



“NIIT Limited
Q3 FY'24 Earnings Conference Call”
February 02, 2024

MANAGEMENT:

- **MR. RS PAWAR – CHAIRMAN**
- **MR. VIJAY THADANI – MANAGING DIRECTOR AND VICE CHAIRMAN**
- **MR. SANJEEV BANSAL – CHIEF FINANCIAL OFFICER**
- **MR. KAPIL SAURABH –M&A AND INVESTOR RELATIONS**

Moderator:

Ladies and gentlemen, good day, and welcome to NIIT Limited Q3 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 very much. Good afternoon, and welcome to this investor meet for NIIT Limited's Quarter 3 FY'24 Results. I have with me our full management team. I have Mr. Sapnesh Lalla, who is Non-Executive Director and on the Board; Sanjeev Bansal, who's the CFO; Kapil Saurabh looks after M&A and Investor Relations; and also Mr. RS Pawar; and Mr. P. Rajendran. Mr. RS Pawar is the Chairman; and Mr. P. Rajendran is the Joint Managing Director.

We would address questions together. But what I would start with is a brief outline of what happened in quarter 3. The results have been with you for a while. So I think I'll be very quick on this so that we have more time for questions.

So as usual, we thank you for your interest in NIIT Limited and for joining the call today. Just wanted to say in the beginning that the NIIT's business is seasonal in nature. And quarter 3 is a weak quarter, just follows a very -- a peak quarter of quarter 2. And therefore, to that extent, in the history of NIIT quarter 3 is always lower than quarter 2.

Despite continuing freeze in technology hiring, this quarter business has recorded positive Q-o-Q growth, which is, as I mentioned earlier, is a positive thing given the fact that quarter 3 is a weak quarter. And this was done through broad basing of customers across BFSI, across global capability centers, GCCs and focus on Tier 2 global systems integration.

So the revenue for quarter 3 was INR852 million, which was up 5% Q-o-Q. And as I mentioned, that looks good, but down 9% year-on-year, and I'll explain that in a minute. Thus closing the gap with the last year's trajectory. I'll explain the up 5% Q-o-Q and down 9% Y-o-Y as we go forward.

EBITDA was at INR78 million as compared to INR22 million in quarter 2 and INR80 million in quarter 3 last year. EBITDA margins improved 646 basis points quarter-on-quarter and 55 basis points year-on-year. Net other income in quarter 3 was INR154 million, which includes the benefit of treasury income and also from other income, which came out of interest on tax refunds and certain common cost recoveries.

PAT was at INR144 million in quarter 3 as compared to INR106 million in quarter 2 and INR143 million in quarter 3 last year. In percentage terms, PAT is up 35% Q-o-Q and nearly flat or you may call it 1% Y-o-Y. EPS was at INR1.1 per share, which was up 32% quarter-on-quarter and 1% year-on-year.

So we started -- just to explain this, a 9% year-on-year decline. We started the financial year, as you know, we were going very well till quarter 3 last year. And then in quarter 4, we hit a big bump. And from then onwards, the bump continued in quarter 4, quarter 1 and is actually continuing and that was the freeze in hiring by the technology sector. However, the corrective measures which we took started kicking in and therefore, the recovery started.

So in quarter 1 last year, we had a 33% year-on-year decline -- sorry, quarter 1 this year, we had 33% decline year-on-year with sequential pickup in business throughout the year through alternate strategies, we have been able to get close to the volumes achieved last year. But the fact that technology hiring trends and training trends have not recovered, we have not been able to cover the full gap in this quarter. We do anticipate that to happen in the fourth quarter. In fact, fourth quarter growth is likely to be fairly decent.

I also want to just -- since I'm banking a lot on the argument that technology services hiring has been frozen or has been negative in the sense they have been -- technology sector has been dropping people numbers, I thought I'll share one data point. During COVID, the IT services sector swapped two quarters of decline in headcount in IT services.

