"NIIT Limited
Q1 FY2020 Earnings Conference Call"

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MANAGEMENT:

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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2020 Earnings Conference Call of NIIT Limited. 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay K. Thadani - Managing Director & Vice Chairman of NIIT Limited. Thank you and over to you Sir!

Vijay K. Thadani: Thanks. Good afternoon. Thank you very much for joining us today. I know it is a weekend, and it is now the second successive time that we are having this discussion on a weekend, but thank you very much for your interest as well as for participating in this call. We do appreciate that you may have had a busy weekend schedule and for you to give us time for that. We really appreciate it.

Today, in today's call, we have three discussion points: One is about the Q1 of FY2020 business performance, which my colleague, Sapnesh Lalla, will take us through, and he will also discuss future direction and opportunities; the second is, while we have discussed this partly before, but I wanted to revisit with you the significant transaction that happened in Q1 and its impact on the financials; and the third, we had also discussed in the last meeting that the Board had formed a special committee to look at the going forward plans of the company as well as rewarding shareholders from the proceeds that we received from the transaction as well as some other aspects.

I will first request Sapnesh to talk us through the Q1 performance as well as future plans. Then I will talk about the transaction, just remind everybody, and then also on the special committee.

With me, I have the full leadership team. I do have Mr. Pawar, who is the Chairman of the company; P. Rajendran, who's the Joint Managing Director; leaders of the business, Bimaljeet Singh Bhasin, Pradeep Narayanan, Shailesh and DJ Chadha; as well as people from finance, Mr. Amit Roy, Sandeep Bansal, Gaurav Relhan; Investor Relations, Kapil Saurabh; and our CTO, Mr. Rajan Venkataraman. So we are looking forward to an engaging discussion, and without further ado, I request Sapnesh to give us a brief of the business highlights.

Sapnesh Lalla: Thanks, Vijay. Thank you, everyone, for joining. I know it is Saturday, but thanks again for joining. Please note that our business is seasonal, and therefore, analysis here is on a year-on-year basis. Also note that the current reported financials include the impact of IND AS 116, which started from our Q1.

In terms of highlights, our revenue is at Rs.2103 million, which represents a negative 2% growth. Our EBITDA is at Rs.220 million. The EBITDA margin is 10%, and that is up 159 basis points. Our corporate business and its value proposition continues to be attractive to key customers and as we saw last quarter, this quarter also, we saw an acceleration in new customer acquisition, the Corporate business added 5 new managed training services customers this quarter. This includes 4 new logos and 1 conversion from a project customer in the life sciences space to an MTS customer. Because of this customer acquisition, our revenue visibility now stands at approximately $264 million, and that is up 18% Y-o-Y, and that is up from $245 million end of last quarter.

The current tally of our customers is at 49. In terms of our Skills and Careers business, the go-forward business grew at 14.9%, approximately 15%, and the India business grew for the second successive quarter on the back of the growth in StackRoute as well as the Talent Pipeline as a Service product. We do see headwinds that affected us, specifically the volatility in the environment and specifically some of the M&A activity that we saw in a fair number of our customers.

In terms of our corporate group the revenue was at Rs.1524 million, which was up 1% Y-o-Y. This is in line with what we had said in the previous quarter where we had mentioned that the growth was likely to be muted. As stated earlier, we acquired 5 new Managed Training Services customers this quarter. The business continues on a strong wicket. The customers that we acquired, as always, are in the top 10 of their categories. We signed a large 5-year contract with office automation major. This is the second office automation major that we have acquired over the period of six quarters. This contract resulted into an increase in visibility of approximately $30 million.

We also signed a 3-year contract with a large technology company, which focuses on the higher edge segment in the United States and globally. We also signed a 3-year contract with an oil and gas major in Canada. In addition, we also signed a 3-year contract with a Canadian retail major. Then lastly, as I had mentioned earlier, we converted 1 of our existing life sciences project customers into Managed Training Services customer.

We have now added 10 customers over the last 2 quarters, and we continue to have a robust pipeline. So we continue to focus on accelerating customer acquisition. I am also happy to share that the large contract that we had signed 2 years ago with the Real Estate Council of Ontario, started taking applications from students as of 2nd of July. We expect to start delivering education on this contract from 16th of September and expect to record revenue this quarter on this account.

Between the new deals that we have bought as well as the start of RECO, we are seeing strong visibility of getting back to growth over the next 3 quarters of this year. As I mentioned earlier, the EBITDA for this business is at Rs. 223 million. The EBITDA margin is at 15%. Our Skills and Careers business reported revenue of Rs. 517 million. The go-forward business does not include, based on previous comments our desire to limit exposure to government contracts as well as reducing our exposure to low-margin products. So our go-forward business, which excludes these contracts and products, grew by 14.9%.

