly, new segment, there is a lot of work which is happening. I think new edge programs like AI is one area. E-R&D is another space, which we are addressing. We do believe that there

are certain trends which have to be caught early at the early stage of the adoption curve. And those are areas like decarbonization.

In my opinion, this is the huge opportunity in future, though its impact will be very minimal. But I think in organization readiness, I think we would place ourselves a little ahead of others, given the significant investment that we also made in [inaudible] in the erstwhile NIIT CLG, but the benefit of that cooperation will also be available to NIIT Limited. And we are looking for that as I'm just giving you as one of the multiple opportunities that we are in.

Moderator: We have a next question from the line of Darshil from Crown Capital.

Darshil: Congratulations on a great set of results. Sir, I just wanted to understand, like I'm a bit new to the company so what is seasonality role, how does that impact us and why would Q4 not be as strong? So, could you just explain that in brief, that would be very helpful, sir?

Vijay Thadani: I couldn't hear you very clearly but let me demonstrate my hearing and understanding. I think your question is how does seasonality play in StackRoute and TPaaS especially in quarter 4, overall?

Darshil: Yes, yes, yes.

Vijay Thadani: Okay. Yes, so I said there are 2 -- let's look at it from the following -- the same metrics -- 2 x 2 metrics that I drove for you. Technology, BFSI as 1 axis, Early Career and Work Pro as another axis. So Early Careers are the most available at the time of graduation and are least available at the time of exams, okay?

At the time of exams, they are not joining organizations or coming and attending courses. After the exams -- and therefore, in second quarter, end of first quarter, early the -- so the whole of second quarter is then maximum joining happens in organizations and maximum placement happens. So, at that time, Early Careers have a high momentum, right?

Now whether that is technology, typically very high in technology because they're new hires just typically join in July, August timeframe. BFSI, by and large, works across the years -- I'm first in Early Careers. By and large works across the year, except in fourth quarter, banks typically take a fall and to that extent, slow down their recruitment and therefore, for us, the training opportunity because of the -- being the last quarter of the year.

And to that extent, in the fourth quarter, you do see some softness. On the Working Pros, similar, 3 quarters of the year typically, it's good and is consistently growing. Fourth quarter, there is a softening because companies are focused on completing their financial year and are not able to free up their people. Those are the roles which play.

So, I would say quarter 4 is typically a slightly slower quarter. For product companies that used to be a very high quarter because that's when the maximum budgeting used to take, as people had reached their budget. But in services, where individuals have to spend time in helping the

organization to close their year. I think we find a little bit of slowing down in training consumption.

So therefore, fourth quarter is definitely one in which there is a small dip. First quarter, it starts picking up. Second quarter, it peaks. Third quarter, because of festivals and all, it kind of stabilizes. Fourth quarter, there is a small dip. So that's roughly the way seasonality works in our business.

Darshil:

That was very helpful. And sir, now if we can see FY '24, we might expect a bit flattish. So, anything -- do we see the recovery maybe playing in FY '25? Would that be the growth that we've not been able to achieve in FY '25 or might come with a spring in FY '25? Is that the right way to look at it? And what kind of margins can our business do on maybe when the demand is good? Like what would be the average ratio margins that we expect going forward?

Vijay Thadani:

Okay. I'm again trying to understand what you just said. First, whether in FY '25, we see a strong recovery? That -- the answer to that is, I think, the strong recovery will -- the economic condition of -- economic position in the country stands very good. However, the global uncertainty and its impact on the Indian economic condition, that part I will not comment on.

But at domestic level, the situation looks good. And if that happens and on global systems integrators, the assumption of hiring happened, then I think we should see good results in FY '25 because the efforts that we have made in this year will, of course, sustain themselves, and the recovery will sit on top of that. So, I think we should see that. The second part of your question was to -- did you understand, Kapil, second part of the question? How will the margins work?

So overall in the -- this business is capable of generating a margin of 15% to 20% in steady state. There are parts of the business, which are even now delivering north of 15%. But as I said, overall, the business is in an investment cycle. So, to that extent, I think a number of initiatives do consume part of that margin, which is, all thought, overall good. We obviously, on top of that, have inorganic opportunities that we pursue from time to time. And I think the cash balance that we have would also get utilized for that.