Now for the last five quarters, we have seen -- five successive quarters, we have seen a Q-o-Q decline in headcount and the aggregate headcount reduction seems to be 4x in the last five quarters compared to the reduction that happened in COVID over two quarters.

If we look at the revenue mix by product, while revenue from technology training is down 19% year-on-year, and I explained why, revenue from BFSI and other programs is up 34% Y-o-Y. But given the fact that they were BFSI and other programs for a smaller subset, just 20% of the whole last year, that growth has not been able to make up for the decline in the technology trading revenues.

And therefore, while BFSI and other programs have grown up by 34% year-on-year, contribution from BFSI and others has increased from 20% last year to 30% in Q3. Therefore, the mix that we have in Q3 is 70% coming from technology revenues and 30% coming from BFSI and other programs.

In summary, the business has shown resilience and agility by, number one, broad basing the customer set in a very tough environment. Second, achieving operational efficiencies. We did a massive cost structure rationalization, variablizing costs, whatever we could, and that exercise is still continuing. And that led us to improve our margin. So if you see year-on-year, while the revenue has declined by 9%, our margin is the same and in fact, there is a 55 basis points improvement.

So as volumes recover in large GSIs and looking at the positive of it, this would mean a meaningful growth opportunity with better profitability. Why? Because our cost structure would have got rationalized to the new reality and the growth opportunity of GSIs will sit on top of the new markets that we have created in GCCs as well as Tier 2 GSIs.

Another aspect is we are seeing early signs of success in training on artificial intelligence, AI and generative AI. And we have been able to not only train in AI, but also use AI for training. So the company is investing in products to equip customers with the AI skills. During the quarter, company introduced new specialized programs in the AI for its customers and is also adding AI components across its portfolio of programs, such as Full Stack development and digital marketing.

Going forward, every program that NIIT offers will have a component of ranging from an introduction to AI, but most certainly, how AI could be used to improve the efficacy of the particular job grower. The company is also investing in the use of AI in improving our pedagogic and platform so that learning effectiveness increases and learning efficiency also increases, as well as users get or learners get a better experience.

Coming to balance sheet. The balance sheet metrics remains strong. The DSO was at 59 days as compared to 55 days last year and 53 days in last quarter. This small change would be transitional as -- and the customer mix driven with different payment terms. The capex for the quarter was at INR83 million.

With better working capital management as well as strong cost rationalization exercise, net cash at the end of the quarter was at INR7,179 million versus INR6,974 million last quarter. This is up INR205 million quarter-on-quarter, despite payment of a dividend of INR67 million during the last quarter.

One aspect of cost rationalization was also headcount rationalization, where we variabilize a lot of headcount as well as downsized wherever it was required. Headcount has reduced by 65 Q-o-Q and is now at the end of the quarter was at 778 employees full time.

On our guidance, despite the challenging environment, we arrested the decline in quarter 1 and have been seeing sequential improvements in both enrolment and financial performance in quarter 2 and quarter 3. We've been able to reduce the Y-o-Y decline over these three quarters. Our expectation was we would be able to make up by end of quarter 3 on the Y-o-Y decline.

However, given the strong -- the more stricter freeze in headcount addition that happened in technology services, we could not achieve that. But given this recovery and the low base in quarter 4 last year, we do expect to see a meaningful Y-o-Y growth as well as expect H2 of FY'24 to be positive versus second half of last year. Therefore, we expect to see H2 FY'24 will be positive growth over the previous term.

BFSI is the weak -- for BFSI, quarter 4 is the weak quarter, and therefore, revenues would be down quarter-on-quarter. But the fact that quarter 4 last year was worse off, we would be able to see growth given the recovery has set in.

We have made up for loss of volume by the increase in profitability front while lowering the cost base, and therefore expect to benefit substantially when volumes normalize. Our new rationalized cost will help us achieve better margins as we go forward and would have reduced the breakeven point for newer businesses and new products as in the case for launch.

In summary, Tier 1 GSI stopped hiring and have continued to see quarter-on-quarter decline in headcount. Success with Tier 2 GSIs, GCC penetration and BFSI penetration has led to recovery, although it has not helped make up completely for loss of volume from traditional customers. Cost rationalization and efficiency gains have led to positive EBITDA at a lower revenue run rate.