The India business had a second successive quarter of growth on the back of the momentum that StackRoute and Talent Pipeline as a Service have created. The EBITDA for the SNC business was Rs. 24 million. This is versus a negative Rs. 9 million, same period last year. The EBITDA margin is 5% in Q1. This is aided both by the growth that the business saw as well as continued cost rationalization. As I have said, over the last two or three quarters that we are continuing to put substantial amount of energy in reimagining our Skills and Careers business, specifically in India, and we are starting to see some growth coming out of this business in this quarter, and we expect this growth to continue.

The Schools business in the first quarter recorded revenue of Rs. 62 million, and EBITDA, which was negative Rs. 28 million. As I have mentioned earlier, this business is a Q4 business and therefore, we will not have substantial commentary on this business in this call.

Overall, NIIT is now a net cash company, as Vijay mentioned earlier, the net cash stands at Rs. 18.87 billion versus a net debt of Rs. 570 million, and I am sure, Vijay will talk about it, the liquidity event and its impact over the next several minutes.

Our DSO has improved to 52 days at the end of first quarter versus 69 days last year same quarter and 66 days in the last quarter. The operating ROCE has improved to 15.3%, an improvement of 145 basis points on a Y-o-Y basis and a sequential 25 BPS improvement.

The headcount is now at 2521, down 44 on a quarter-on-quarter basis. I also wanted to spend a minute on the treatment of standard IND AS 116 in our accounts. Because of implementation of this standard, our EBITDA saw an improvement of Rs. 51.8 million, the depreciation was up by Rs. 47 million, the interest was up Rs. 13 million, and consequently, the profit before tax was down Rs. 9 million. We can discuss this more in the Q&A, but mostly it is a technical adjustment in our accounts and from a go-forward prospective, we will continue to implement and report basis IND AS 116.

Overall, as we look ahead, we feel that given the Corporate business has had a muted first quarter and it will start growing from second quarter onwards. This business, from an overall for the year perspective, should see growth between 10% and 15% in constant currency terms. The margin should improve to some extent and be around the mid-teens for the year. The improvement would predominantly be based on higher volumes in the second half as well as the impact of revenue from the RECO contract that is going to start generating revenue this quarter onwards.

We expect our Skills and Careers business to continue to show growth for the rest of the year, and we expect single-digit margins for this business. As I mentioned earlier, the Schools business is really a fourth quarter business and it is less than 5% of our overall business, and we see still some confusion from an overall school-procurement perspective on procuring services and regulatory issues, which affect procurement of our services. So we expect that business to see some volatility on a continued basis.

Our capex was in the Rs. 500 million range predominantly around software licenses, new products and other normal capex. Effective tax rate was 22% to 24%. We are likely to have interest income this year and I think based on Vijay's comments, you should be able to see deployment of capital and because of that deployment, we are likely to earn some interest. The interest income would be on a pretax basis, approximately 7%. We also expect to pay back our debt over the next few quarters. In FY2020, we expect to pay back Rs. 1500 million, and then next year, approximately Rs. 400 million.

With that, I have come to an end of my prepared comments for the quarter. I will now hand over to Vijay to take us through significant transaction, its impact as well as progress on how we want to utilize capital on a go-forward basis.

Vijay K. Thadani: Thank you, Sapnesh. I just thought I will talk about the transaction, which many of you are familiar with the details, but just to remind ourselves of some of the numbers and milestones. The second, I would like to talk about the accounting impact of that and the third, in how we are deploying the cash and the results of the recommendations, which the special committee, which the board had formed at the time of closing of that transaction.

So as you are aware, in the first quarter, NIIT divested its holding in NIIT Technologies Limited, and the closing was completed on May 17 after receiving necessary approvals and satisfaction of closing conditions. We received proceed of Rs. 20,204 million, which were put to work on the same day in terms of deploying it for earning some interest. The treatment of this transaction in terms of cash flow and accounting first, from an accounting point of view, on a consolidated basis, this sale consideration of Rs. 20,204 million was considered as positive against which the carrying value of investment in books was Rs.6721 million and after deducting transaction expenses, profit before tax on sale of investment was Rs.13,117 million, on which there was an incidence of MAT, minimum alternate tax, of

Rs.3,157 million and there were some earlier deferred tax liabilities, which were reversed, so that the impact of this transaction in our overall financials is Rs.10,870 million.

