World's Leading Skills and Talent Development Corporation

"NIIT Limited Q1 FY-23 Earnings Conference Call"

July 28, 2022

World's Leading Skills and Talent Development Corporation

CHORUS CALL®

MANAGEMENT: MR. VIJAY THADANI – MD & VICE CHAIRMAN.
MR. SAPNESH LALLA – CEO & EXECUTIVE DIRECTOR.
MR SANJAY MAL – CHIEF FINANCIAL OFFICER.
MR. KAPIL SAURABH – INVESTOR RELATIONS & M&A.

Moderator: Ladies and gentlemen, good day and welcome to the NIIT Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference has been 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 and good afternoon to all of you, or good morning or good evening, depending on where you're joining from. First of all, thanks very much for joining us here on this call. It's very important for us that you were able to or you are able to spare your time in this busy result season. And the fact that you devoted this time to this call we truly appreciate.

The agenda today is to discuss the business performance of NIIT Limited in the first quarter of financial year 22-23 and the quarter ending June 30th, 2022 is what we will be discussing. So while I have whole team from NIIT, including our Chairman Mr. R S Pawar, Sapnesh Lalla, who is the CEO right now participating from US, where he is right now. Sanjay Mal**,** who is the CFO, Kapil Saurabh, who leads the investor relations and M&A Function, Pratik Chatterjee, as well as some of our Directors in the Board, who are on the call from different locations, including my colleague, Rajendran who is the Joint Managing Director. So all of us are here to listen to your comments, as well as try to answer all your questions.

The only thing I would like to paraphrase this meeting, before I request Sapnesh to give a briefing of what happened in the quarter is that, it's been another quarter of strong performance, despite rapidly changing macroeconomic environment, increasing global uncertainty, I feel very good about the fact that both businesses have done well in this quarter. And, are on their trajectory that they had planned for themselves, the trajectory may have a few bumps, which Sapnesh will talk to us about. But overall the trajectory remains strong and the capability, the brand presence as well as the strong culture that NIIT has and enjoyed over the last 40 years. And a strong position in the minds of our customers gives us a lot of confidence for the future. So, with this I would request Sapnesh to first provide an update on the operating performance and also talk about the business seasonality which does affect us from time to time and then based on your questions, I may also provide an update on the reorganization process that we had started earlier this year. So with that over to Sapnesh.

Sapnesh Lalla: Thanks Vijay and thanks everyone for joining this call. It means a lot to us, as a quick reminder, please note that based on the proposed reorganization of the company, the residential institutional business which was earlier classified as an asset help for sale is now classified as continuing operations. Financials have been consolidated in the current as well as previous quarters for like to like comparison. Let me start with the overall highlights. The revenue for the company's stood at 4048 million, it was up 34%, Y-o-Y and 8% Q-o-Q. Both the businesses achieved robust growth, on a strong base from last year. Excluding the inorganic growth, wanted to remind everyone that NIIT acquired RPS Consulting in October of last year. So, if we were to exclude that acquisition, the revenue was up 23% from an year-on-year perspective. The EBITDA was at 740 million was up 5% year-on-year this includes the impact of the ramp up in planned investments and partial resumption in travel and premises costs. Net other income was 3 million, it was down quarter-on-quarter versus last year primarily due to the mark to market impact on fixed income investments of the company. Because of the rising interest yields on bonds. The tax was at 127 million for the quarter, please note that in Q4 of last year we had a onetime gain and taxes as per the accounting standards. Profit after tax was at INR 443 million, resulting in an EPS of INR 3.3.

Coming to corporate learning business, the revenue was at 3125 million, it was up 6%, Q-o-Q and 18% Y-o-Y. In constant currency, the revenue was up 3.2% Q-o-Q and 14% Y-o-Y. Despite environmental headwinds, the EBITDA was at 739 million, EBITDA margin was 24%, it was down 57 basis points on a quarter-on-quarter basis. As guided earlier margin was down Q-o-Q. Predominantly based on investment and transition for multiple new contracts that we acquired earlier or late last year. Our entry into the education segment as guided earlier. And for both the accounts that are in transition as well as for the entry in the education segment, we expect to ramp up revenues over the next few quarters.

We also had a planned ramp up in sales and marketing expense. As we have guided over the last several quarters, we will invest disproportionately in sales and marketing and we are continuing to do that. We also have partial resumption of travel and premises expenses in some of the geographies. Our investments are continuing to help our front office add and scale contracts with marquee customers. During Q1, we signed four new contracts, two customers in the life sciences segment, one in the technology segment, and the last one a large conglomerate business. The value of managed training services customers now stands at 68. The visibility at the end of Q1 was at $304 million. We continue to see a healthy pipeline of new customers as well as opportunities for expansion of our wallet share across existing customers. I shared earlier, many of the existing customers have reduced their consumption of training from levels as the pandemic hit. While spends stabilized at lower levels in FY22. Growth started to bounce back as a result of proactive investments in sales and marketing and a new capabilities which the corporate learning group continued, which allowed the corporate learning group to continue to improve its competitive position in the market.

The growth was driven by accelerated ramp up of new customers, as well as expansion in the share of wallet of existing customers. A sharp increase in volatility last quarter impacted the volume of a couple of our customers, we expect the pace of consumption to pick up as the uncertainty starts to wane down. This was reflected in 3% Q-o-Q growth in constant currency versus our earlier expectation of 5% Q-o-Q growth. Like I stated, while a large majority of our customers have grown, but a couple of significant customers have experienced lower volumes this quarter. Favorable impact of exchange rates has helped achieve 6% growth in INR terms. I expect the near term headwinds to continue to have a marginal impact over the next couple of quarters.