Sequential growth will sustain barring seasonality impact as I discussed for BFSI sector in quarter 4. Hiring resumption by Tier 1 GSIs, which should happen in the next few quarters, will definitely result in a step increase. New products and new initiatives, of which there are a number of them in the making, will lead to acceleration in the coming years, and therefore, we remain committed to our long-term vision and the stated aspiration.

I will stop here at this time and open it for Q&A.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have a first question from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty: Sir, congratulations for a good set of number in challenging environment. And coming back to the TPaaS and accrued offerings, which are a specialized offering from NIIT Limited, how would you see the coming quarters shaping up in these offerings, special offerings? Can you please throw some light on this, sir?

Vijay Thadani: Thank you, Ganesh. Yes, I think the TPaaS from -- which predominantly comes out of banking customers has been on an increase. And I think the requirements remain strong. Typically, for higher-end goals like wealth management, as well as -- well, all roles, but typically wealth management and relationship banking roles. And those requirements and the intents that we have, stand in good stead. So we should see a similar volume or slightly better volumes in the coming quarter.

Having said that, the fourth quarter is not the time when a lot of joining happens. So till it is quite likely that the programs run in a slower mode and therefore, we may not be able to clock as much revenue because their employers will be busy with the year-end commitments. But yes, we see this as a positive story.

Ganesh Shetty: Sir, regarding StackRoute.

Vijay Thadani: Yes. So StackRoute. StackRoute, the volumes are very strongly dependent on large GSIs returned to hiring -- of hiring pressure. Of course, we are doing our best to make this up -- this gap up through GCCs as well as Tier 2 GSIs. We did meet with success in quarter 2 with Tier 2 GSIs. But in this quarter, last quarter, quarter 3, we did -- there was movement, but it was a little subdued compared to quarter 2.

We think GCCs will continue and Tier 2 GSIs will perhaps remain muted, muted but not stopped. Tier 1 GSIs have stopped. In fact, they have a negative hiring in terms of the overall numbers were going worse than or lower than the previous year or previous quarter. So I think that's the situation we see. And to that extent, StackRoute, though will see some growth quarter-on-

quarter, but I don't think substantial enough to make up for the loss that we have with the GSI - Tier 1 GSI is not high.

Ganesh Shetty:

Thank you very much, sir, for the explanation. Sir, my second question is regarding our new offerings or new acquisitions or new segments which we are going to start in this year, that is the very purpose of separation from NIIT and NIIT Learning. And given the present scenario, what is your take regarding this subject that we can acquire a new company offering new skills or we can organically grow in that way so that we will be equipped with better business proposition in the future. Thank you very much, sir, and all the best.

Vijay Thadani:

Yes. Thank you very much for your question. But let me answer that. First of all, we are very bullish on some of the sectors which are emerging. There is a whole team, which has separately been isolated, which is working on newer initiatives. And in these newer initiatives, we are also looking at make versus buy issues. And while we do have a pipeline of inorganic opportunities, but as you know, inorganic opportunities have multiple variables and therefore, difficult to pinpoint on when those might converge into a successful transaction.

And therefore, that we can only talk about once something happens, but sufficient to say that newer initiatives are achieving the tension at the highest level and as well as there are special teams working on it. And simultaneously, we are also looking at make versus buy options with the funnel which we have for inorganic opportunities. More about this as we cross some reasonable milestones.

Ganesh Shetty:

Thank you very much, sir. That's all for now. All the best.

Moderator:

Thank you. We have a next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain:

Yes, hi. Thanks for the opportunity. I just have a couple of questions kind of clarification. While I understand that your revenue in tech is down on a Y-o-Y basis, but it's been improving for the last two quarters. So do you think you still kind of have a weaker tone there because of weaker hiring in general? Or you think the driver for your growth, which has been GSI -- sorry, GCC has a limited room and that's why you're worried on that aspect?