There is a similar calculation for standalone, where the impact of this transaction at a profit after tax on sales is 11,494. All these details are available in our records, which have been shared.

Deployment of this amount, of the Rs. 2,020-odd Crores I am rounding it off to round numbers, the exact details are again available in our data, which is shared, about Rs. 300-odd Crores was deployed for minimum alternate tax. About Rs. 200-odd Crores have been kept for retirement of debt, and debt is being retired as and when we can retire the debt without paying any prepayment penalty and wherever it is economically more advantageous to retire the debt.

The third element is a prudent reserve for indemnity. As per the SPA, which we had signed at the time of transaction, which is about Rs. 200 Crores if we look at all that, the balance available to us is about Rs. 12,560 million, of which the Board had proposed a dividend of Rs.5 per share, which is being put up to the AGM in the coming weeks for voting by the shareholders and based on their approval, that will add up to a total outflow of Rs.100 Crores, about Rs. 80 Crores to the shareholders and about Rs. 20 Crores for the dividend distribution tax.

The board had also appointed a committee, a special committee, to look at three aspects: one, how to reward shareholders further beyond the dividend that was given at the maximum eligibility limit; and the second was the deployment of growth capital so that we can accelerate the growth of the company in coming time; and third, of ideas and recommendations on rationalization of some of the businesses, of which some of the directions, Sapnesh already alluded upon.

So the committee gave its recommendations to the Board today. On the basis of which, the Board has proposed that the second round of return of money to shareholders will start now with a buyback of Rs.3,350 million, which is the maximum eligibility based on the 25% limit of eligibility reserve at a price of Rs.125 per share. This will add up to Rs. 2 Crores or 26.8 million shares to be bought at Rs.125, subject to shareholder approvals, statutory approvals and various other processes to be followed.

This Rs.303.35 billion will be in addition to the tax, which will be payable on the buyback transaction, which, therefore, if you add the tax as well as the money returned to shareholders by the end of this transaction, the company would have returned about Rs.5.2

billion to the shareholders, part of it would have gone towards taxation, part directly to the shareholders.

That would represent about 40% of the total amount that was available to us with that all available for distribution based on the earlier calculation. The Board had also requested or has asked the management to fine-tune its growth capital recommendations, which, just to remind everybody, was to complete some capabilities set to accelerate our offerings in Corporate Learning Group space, in Corporate Learning and as well as look at both organic as well as inorganic plans.

In addition to that, even in the Skills and Careers, there are opportunities for accelerating the growth now that there is a positive environment, and we have successful track record of having implemented StackRoute, which was a new product over the last two years and have had a healthy growth, as well as Talent Pipeline as a Service, which was introduced last year, and which also has had a positive growth.

So based on that, the recommendations, which will come out of this over the next quarter or so, where in addition to the committee, the committee is also looking at external advisors as well as have mandated a search for some inorganic targets.

In addition to that, the committee is also looking at rationalization of businesses, where again, making sure that we indeed do not invest anything more in the low-growth, low-margin and high-risk businesses. We also find ways of monetizing the value that has got created in these businesses as we go forward. Some of these deliberations will be over by the end of quarter 2, and we should be able to see the results of that in our future decisions.

One more thing is the timeline of the buyback. The buyback has got triggered today and subject to the postal ballot, which the company will be sending out in about a week from now and the results of that postal ballot, which will be towards the third week of September, it is expected that the buyback process will be completed in the month of late November, mid-December. So more about this as we cross these individual milestones, the stock exchange as well as the statutory bodies have already been informed of this decision.

That is all I have to brief right now. We could get into a Q&A. I would request if we can have Q&A focused on the business operations first and then, of course, we are also ready for Q&A on the realization of these proceeds from the divestment as well as deployment of those proceeds. Over to you!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ganesh Shetty an Individual Investor. Please go ahead.

Ganesh Shetty: Congratulations, Sir, for a good set of numbers and margin improvement in SNC business. This quarter, growth we had similar type of revenue growth and except go forward business growth was muted, but still it could improve in margins. Can you please share some highlight on the future of the business for the next one or two quarters? Also SLG business is not at all dealing well for us, and we had a proposal in the past for bringing in a strategic investor. So is there any divestment plan for this particular section of our business?

Sapnesh Lalla: Okay. Let me answer your last question first, and then I will try to make sure I get to the rest of the questions. As Vijay pointed out, we are appointing external advisors to look at not just our business, but as well as our peer group and provide us professional advice. What that does not mean is that we will take the next 5 years trying to get their advice. We will move rapidly and have a recommendation ready by the end of this quarter and start following that advice going forward. So we should have clarity on what we are going to do as far as this business is concerned and others, as Vijay pointed out, both from a rationalization perspective as well as growth perspective, before our current quarter. Can you repeat your other two questions? I know you had three questions.