Based on this, the base case organic growth for the year is likely to be in the 15% to 16% range in constant currency terms versus the 20% constant currency growth expectation we had set earlier this year. In reported terms, however, we continue to expect 20% growth and greater than 20% margins at prevailing exchange rates. For Q2, we expect about 3% growth on a quarter-on-quarter basis. In terms of our preparedness and capability set, we are more than confident in our ability to execute, we are scaling up our investments and believe that in the medium to long term, our growth trajectory of 20% to 25% is quite intact.

In our skills and career business, revenue for the quarter was 923 million. This was up 145% on a year-on-year basis and 16% on a quarter-on-quarter basis, not including the revenue from the acquisition of RPS, the organic growth was at 54% year-on-year driven by significant growth in key product lines including StackRoute and TPaaS. StackRoute and TPaaS grew at 114% year-on-year and contributed 39% to SNC revenue in Q1. This business has shown a smart recovery and is on a robust growth trajectory. EBITDA was 1 million as compared to a loss of 51 million in Q1 last year. The business is a strong digital learning platform across domains for both career seekers and working professionals, leveraging the strength of our brand deep expertise and pedagogy, and the use of technology in training. The business provides training and emerging digital technologies to working professionals, segment which are seeing strong demand due to digital transformation across businesses.

We continue to see a multi cycle for growth and demand for skill talent. Given the large opportunity we have accelerated investment in this business, which has helped us lift the revenue run rate, between StackRoute, RPS and the enterprise business we have a strong coverage of CSI, GCCs and other large Indian enterprises. With a wide range of offerings for deep scaling, and digital skills including programs for 5G, cloud technologies, cyber security, game development, data science, and full stack product engineering as well as programs in digital marketing, business development, and virtual relationship management for digital enterprises. We are well equipped to help our customers with their talent transformation needs. And NIIT has contributed to the growth of the IT industry over the last 40 years and continues to help the industry to deal with its talent shortage.

We are continuing to help organizations onboard over 10% of the new hires and ensuring that they are the day one and our one ready. The sharp increase in the volatility last quarter impacted the volume for a couple of our customers as I pointed out earlier, we expect this pace of consumption to pick up as the uncertainty starts to wave. By the large majority of our customers have shown growth, a couple of the customers had lower volumes than we had expected. We are now, as I mentioned onboarding over 10% of college graduates entering the technology careers in India and making them first day, first hour ready continues to be keyboard. Our B2C programs are ramping up and helping the learners achieve a very strong career outcomes. Learners that join us have been getting offers that are almost double the average of starting salaries for on campus hires with recent starting offers as high as 10 lakhs.

Our balance sheet metrics continued to be strong, net cash position improved quarter-on-quarter by Rs.158 million to Rs.12,592 million. The DSO was at 49 days as of end of June versus 48 days end of previous quarter. Our ROCE has improved sharply over the previous few quarters. It stands at 20%, the operating ROCE excluding cash on books was at 81.9%. Overall the opportunity in front of both of our businesses is robust and I believe we are in good stead to address that opportunity. The global corporate training market is a large 350 to 400 billion market. And NIIT has established a strong right to win, with strong differentiation and value creation for customers in terms of both effectiveness and efficiency.

We continue to expect strong and consistent growth, strong margins in an asset light high ROC business model. For our SNC business, our opportunity continues to be strong. India has a high young population with a high graduate enrolment ratio into higher education. NIIT has been a premium provider for technology training to individuals and enterprise learners over the last 40 years. Over the last two years, the business has pivoted to a digital learning platform. We now have a strong right to win with investments in platform, curriculum, proven outcomes and strong relationships with GSI and GCCs. NIIT has established a right to win that is an envy of a number of our competitors. We will continue to pursue investment opportunities both organically and in-organically to drive growth across the different dimensions that we have talked about earlier. We would like to pursue opportunities that help continued expansion of our corporate business through expansion of geo coverage, addition of new capabilities and penetration into new customer segments. For SNC we will continue to invest to achieve leadership in digital learning.

In summary, we continue to see a large opportunity and are confident for achieving multiyear growth. We have a strong competitive position and the right to win in the markets we operate in. Near term uncertainty may have short term impact for the next couple of quarters post which we expect growth rates to pick up. Growth in SNC business remained on track and we expect that we continue to be robust. We remain on track to deliver the guided margins of over 20% for CLG and a small EBITDA profit for the SNC business for the full year. That was the set of highlights I wanted to present as prepared comments. I would now hand it over back to Vijay.

Vijay Thadani: Thanks Sapnesh. At this point of time, all that I want to explain is about the scheme of arrangement, the reorganization that is for which we had briefed you earlier in the year. And a quick update on that is that the composite scheme of arrangement was filed and we have received all the SEBI and Stock Exchange approval which were required based on which it was filed with NCLT. The first motion hearing of that was completed on July 25th and orders have been reserved, we expect the order to be released in the next four to six weeks with direction for convening meetings, or seeking necessary approvals from various stakeholders including shareholders. So that's the update, in short the scheme of arrangement is on track as per the original timeline of one year plus minus that we were anticipating. So, I would stop here and now open this floor for questions. For Q&A, my colleagues who are on the call, as well as some more who are elsewhere in the world would also participate as when required. Over to you operator, if you can please open it for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Sapnesh so the quarterly acceleration range was obviously good, but there seems to be some softness on the order book. How should we read this over the medium term and to perhaps carve out the percentage of our order book and revenue dependency on sectors that are perhaps aligned with cyclicality, like Canadian and North American Housing, and so on. And secondly, Sapnesh given the sharp inflation on the cost front, is your pricing environment supportive of the new cost structure and would you recommend we have the pricing diverse in the quarters to come from the marketing front?

Sapnesh Lalla: Thanks for those questions if I understood your question right. You wanted to know, from a growth perspective, are we able to absorb the challenges that you outlined from a growth trajectory perspective and second question was from a margin perspective, with cost pressures will we be able to manage our margins, did I get the question right?