Vijay Thadani:

No. So first of all, the -- our coverage is strongly on early careers but is also equally strong now on working professionals, especially with our offerings in Gen AI, cybersecurity and advanced subjects like digital architecture and stuff like that. But those volumes cannot make up for the volumes, which large GSIs used to do in fresher hiring and fresher onboarding. They are covering the gap but not sufficiently. So while GCCs focus will increase, I think the GSIs returned to some decent amount of hiring will definitely move the needle substantially more.

Rahul Jain:

Secondly, I just see that your headcount is down 20% Y-o-Y. You said partly, it is because of third party. But also, I see your opex is down on a Y-o-Y basis. So what explains this, where these savings are coming? Is it kind of a tuning down on expenses since we are seeing not so great in with on met?

Vijay Thadani:

Yes. So we are actually very, very strongly focused on improving our cost structure and making it more aligned with the volatility of the revenue. Our fixed cost structure was actually becoming an overhang on us. And at a particular point of time, that got added because the going was so good, if I were to see 4 quarters ago. And that obviously helps you with better efficiency and profitability because you save the cost structure.

But given the fact that now times are changing very fast and volatility is only going to be an order of the day, higher voice volatility will be order of the day. It is only fair that we variabilize it to the extent that it is possible. Second, with automation, we are also looking at efficiencies and taking away all those people who are head count, which is doing routine chores. And to that extent, I think the impact of all this is what you feel or what you see in the headcount reduction.

Will this continue at the same level? No. I think in the last quarter, we have done a substantial amount. There may be smaller amounts coming up as we introduce more automation and more and make the organization leaner and more agile. I think there may be some more cash cost rationalization happening, but I see much of the stat is behind us. But variabilization of direct cost variabilization of direct cost is one of the strong motivators for cost reduction.

Rahul Jain:

Yes, I understand that's important and relevant for the new business. But the more question comes from the point that were very high aspiration on growth a few quarters back. We don't talk much about those hyper-growth opportunity maybe given the matter we are in. But what are -- how those goalposts are changing in your renewed thought process? Or those are intact, if yes, then what would drive it and when you expect that traction to happen?

Vijay Thadani:

Yes. Okay. So first of all, gold costs have not changed. We remain very committed and optimistic because the number of levers we have are many. We have hit a bump in the early stage of realizing those plans. But that doesn't deter us because we have a strong balance sheet. We have a very strong capability that we can handle this kind of a bump and handle the ups and downs that come along with it.

As far as our background work is concerned of getting ready for newer domains, getting ready for newer forms of trading, getting ready for newer pedagogies, that work is going on at full speed. And I think during next quarter itself in this quarter 4, you should see a few things on which we have been working, which will start becoming visible. And of course, how we are banking on the fact that 9.5 million people graduate every year.

And we have a 5 million strong IT industry and about 3 million strong BFSI community. And I think all of them require ongoing training and 9.5 million people need jobs, which match their intellect as well as their aspirations. So we see those opportunities, and we are prepared for those. The good news is we have now been able to introduce scalability in our business model.

And therefore, if opportunities come faster than we could have otherwise handled them, we will be in a position to take advantage of that. That's what we are preparing for. We are also getting ready with workforce that we really require and we would require a room that's for.

Agility is a very strong, should I say, attribute that we would like NIIT to be very well known for. So far, our agility has been in the form of identifying opportunities, but we have been cautious in taking advantage of them given the multiple constraints, which we have. The agility also to handle volatility is an extremely important element.

The good news is that with variability and variabilization but yet keeping that workforce within our fold as a community, I think we will set some new ways of working, in which our costs will remain variable, but we would have an access to a large network, which we can dip into our pool that we can dip into when we want.

So I think there are a number of initiatives. So in short, our ambition of that famous INR1,200 crores by FY'28, that right now holds, and we're just finishing our planning cycles. And yes, it will be a steeper climb given that the first year has not been the best. But then it's a 50-hour match.