Ganesh Shetty: Yes. My second question is regarding our Skills and Careers business, for muted growth in revenue and the margin improvement sustainability?

Sapnesh Lalla: So I think I mentioned earlier, we have created a go-forward plan for our Skills and Careers business and that plan is starting to get momentum. The business, both in India as well as from an overall perspective, the go-forward part grew. In the go-forward part, we have limited our exposure in a substantial way to government contracts, which is in line with our strategy, which we had formed as we started ramping down the government's schools business. We are carrying forward that strategy and limiting our exposure to government contracts in the Skills and Careers business as well. We also are starting to rationalize the low-margin products that we sell and to some extent, the margin improvement that you saw was because of focusing away from low-margin products and also seeing growth in high-margin, high-growth products. To some extent, also the margin improvement, as I mentioned, is because of the change in reporting standards. But from an overall perspective both the growth trajectory on a go-forward basis is positive as well as given that we are focusing away from low-margin products over as well for margin improvement.

Ganesh Shetty: That is all from me. Congratulations and all the best for the future. Thank you.

Moderator: Thank you. The next question is from the line of Vivek Joshi from BP Capital. Please go ahead.

Vivek Joshi: Thanks for the very detailed explanation of the cash and cash on hand. I have a couple of questions. What is the amount of the deferred tax liability that was adjusted? And would the promoters be participating in the buyback?

Sapnesh Lalla: Okay. Let me answer the second question first. First of all, the Board has taken a call today to go for a buyback, and has also taken a call that subject to shareholders approval, it will be the tender route, in which case, the promoters are eligible to participate in the buyback. Having said that, the promoters will get a communication from the company on the basis of which the promoters have to confirm their willingness or their intention to participate in the buyback in specific terms, and that will become a part of the postal ballot. That communication will perhaps get finalized more towards the end of next week. At the end of which, I think the company will be able to make a comment on that. And the first question was?

Sapnesh Lalla: So I will request the CFO to answer that question for you. I had given you a quick run-through of the amounts.

Amit Roy: This is a deferred tax liability is 910 million, which got reversed. This was formed when we consolidated the undistributed profit from the associates on that this was created, now because the consummation of the transaction has happened, so now it is reversed back, so this is from there - 910 million.

Vivek Joshi: Thank you so much.

Moderator: Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: So my question was secondary schools as well as the Schools business. I would like to break even this year at the PBT level? That is one. Second is, could you please explain that the Rs.200 Crores of debt, which we are returning, which businesses was it deployed in? And do you have any lines of receivable which you need to recover from the government contract or any other parties?

Vijay K. Thadani: The first question I have a feeling you wanted to know was whether in the Schools business, on an overall basis, we will be breakeven on a PBT basis. I think that was your first question. The second question, I just could not understand. Your next question was on debt. Where was the debt deployed?

Sangeeta Purushottam: That is right. Where was the debt deployed and do you have any receivables, which you need to recover either from your earlier government contracts or from any other parties, which are as a sizable amount, so really was the debt taken to finance any receivable?

Kapil Saurabh: So, let me answer the last one first. The balance receivables, Sangeeta, from our government school contract is now 5 Crore as it stands in out books today. At one point time this was in excess of 200 Cr, We used to have a large amount of debt deployed in our government schools business, but we had decided to move out, as we recovered the receivables we brought down the debt. There is debt in the books of India standalone entity and there is working capital debt that we have in international subsidiaries. The international subsidiary debt is small, most of the debt, about 170 Cr is in our India standalone entity, which is the parent company. That is what Vijay had mentioned, that will be returned as and when payment is due or we can prepay without penalty. I hope that answers your question.

Vijay K. Thadani: The current debt in India was taken to fund capex. So there was a capacity expansion in the Corporate business, part of the debt was used for that, part for creating other assets, for example, the RECO project itself involved creation of certain assets and the third was for working capital requirements.

Kapil Saurabh: And on the Schools business, would you like to answer, Pradeep? Her questions was, are you looking to break even in the Schools business?

Pradeep Narayanan: So while we are likely to trend positively by the end of this year, I don't think we will end up being positive at the PBT level.

Sangeeta Purushottam: Since one of the businesses, which I think Vijay mentioned earlier that you would be looking at as a part of your review overall the portfolio, whether you need to be in certain low-margin businesses. Is that a correct understanding?