Baidik Sarkar: That's right. And if I could just, rehash the first one look, the commentary on the order book, especially the visibility of order book over Q3, even of last year was very different from what we're expressing today. It's quite dramatic, actually. So, if you could just kind of help us read the situation better?

Sapnesh Lalla: So let me answer the question on the visibility front first, our visibility is quite a bit dependent on the renewal cycle for contracts. And, I don't believe the change and visibility has been dramatic it's gone down marginally from $328 to $304 million in spite of addition of four new contracts. And that's because of the timing of some of the renewals which happened towards the end of the calendar year. So, I don't believe there is dramatic change in the visibility. Like I pointed out, we continue to have strong velocity in terms of getting new customers, and that velocity has only increased over the last few quarters. To answer your first question, which was, are we able to continue to see the growth opportunity, like I pointed out in medium to long term we are able to continue to see the growth opportunity. Like I mentioned, we've seen softness or lower consumption of training across couple of our customers. While the large majority of our customers have increased consumption, and we've seen stronger quarter-on-quarter growth across a large majority of our customers. Like I mentioned, a couple of our customers have lower consumption over the last quarter, given the uncertainty, and I expect that consumption will pick up once the uncertainties eases.

You had a third question was around margin. Like we have guided we were expecting margin to go down from the earlier highs of 28%, 29%, 30% to gradually get to approximately 20% margin the corporate business at its typical cost basis is about a 20% margin business, and we expect it to normalize to about 20%.

Baidik Sarkar: Sure. And if you could please come again on the growth endeavor for the coming year. Did you say constant 20 and reported 70 did we get that right.

Sapnesh Lalla: I'm having a hard time hearing you say that again?

Baidik Sarkar: Could you please come again on your reported growth endeavors for the year. Did you mention 20% constant currency and about 16%, 17% in reported growth, is that the number that you gave out?

Sapnesh Lalla: No, the other way around, I said that we will do about 15% to 16% in constant currency and about 20% in reported currency, which is INR.

Baidik Sarkar: Sure, thanks. Can I just squeeze in one more question on the SNC front, great activation there. Could you explain how our customer acquisition strategy here is working across B2B and B2C segment. And I asked that because as your current margins, obviously your customer acquisition cost and the cost of delivery is quite high. So, by when do you think we will reach an equilibrium of good growth as well as margins coming back, if you could just expand on that?

Sapnesh Lalla: So as I've pointed out in the past, we have had a head start on the customer acquisition side, specifically with respect to GSIs, and GCCs and we've consolidated that position with the acquisition of RPS consulting. So across the large employers of technology talent, we have a strong position and we have a strong right to win. And we have very efficient customer acquisition with large GSI and GCCs, several of the top GSIs and GCCs are our customers, and we continue to grow our business with them. Over the last two years, or about 19 months, we pivoted our B2C business from a brick-and-mortar business to a digital platform based business, that business is in its ramp up stage and is requiring cash as an organic initiative. And that's where we've made investments, but from an overall perspective, I expect that business to grow and grow rapidly, over the what we pointed out earlier was that this year, that FY23 we might see a little bit of an EBITDA or by and large breakeven, but over the next couple of years, we will see significant margin for the overall SNC business.

Vijay Thadani: Baidik, I will just add one line to what Sapnesh was explaining about renewals. Sapnesh, you may just want to highlight when do renewals take place predominantly?

Sapnesh Lalla: Yes, that's why I was saying.

Vijay Thadani: It's during the year.

Sapnesh Lalla: I was saying that it takes places towards the latter half of the year specially what's our Q3 but for most North American organization and several European organizations, the calendar year end.

Baidik Sarkar: No, that's helpful. That adds a lot of context. Thank you very much Mr. Thadani. Thank you.

Moderator: Thank you. The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha: I just wanted to check that you had indicated that some of your large customers had stabilized that low level of consumption in FY22, so have we started again seeing a decline in those large customers, or are they still stable accounts for us?

Sapnesh Lalla: So, like I pointed out, a couple of customers who had actually seen accelerated growth, over the last few quarters have seen lower consumption. So these are customers that we started out over the last eight to nine quarters, these customers had accelerated at a very fast pace and given the environment have seen a little bit of a decline in consumption. However, as our wallet share has expanded, and we have acquired more new customers, the vast majority of our customers have actually seen growth from Q-o-Q perspective.

Shradha: Right. Secondly, just a repeat on the previous question, you did indicate that your deliverables happened towards latter half of the year which is December month for us, but if I look at your historical revenue visibility numbers, we've shown Q-on-Q growth in first quarter each year, baring this quarter, during this time around. So, is it something to do with macro weakness this year, or a higher seasonality that we are seeing this year compared to the previous year trends?

Sapnesh Lalla: I would relook at what you're seeing from a visibility perspective. Like I said, part of the visibility is based on new customer acquisition and that part has stayed robust. And the other part is based on renewals. Like I said, some of the renewals get punched towards the end of the calendar year. But from an overall perspective, we got seen weakness in new customer acquisition.

Shradha: Right. But what goes behind the downgrading the guidance.

Sapnesh Lalla: Sorry, it's getting cut off, can you say that again?

Shradha: Yes. So, I was just asking as in, what is the reason behind downgrading CGLs guidance in just a quarters time when we maintained the new customer acquisition is pretty much on track. So, is it just because we have been seeing significant decline in some of our existing customers that is leading to a sharp reduction in guidance in just one quarter?

Sapnesh Lalla: No, not sharp decline, like I said.

Shradha: From 20%, we are coming down to 16%, 15%, so that's a good cut down in just one quarter.

Sapnesh Lalla: Yes, like I pointed out, we're seeing decline in a couple of customers, as well as the fact that whenever there is uncertainty given that training, or a fair part of training tends to be a discretionary expense, organizations tend to hold back for differ training related investments. Also, sometimes hiring gets onto a pause at large organizations and that results into lower consumption of training it's a cycle that we have seen for every time there has been uncertainty in the environment. There is a pause or deferment of training and that's happening this time around as well.