First five hours have not worked out well. We do hope that in the balance, 45, we will be able to make up. That's where our confidence is coming from. There are also inorganic opportunities, which is a cost -- which is a contributor to this.

EdTech, the volatility and the happenings in EdTech, and I wouldn't like to spend too much time more than that fact that, that also opens up opportunities for some interesting targets, which may come our way, which we may not have otherwise have considered. So these are all the elements which are contributing to the confidence of the organization. The proof the pudding will be in tasting it.

Rahul Jain: Right. So I like your analogy of cricket, but if you're already chasing a target, which is very, very steep, those five overs are also very crucial because your compounding expectation was very higher. So would appreciate if we are able to explain the nuances of that number at an appropriate juncture and how we attempt to achieve it?

Vijay Thadani: I couldn't agree more with you. And I also couldn't agree more with you that cricket is not the best analogy to use in current times.

Rahul Jain: Yes. Thank you. Best of luck.

Moderator: Thank you. We have a question from the line of Rahul Shah from Crown Capital. Please go ahead.

Rahul Shah: Hi, sir. Good afternoon. I just want to ask about going ahead. You've mentioned that you expect H2 to be better year-on-year? So what should we think about the next year in terms of growth margins? Just an overall perspective and outlook, what are your expectations given the current situation in the market and the business?

Vijay Thadani: Okay. I could put together a response, but let me be honest that response will be strongly dependent on the return and the assumptions that we have for the return of the large GSIs hiring. And therefore, to that extent, I think the picture will be clearer if we looked at this same we

shortened one quarter from now. But since you asked the question, I will give it a shot just in any case. I feel that we should be looking for assuming that GSIs event really have come back into the market and hire.

And if there was a reasonable response, it should be possible for us to see a growth which is in excess of 15% year-on-year. And on a margin front now variabilization of cost, I think for us to have double-digit margins, barring a few investments, which we will be making next quarter onwards, actually, in the coming quarter onwards, to grow the market, now that we have been able to get the organization ready or fit for growth.

There will be barring such small changes. I think overall in a steady state for us to work for a double-digit margin will be very much possible in next year. But having said that, that is a back of the envelope with a huge assumption of large GSIs returning. I think we would get a better picture if we were to discuss this 3 months from now, and we would be discussing annual results.

Rahil Shah: Makes sense. Thank you for answering anyway. All the best.

Moderator: Thank you.

Vijay Thadani: Operator, if there are no questions, I would just summarize.

Moderator: Yes, sir. Please go ahead.

Vijay Thadani: I'll wait if there is anybody who wants to ask a question. So I just want to reiterate that we continue to see a large opportunity ahead of us. NIIT has played a pivotal role as talent builders to the nation, especially in the technology sector over the last four decades, with accelerating pace of transformation across industries, we are excited about the opportunity ahead to recreate this impact across multiple sectors, including technology and BFSI, which are strongholds of NIIT already.

To aid us in this journey, we must remember, NIIT has a strong and trusted brand, a differentiated deep scaling methodology, 200-plus active corporate partnerships and customers, and 90% of our revenue every quarter comes from repeat customers. We have more than 30 OEM partnerships, which give us early access to cutting-edge technologies, and we have a strong balance sheet to invest in innovation and growth.

From the opportunity point of the view since much of the irrationality that was prevailing in the market due to start-ups willing to burn cash under friendly pressure having died down, I think we have an opportunity to create a healthier industry and a more competitive environment. Significant business transformation cycle is ahead of us, which would create demand for specialized talent with all organizations adopting AI.

And therefore, this focused entity, NIIT Limited, will enable us to be nimble and agile to address the new market opportunity. We continue to look for opportunities for both organic and inorganic growth, which I've said before. And we look forward to a much better year than the year that we would complete this in the next three months. So with that, at this point of time, I



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will take a pause and see if there are any questions. If there are none, then we would move on and close this conversation. So operator, there are no questions, then we will close this conversation.

Moderator:

Sure, sir. Thank you all for joining today's call. On behalf of NIIT Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.