But overall, on the margin front at organic level, 15% to 20% in steady state is a good mix. And why I use 15% to 20%, if the retail part versus the consumer part of business picks up faster, then you are in for much better margins because economies of scale benefits with them.

Darshil:

So, sir, any -- maybe 3 years vision that you would like to share, like what would be our targeted revenue in something that maybe not a short-term, something that we aspire to do so maybe in FY '27, '26 vision, anything that would be very helpful, sir.

Vijay Thadani:

Okay. So, this is a question which we have been answering for, I think, now 4 or 5 quarters and, no, maybe more when it was -- what is -- as we pivoted from a brick-and-mortar delivery model to a full digital model, question was what is the long-term growth that we see for this business?

And we had said that in -- on a 5-year trajectory, which will now end, I think, in '27, we would -- we should see ourselves at a revenue level of about INR1,200 crores. And the question has also been how? We said that it will come through the benefits of the investments that we are making in acceleration in -- in accelerating the revenue, adding new products, new segments, new ways of doing business as well as inorganic activity that we foresee in the future.

At this point of time, where we stand right now, this quarter -- at the end of this quarter, we are a little ahead of numbers. But over the next 2 quarters, we also see that there will be a bit of softness given Tier 1 hiring has not yet started. We don't see any reason for us to revisit that projection that we had made. Of course, there is lots of work to be done, and we are at it.

Darshil: Perfect. Perfect, sir. One last...

Vijay Thadani: Sorry, which is '28 -- which is FY '28.

Darshil: Okay, okay. No, no, sir, that's perfect, sir. Sir, just so how much would be inorganic in that -- maybe contribution that we are looking forward to? In the -- our target of INR1,200 crores, how much would inorganic be?

Vijay Thadani: Yes, see, there are in the overall strategy as it unfolds. We have a number of folks, at which we have to take buy versus make decisions. So, it will be difficult to comment on that. But I think you can take about 1/4 of the growth will come through -- or 1/3 of the -- 1/3 to 1/4 growth will come through inorganic.

The only addition I want to talk about was the fact that the Board did consider an interim dividend this quarter. And given that we are still figuring out the next set of questions, I thought I'll talk a little bit about the dividend policy of the company. And dividend policy in its earlier avatar and in the coming avatar.

So, from 1993, that the company has been public, we have followed a consistent dividend policy which is of giving a consistent dividend, which increases slightly every year and which does not vary significantly up or down based on results because the results can go up and down based on the state of economy as well as many other considerations.

And therefore, over the period of time, we have maintained a consistent track record, which where dividend on an average has increased by maybe 5% over the previous year, barring some special years when either there was a bonus or something else might have happened.

We intend to follow a similar policy. But this is the first year in which NIIT without the CLG business, which is now housed in NLSL will be -- has completed 1 year and in this year, we did want to set up a baseline. Baseline was set through the interim dividend of 25% to start with.

And then over a period of time, we would see based on the performance of the company and the way the cash is to be utilized and the most effective way of returning the benefits of the growth and cash balances to our investors, we'll take appropriate decisions. So that I just thought is an additional point that I would mention in this course.

Moderator: As there are no further questions, I now hand the conference over to the management for closing comments. Over to you.

Vijay Thadani: Okay. Thank you very much each one of you for giving us your very precious time and participating in today's brief. We did have some very interesting questions. And as usual, the questions contribute to shaping our future strategy and to that extent, we are thankful to you for your contribution.

We do know it's a busy time for everyone. And for having spared your time for this briefing, we are truly grateful to you. If there are any follow-up questions, please do not hesitate to contact Kapil Saurabh, who's single point of contact to answer and to coordinate any meetings or answer any further questions that you may have.

So, at this point of time, I would like to bring this call to a close. Wishing the very best for the festival season and looking forward to our next set of meetings.

Just on a separate note, next week -- early next week on 7th, some of us will be in Mumbai for one of the investor conferences but we would also be available off-line in case somebody wants a one-on-one meeting or any other -- possibility for any other discussion. So, with that, we close this call. Thank you very much.

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