Shradha: Sir on SMC business is maintained your profitability has been just flat or breakeven profits, but what about the revenue guidance, last quarter we had indicated a 50% Y-o-Y growth in SMC. So, do we still go with that number or has there been any change in the current outlook?

Sapnesh Lalla: Yes, we are staying with (+50%) growth forecast for SNC.

Vijay Thadani: Shradha, you have to consider this quarter 145% is actually with the acquisition which was not there last year. So if you discount that then it's 54% and that's consistent with what we had guided.

Shradha: Yes, appreciate that. And sir can we have RPS consulting, what is the update in terms of cross selling opportunities or in terms of new customer acquisition on the B2B side through RPS?

Sapnesh Lalla: The first couple of quarters have gone off quite well. RPS has been on track with their numbers, we've had a few areas of synergy where execution has started and we've seen some value come through that, it's still a little bit early to go on full on synergy. The first step was to ensure that they are part of the family and from an overall perspective, they reach the speed that they can reach on their own. Over time, we expect a lot of synergy across customers, we've seen some synergy, where RPS is working with the GCC in India. And that relationship has caused a number of conversations with the parent outside of India, so a number of conversations have started. And as you might expect, over a period of six months, not a hell of a lot has materialized but a number of things have started.

Shradha: Right. And just one last one I can squeeze on large RECO deal. Do we see further deterioration in Q2 on that particular deal, or do you think it's early days to spot in?

Sapnesh Lalla: See, we don't comment on specific customers for obvious reasons and we won't comment on specific customers today as well. What, I would say is reiterate that a couple of large customers had lower than expected consumption over the last quarter given the uncertainty.

Moderator: Thank you. The next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: I was just wondering if the growth that we have derived in FY22 and also this quarter, is it a momentum because of the accelerated digitalization in corporate world and will this momentum continue, because for many of the clients, it was necessary to shift their training online and it wasn't possible to do it offline. So is our growth because of that?

Sapnesh Lalla: So, I would say it is a culmination of or a combination of two or three dimensions. The first is, like you pointed out, many organizations wanted to become digital. And with an NIIT, they saw a platform to take a lot of their training into digital, which improves access as people who are working from home. So that's certainly the case. The second area is that, in NIIT, a number of large organizations are finding a viable partner to whom they can outsource their training. And that enables them to focus on their core business. That's something that has worked well and has accelerated, we saw acceleration in velocity of new customer acquisition. So that helped. The third is, we added on new market segments as well as new capabilities. So we brought on Life Sciences as a segment about four years ago. And over the last couple of years, that segment has started maturing, and it now contributes over 10% of our business. Lastly, we also invested in a few new capabilities over the last few years and those capabilities have resulted into additional wallet share from our existing customers. So these are a few things that have come together to help us grow over the last couple of years. As, I have pointed out earlier, we have continuously, disproportionately invested in sales and marketing. And we are continuing to do that notwithstanding the uncertainty in the market, because every time we've seen uncertainty in the market, as organizations come out of that uncertainty, we see a fillip or a ramp up in the propensity to outsource. So we expect that as things start to stabilize from and more certainty comes to the market, we will see a ramp up in outsourcing and we are well positioned and have a strong right to win to accelerate our business.

Saurabh Sadhwani: Okay. So what do you think that would drive the growth for the next three years, is it means what capability of NIIT and what sectors or what verticals of an NIIT would drive the growth?

Sapnesh Lalla: See, we are currently positioned well in a number of key segments for example, if you look at India, we are well positioned with GSI as GCCs, banks and large enterprises. If you look at our business outside of India which predominantly tends to be the corporate business, we have strong coverage with market segments that have high mandatory training requirements, high share of regulated businesses, they tend to be businesses in the energy segment, in the commodity segment, in the BFSI segment or the life sciences segments, so we have strong coverage there. We also have very strong coverage in the technology and telecom segment where given the nature of or rate of change of technologies, the consumption of training is high. We have expansion opportunities, for example in professional services, GSI, outside of India, as well as we have opportunities to grow presence in continental Europe. So, while we are well positioned to accelerate our business there are also opportunities for us to build capabilities, whether it's geography or market segments, so that we can accelerate our growth.

Saurabh Sadhwani: Okay. And what is the problem that we are solving for higher education in the US, you commented, you told us last time that we have traction from two universities in the US. So what is the problem that we are solving for them?

Sapnesh Lalla: A number of universities or institutions of higher education in the United States have seen gradual decline in their enrollments. And that decline is because people are looking very critically or fair students are looking very critically at the value of degrees in terms of economic mobility that they can get if they acquire that degree. Most degrees are resulting into high personal debt because of the expense involved with a four year education model that's prevalent in the United States. Alternate credentials which result into economic mobility in a shorter period of time are gaining traction and a lot of universities are not well placed to pivot or add alternate credentials to the lineup and NIIT with its vast experience in India as well as outside of India with respect to specially digital training that helps digital enabled, digital transformation is able to bring those alternate credentials to universities who can then outsource that part of the business to NIIT and rely on NIIT to service their students for alternate credentials.

Saurabh Sadhwani: Okay. So is this like what upGrad is doing, they have affiliated courses from various universities, is it similar to that?

Sapnesh Lalla: It is not. What upGrad does, is different from what we do. Our business is an outsourcing business where a university that wants to get into alternate credentials is working with NIIT or is outsourcing that activity to NIIT.

Saurabh Sadhwani: Okay, so they would do that on their own portal and not like a upGrad is a platform, basically and they will have their own portal when they do this within, right?

Sapnesh Lalla: Saurabh, it's two different business models, we could get more detail, it will take some time to explain, but the two models are quite different.

Saurabh Sadhwani: Okay. And just one last question about RPS consulting. In the press release it was mentioned that RPS consulting will be also adding offerings to her MTS side of the business. So what kind of offerings are, can you explain that, how is it enhancing the MTS business?

Sapnesh Lalla: Like I pointed out, answering a previous question. I mentioned that RPS has a number of GCCs as their customers and a lot of those GCC have their principles outside of India. So, there is a misunderstanding on RPS having MPS offers but what we meant is that RPS has GCCs global capability centers in India as their customers. And we have an opportunity to work with the principals of those GCCs outside of India and convert them into NIIT MTS customers.

Saurabh Sadhwani: Okay. And one last question, what is the revenue mix here you're thinking would be appropriate for SNC business, TPaaS, StackRoute and the B2C business?

Sapnesh Lalla: Like I pointed out, we expect a greater than 50% growth in the SNC business for this year.

Saurabh Sadhwani: I mean, revenue mix what percentage would be TPaaS?

Sapnesh Lalla: Like I've said that, the NIIT digital business is fledgling business, we pivot it from the brick and mortar business to a purely digital platform. So the large majority of our business is going to come from RPS, TPaaS and StackRoute.

Moderator: Thank you. The next question is from the line of Sarath Reddy from Unifi Capital. Please go ahead.

Sarath Reddy: Could you help me understand the bridge to the EBITDA, you're building a business that has an old component where you deal B2B and a newer component which you used to be strong in and you're sort of reinventing it on a digital platform for domestic people who want to learn with NIIT and you're incurring higher cost in that process, so you will make maybe 400 crores of revenue or there abouts this year, which is a high growth and so you don't expect to make much EBITDA maybe breakeven this year. But in the next year or two, you hope to make a significant EBITDA. So please, can you help me understand what is significant and percentage. What is the bridge from the current cost structures you have, will you raise prices to make money or will you continue to offer same prices but benefit from just volumes or are there some spends that you're incurring now, which are of a startup nature, which you don't expect to incur next year onwards. I am just trying to see clearly?

Sapnesh Lalla: The answer lies in what you already said. Vast majority of domestic business is actually profitable. The RPS business, the TPaaS business and the StackRoute business of all those which form a large majority of our business is profitable business, reasonable profitability. That profitability is actually getting invested, that profit is actually getting invested in standing up or pivoting the B2C business onto a platform business and so the way to think about it is that, the business that is already profitable, will continue to grow it is growing and it will continue to grow and improve its profitability. There is however, investment required to stand up the B2C business because we've pivoted from predominantly classroom based business to a digital business, that investments cycle has another year, or year and a half left. And as that investment cycle gets completed, we see unit economics which are profitable in that business. And that business will start releasing profit or stop taking away profit from the business that's already reasonably profitable. And both the business will start showing profitability.

Sarath Reddy: You're not answering me. What I asked, like my question actually had the same understanding that you've given me, I want to try and improve my understanding, your new business, B2C business, which is taking investment, I'd like to understand in what aspects is it taking investment and how will it turn profitable, is it that for example you're spending on advertising or on content creation, or on a platform development, and these all will all be expense this year, and therefore will take away whatever earnings you have and you will not need to maintain that rate of spend, and therefore it will turn profitable. I'm trying to understand the guts of how.

Sapnesh Lalla: You have a pretty good understanding. And like you pointed out, we are making investments in all aspects of the digital business. We are investing in customer acquisition, higher than we would normally do in a running business. We have invested in the platform we've invested in digital curriculum. And all of those investments or a large majority of those investments are organic expenses and are getting expensed as that business scales up, the unit economics become more efficient, and start releasing profits, I don't think I'm telling you any rocket science, it is the trajectory that any new business has. It starts off with unit economics that are not efficient, it achieves the product market fit. We think that we have parts of that covered like I pointed out, the students who are graduating from that business are getting placed that jobs that are paying them is almost 2x of what those same folks would have got if they had got placed out of campus.

So we are encouraged by the outcomes or the transformation that we are able to cause for a student. There are inefficiencies with respect to acquiring customers. There are some inefficiencies with respect to teaching. But those inefficiencies, to some extent will get solved through scale and to some extent will get solved through improvements by applying lessons we are learning from a sales and marketing perspective. But notwithstanding what I've said, as we implement those learning's and achieve scale, that businesses, unit economics start improving, and we've seen some improvements over the last three quarters, those improvements will cause the unit economics to become favorable and start releasing profit.

Sarath Reddy: Okay. And what's the current split, of this 400 crore so they're about that you will do this year how much will be from the B2C, the new one?

Sapnesh Lalla: Pretty small, about 90% like I said the large majority of that business is the B2B business.

Sarath Reddy: Okay. And B2B business makes what sort of EBITDA margin?

Sapnesh Lalla: We are going into detail which we normally don't talk about, like I said that business that is BAU business is at reasonable profitability.

Sarath Reddy: Okay. What is the reasonable expectation in the next year and thereafter, what would satisfy you as a measure of accomplishment for your efforts?

Sapnesh Lalla: The next couple of years, we should get to mid-teens in terms of profitability.

Moderator: Thank you. The next question is from the line of Siddharth, Individual Investor. Please go ahead.

Siddharth: So, I have a series of questions. So, should I just ask you one question at a time, rather than putting them all up upfront at one?

Sapnesh Lalla: Depends on how hard they are?

Siddharth: No, very simple questions.

Vijay Thadani: And how long will it take for you to ask all the question?

Siddharth: Just five minutes. So my first question actually is on the ESOP, the fact that the company would be issuing almost 2% equity at Rs.352 a share. So just wanted to know this would be new capital being issued next year?

Vijay Thadani: ESOPs are, let me try to answer that, these are grants which are made which vest typically over the next three years, and only when they get exercised, do they become stock. So at the earliest they will become and I don't think it is 2%, but right now let me pass that thought. What is important is that you can assume that new stock will be issued if all this ESOP which are vested get exercised on the date on which they were vested, they will become stock issued at whatever price that previous day was, the issue options at market parity.

Siddharth: Understood, perfect thank you. My second question would be on the loss of 10.5 crores that we have had a mark to market. Am I right to assume that this will be written back in the next couple of quarters, since we might not have closed the trade and it's only an M2M loss which is just a loss from the books at the moment which will be reversed maybe the next quarter?

Vijay Thadani: Yes, this is a non cash loss.

Management: This is a notional loss based on the mark to market which occurs because of the movements in interest rates and the prices of the NAV, as the interest rates stabilize the yield which is underlying the NAVs will start showing up and it will reverse itself over a period of time. If we do not intervene basically have a majority of this.

Siddharth: So when you don't book it, it's not a real loss effectively, next quarter you may see a 10.5 crore additional income on our books, non-cash?

Management: No, you will not see the additional income, you will have a maybe a stability of no interest rates booked high. So it will not get reversed but it will stay over a period of time if things remain stable.

Management: If interest rates remain stable between now and the maturity of that, it will recoup you will get small-small gain. But if interest rates go up again, there'll be a mark to mark correction technically a non-cash entry.

Siddharth: Yes, so typically what I'm trying to understand is the investment would be in the form of a bond. So, if the interest rate goes up, the face value of the bond goes down. But since we don't redeem the bond, eventually at the end of the bond cycle, the issuer of the bond will pay you the full amount back so effectively we don't suffer a real loss, would that be correct?

Management: Yes, very correct.

Siddharth: Sir, thirdly, I just want you to know granular details, you will be talking about disproportionate expenses on sales and marketing. If we could just get some more details on what exactly do we mean by that and secondly on the RECO contract, it comes up for renewal sometime towards right now to the end of the year because it was signed in 2017, are we hearing anything from the RECO guys on that front?

Sapnesh Lalla: So, the first thing I would say is we don't talk about specific customers. So given confidentiality reasons, and we will not be able to comment on when it comes up for renewal or when will be renew it. That having been said, we have a few years on the contract. What was the second question that you asked?

Siddharth: Sir, if I may just add to that question, the fact was the contract as mentioned in media says, five years plus and optionality to renew for another two. So are they exercising that optionality according to you, are we in that, are we negotiations about that?

Sapnesh Lalla: It's exactly the same way that I answered earlier. We do not comment on specific customers, and we are not about to change that.

Siddharth: Right. Sir, you had also mentioned something about seasonality of business?

Management: One point clarification, while the contract was signed in 2017, we had what was publicly available and we had disclosed, is that there is a period of development ahead of start of execution of the contract. The execution only started in the middle of calendar year 19. So you need to start whatever timeline you started from that period.

Siddharth: Understood. Sir you spoke about certain amount of seasonality in business. So while we have shown growth from say Q4 to Q1 right now. And so can you just explain the seasonality that you're talking about, or is it what you answered in terms of bunching up of renewables towards the end of the year?

Sapnesh Lalla: So there is seasonality with respect to consumption, and then there is seasonality with respect to renewables. My earlier answer was seasonality with respect to renewables to talk the point about visibility, in terms of consumption, there is some bunching up that happens in our Q3 or in our calendar Q4, given the end of year budget completion with several of our customers.

Siddharth: Understood. Sir just wanted to know also the impact of the rupee depreciation here you were guiding for 16% growth and 20% growth on rupee terms. So what are we generally pegging the rupee at the moment for our numbers when we're coming to this. And are we able to get direct benefits from our customers in terms of expansion of margins, because old contracts are already signed at old order terms or are there some clauses where some of that amount is passed on back or something like that?

Sapnesh Lalla: We don't go into specific contracts, but the contracts do not have reverse flow in case currency changes.

Management: Okay. Sir, recently you've signed a deal with HDFC Bank, there's Axis Bank we been doing some training, today we signed with Bajaj Finserv. So in the Bajaj Finserv deal, I saw that the cost of the course is 2000 and the rest Bajaj Finserv is paying for it, what sort of revenue accretion are we going to see from this BFSI space in the Indian context in the next couple of years or is this more a sort of a brand name exercise that we're getting into to basically enhance valuation of the SNC verticals?

Sapnesh Lalla: So in the BFSI space, we have significant business across some of the top names including ICICI, HDFC and now Kotak, as well as Bajaj and we expect to grow that business in a significant way that growth is going to contribute to the +50% growth that we are expecting in this business.

Siddharth: All right, sir just one last question and then one suggestion. Sir in terms of the margin compression that we're looking at say over Q2, Q3 and Q4 would you be able to, could you break it down for us since you said Q3 and Q4 should be better than Q2. So what sort of a disruption in margin should we look on the EBITDA level for say Q2 because of the uncertain environment. And do we have a significant exposure in Europe, considering the things going on in Germany and UK and France at the moment?

Sapnesh Lalla: So overall, we expect and as pointed this out, the corporate business is 20% margin business. We are expecting it to be so for this year as well.

Siddharth: Thank you so much sir for your time, just one last suggestions, it's been a very good luck for us that we've had an old NIIT tagline, that you can't spell training without NIIT. And, that's taken the company very far over the last five, six years that I've been with you. We don't have that anymore on our presentations, would love it if we guys put it in a small place somewhere on some of our PPTs. Even though we've done an entire rebranding exercise, old good things shouldn't be forgotten.

Sapnesh Lalla: You are so right, you can't spell training without NIIT and a lot of customers believe that. But thank you for the suggestion and we'll look into it.

Management: Truly appreciate it, if passionate investors like you that really make the difference.

Moderator: Thank you. We will take the next question from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: Yes, both my queries are from SNC division, see first one is suppose HDFC takes every year x number of trainees. So out of this x number of trainees, how much percent of such x will be going through this program which you have tied up with HDFC Bank, that is number one. And the number two question is, you are talking of 20% margin in SNC business sometime, when is that sometime?

Sapnesh Lalla: So the first one, I would say we will not talk specifics about customers.

Kaushik Poddar: But in general.

Sapnesh Lalla: Our typical contracts like this are contracts where NIIT would provide a majority of the folks that they would recruit for either that business or that capability, or that competence. So in most of these opportunities, the way we would set up contracts is, NIIT would be the majority provider of talent for either a specific job role, or a certain competency or a certain division of that organization. What was your second question, your second question was about margins for SNC, correct?

Kaushik Poddar: Yes, when we reach the 20% number?

Sapnesh Lalla: I said that we get to mid-teens in about a couple of years.

Kaushik Poddar: Okay. And that 20% did I hear you say that 20% something?

Sapnesh Lalla: The 20% guidance is for the CLG business, the CLG business is at 20% business and we think that it is going to stay that way.

Kaushik Poddar: Okay. So you're guiding mid-teen in a couple of years for SNC right, that's what you're saying?

Sapnesh Lalla: That's correct, it is going to be close to break even a little bit positive this year, and it should be in mid-teens in couple of years, as the investment cycle turns to our business cycle.

Kaushik Poddar: Okay. And say HDFC or Bajaj or Kotak whatever you're tied up, this will be for the new management trainees or for whom is this course to be there. You can give a general answer you did not talk about specific?

Sapnesh Lalla: All of these programs are for fresh hires in different roles though for each of these institutions.

Moderator: Thank you. The next question is from the line of Deepak Mehta, Individual Investor. Please go ahead.

Management: We still have a few people in the queue, so can we just restrict it to one question each if that's okay with everybody.

Moderator: Sure sir, I'll make the announcement. As there is no response from the current participant, we'll move on to the next question from the line of Sangeeta Purushottam from Cogito Advisors LLP. Please go ahead.

Sangeeta Purushottam: My question is on the margins of the corporate learning group, what you've guided is that this is essentially a 20% EBITDA business, the margins that we've seen in the last two contiguous quarters have been around 24%. So are you expecting these to decline as the year progresses and what would really be behind it in terms of do you expect more costs to come into this business is it because of investments and sales, if you could just give some color?

Sapnesh Lalla: Sure, I think you answered the question. You are right on both sides, there are a number of costs that we did not have to incur during COVID, some of those costs have started coming back and over the next several months, costs such as premises or travel, both direct as well as indirect travel, they will start coming through so that there are a number of costs that we've not had to incur which we will incur. On the other side, we have investments, you pointed out sales and marketing investments, but we also have investments with respect to market entry investments, like I pointed out previous quarter, we are entering the higher education vertical, which requires investments. And we will continue to make those organic investments, these results into disproportionate expenses towards sales and marketing and the combination of some of the costs coming back and the investments we are making to accelerate the growth and business will result into the margin guidance that we have made.

Sangeeta Purushottam: Margin guidance more for the medium term that is say next couple of years if you're making these investments, and then can we expect that margin to sort of track up as an investment stuff to bear fruit, or you think on a long term basis this is going to be the sustainable margin?

Sapnesh Lalla: This business from a long term business is a 20% margin business. So both from a medium term as well as long term, you should look at it as a 20% business.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: One question from my side. Like, in terms of the technology and telecom energy and natural resources, license and BFSI. In terms of your CLG business, what would be the mix currently?

Sapnesh Lalla: You mentioned a bunch of them in one breath.

Amar Maurya: Technology, energy, life science and BFSI, what would be the broad revenue mix for the CLG business?

Sapnesh Lalla: All the segments that you mentioned those segments form the large majority of our business, so the segments that you mentioned which concluded technology and telecom, BFSI, life sciences and energy, those four segments put together that contribute about +70% of the CLG business.

Amar Maurya: Okay, but then, can I get the individual breakup, like technology, energy, life science and BFSI?

Sapnesh Lalla: Let me find that for you, not right off my.

Amar Maurya: No issues sir, I will stay in the queue if you get it handy it's okay, otherwise I'll take it separately.

Management: Amar we can take it offline.

Moderator: Thank you. The next question is from the line of Saurabh Shah from AUM Fund Advisors. Please go ahead.

Saurabh Shah: Is it possible to get some color on this revenue visibility and this continuing pipeline, how is that related to your pricing of the past, what industries are these in and over a period of time the question that has been asked consistently is, are these kind of slowly helping you to taper up to a better margin levels at all, it's partly related to your discretionary costs but just on price if you could give us some sense of how this is going out and you are diversifying your industry significantly. Thanks.

Management: Let me try to repeat your question your, your question was around how our pipeline is, and how that relates to the visibility, is that the question?

Saurabh Shah: No, what pricing levels do you have in your pipeline relative to the last maybe year or so, as your proposition becomes stronger with some of the customers you have got four new contracts, you've expanded on contract are you seeing better pricing, do you expect as you get more embedded with your customers to this, to create the next two or three years better pricing trajectory or this is still at the same levels or different levels from what we have been doing?

Sapnesh Lalla: We've seen improvements in our pricing over the last couple of years. In fact, we bake in both the opportunity as well as cost side in our pricing, and we've seen improved ability to increase our price points over the last couple of years.

Saurabh Shah: What I meant at the time, the price point that you have just now, is that relative to last year, because you have multiyear contracts, whether it's like 5%, 10%, better pricing or any guidance you can give us over there?

Sapnesh Lalla: So each contract has a price increase baked into that contract, I won't go into specifics of what each contract has, but each contract has, like you pointed out each contract is a long term contract, and each contract has price increases baked in.

Saurabh Shah: Okay. And shouldn't that over a period of time, because your cost are usually front loaded for whatever that helps you with margins going forward?

Sapnesh Lalla: In some cases, it does and it has, but then it also has to take care of increased inflation.

Management: I'm sorry, but there are still a couple of people waiting in the queue, it would be unfair to them. Having decided we have one question at a time. We can take your questions offline, if you would like. Or let's finish this round, and we will come back to you.

Moderator: Thank you. The next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: I was just wondering, we had 66 MTS clients in quarter four, and now we have 68 and we added four, so was there a customer attrition this quarter?

Sapnesh Lalla: There wasn't any customer attrition, there are times when one or two customers are not consuming as much of our services as they to cross over the threshold and in those cases, we do not include them into MTS customers.

Moderator: Thank you. The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: So, just a follow up on the previous participant itself. So usually like my assumption here was that for MTS contracts we have a minimum revenue or some sort of a contract like where there's some certainty in terms of revenue. So, could you just put some more light on how these contracts are structured to qualify a customer underneath because over the years, this particular calculation mismatch has been there?

Sapnesh Lalla: So in simple terms, customers outsource either all or part of their training to NIIT as part of their contract. When I say all or a part of, whatever they are doing as training activity or part of a training activity, they outsource to NIIT. Sometimes they do they consume a lot more training and sometimes they consume less training, for example in times of uncertainty organizations defer a lot of discretionary training but consume only a large part of mandatory training. And therefore, volumes go up and down, our contracts get our customers to do whatever training they are doing or what they have contracted with us, with us only they don't have the ability to bring on others. But if their volumes fluctuate, then there volumes fluctuate. And at times if they are doing a lot less than what they had anticipated earlier, we downgrade them from an MTS customer to a project customer.

Management: We don't have any more questions so we can get back to a gentleman who was asking and I had to interrupt him. It was Saurabh Shah.

Moderator: Checking the line sir. Saurabh Shah your line is in talk mode.

Saurabh Shah: Sapnesh I was asking about, over longer-term engagement with your key clients, how do you see the, margin discussion playing out as you have invested you said disproportionately upfront. And if your costs are also largely upfront and the margin is higher usually, I would think at the back end, even inflation would hurt you less like because we have incurred the costs of funds. So, over a period of time, shouldn't that help you to transition especially with your older clients to a higher margin level, this is for the CLG of course.

Sapnesh Lalla: There is a confusion in your mind. It's not like that most of our cost are punched at the beginning of the contract, we have some transition costs that are incurred upfront, but that is not the large majority of our costs. The large majority of our costs are direct cost that are incurred during the contract. There are some transition related cost that we incur upfront and in most cases the customers pay for at least a part of the transition related cost. And like I pointed out most of the costs are incurred during the period of the contract. In terms of margins, yes as we start the contract, so for example in the first quarter or first five months of the contract, the costs tend to be a little bit higher, but after that the cost normalize for the contract. And like I pointed out, we have in most contracts inflation baked in as price increases, and we get advantage of those price increases, but often or at times those price increases are compensated by cost inflation.

Saurabh Shah: Okay, sorry maybe I misunderstood. So when you take on this training contract, that's the time when you customize the course material, et cetera for that particular client and, maybe later it's more maintenance of course there could be some incremental change. But how would your typical cost construct for the entire contract time. How much your initial transition as you said then course development customization, and then sort of updating for any changes. I understand, but broadly is there some range you would be able to share?

Management: Okay, let me correct that perception, your perception is that for our contracts we start with a base rate program, we customize and that's where we incur cost and after that we continue to deliver that, that is not the case for the CLG business, the CLG business is around training services. And those services are provided as such, only a part of the CLG business is IP based, where we invest in IP, and we then monetize the use of IP. That's only for a part of the business but the large majority of the business is services business where cost gets incurred in line with revenue.

Saurabh Shah: Nice. And as we are spending disproportionately now, for sales and marketing is it possible to give us some sense of what exactly, this expenditure in the number of salespeople with your offices, geographies, any color you can provide?

Management: It's across the board, suffice it to say that we our expense on sales and marketing grows north of five percentage points beyond our growth. So if we grow at 10% we would invest 15%, if the sales and marketing would grow 15%, if we are going 20% sales and marketing would grow significantly more than the growth of the business.

Management: Saurabh, for more questions we can connect offline. There is one more participant in the queue. We will just take one more question and then close operator.

Moderator: Sure, sir. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: Just wanted to know if this training part of services provided discretionary in nature for the customer and would it get it quite badly in a recessionary environment, economic environment, will the first two get correct for the company?

Sapnesh Lalla: If you look at our customers, a very large proportion of our customers are customers who operate in a regulated environment. And for those customers, there is a large part of training, which is mandatory training, or licensed to operate training which means if they do not go through that training they may have regulatory issues or they may get debarred from performing a job because through training, they get licensed to do that job. However, like you pointed out, there are parts of the training which are discretionary in nature. And as you mentioned when there is uncertainty, some of that gets the deferred.

Management: And what is this market opportunity that you're addressing in CLG, the size of, you gave a number at the beginning, I couldn't catch on it?

Sapnesh Lalla: It's about $400 billion. Okay, that was the last question and maybe at this time, we should close the call.

Moderator: Sir, would you like to add any closing comments?

Sapnesh Lalla: Yes, Vijay will be making a couple of closing comments.

Vijay Thadani: Yes. First of all, I just want to thank everyone for staying on longer than we had originally planned it's nearly 85 minutes all of you have been there really grateful to you for all your very incisive questioning as well as some ideas which definitely make us smarter for future quarters. We are available the rest of us as well as Sapnesh everybody is available to answer any further questions which either we may have missed or you may remember later. So with that, I thank you for joining this call. Looking forward to your continued cooperation and support, that we would like to sign off.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of NIIT Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.