Sapnesh Lalla: Yes. One of the businesses which is challenged so largely the uncertainty in the environment. However, we also have the committee has to examine the feasibility of what can take to make it a high-growth business and what will it take versus what will it take to do some alternate strategies to take advantage of the situation we are in right now.

Sangeeta Purushottam: Right. Finally, on the Schools business, are we likely to break even at the PBT level this year?

Sapnesh Lalla: We are EBITDA positive. And don’t think we are above breakeven on PBT.

Sangeeta Purushottam: Okay. So the only business which is going to be bleeding as the PBT level will be the Schools business.

Sapnesh Lalla: That is accurate.

Sangeeta Purushottam: Great, thank you very much.

Moderator: Thank you. The next question is from the line of Suresh Agarwal an Individual Investor. Please go ahead.

Suresh Agarwal: Sir, evening. What is the other income in your books?

Sapnesh Lalla: Yes. So other income is a complex calculation. I will suggest Kapil Saurabh take that, too, then.

Kapil Saurabh: So first, the other income is primarily due to the capital gain on the sale transaction of NIIT Tech. This is what Vijay had earlier explained. If you want, we could have it offline call to discuss that in full details again.

Suresh Agarwal: Okay. Okay. How much is the indemnity time like we have kept Rs.200 Crores rupees for indemnity? How much time that we will have to keep the provision for this one, Rs.200 Crores?

Sapnesh Lalla: About 30 months.

Suresh Agarwal: About 30 months, means 2, 2.5 years?

Vijay K. Thadani: Yes, it is two years plus.

Suresh Agarwal: How much in this tax on buyback actually?

Vijay K. Thadani: Can I complete the answer?

Suresh Agarwal: Please go ahead.

Vijay K. Thadani: But we will be releasing amount out of this indemnity account every year based on the request for indemnity or the claims on the indemnity that may come forward.

Suresh Agarwal: Sir, much is the tax in the buyback?

Vijay K. Thadani I am sorry you are referring to the buyback?

Suresh Agarwal: Yes.

Vijay K. Thadani: On the buyback, the buyback amount is INR 335 crores. If the buyback is fully subscribed, then it will be Rs.76 Crores.

Suresh Agarwal: Which is around 20%?

Vijay K. Thadani: 22.5%.

Suresh Agarwal: Sir, what is the logic of going for buyback than to go for the dividend?

Vijay K. Thadani: There are three points, and these have been derived after consulting experts, advisors and other wise men in the industry, including our major investors. The first is dividend, why dividend and buyback? The tax reduction from the company side is the same in both cases, approximately the same in both cases. But the tax in the hands of the recipient, which is the shareholder, varies. There are some for whom dividend is more preferable. There are others for whom buyback is more preferable. And there are some who are neutral to this. But irrespective of that, everybody stands to benefit uniformly in terms of buybacks. So one was that it will get consistently applied and will serve all sections of the shareholders; the second reason is that the buyback reduces the share capital, the equity capital of the company. And therefore, to that extent, the equity capital, the EPS, going forward, EPS will improve, which is beneficial to the continuing shareholders if the PE was to remain the same. So essentially, these are the 2 major contributors to our feeling that we should go for a buyback.

Moderator: Thank you, Sir. We seem we have lost his line, so we will wait for him to join back in the queue, we will move to the next question, which is from the line of Shraddha Agarwal from Asian Markets Securities. Please go ahead.

Shraddha Agarwal: Good afternoon to the management team. Thanks for an elaborate discussion on the capital allocation strategy. A couple of questions. First is on we've not given out the fresh order intake for CLG this quarter. Can we have that number, please?

Sapnesh Lalla: Sure, fresh order intake for CLG. Just a minute we normally report our visibility. The visibility is USD.264 million, and the fresh order intake was $24 million.

Shraddha Agarwal: And Sapnesh, you were hopeful of a large deal closure in CLG last time around. So have the four deals that we talked about, does that include one of those deals?

Sapnesh Lalla: Yes, indeed, it did. The office automation deal that I talked about was a large deal.

Shraddha Agarwal: Right. And just to get it right again, we could be getting revenues from RECO deal for 15 days in 2Q?

Sapnesh Lalla: Approximately, yes.

Shraddha Agarwal: Okay. Sir, I presume that AS 116 benefit would have accrued largely in our SNC segment. So pre-AS 116, I mean, if we were to look at on an adjusted basis, what is the margin on a like-to-like basis in SNC for this quarter?

Sapnesh Lalla: I think, first, I do not think it is significant at SNC. I think it is about half and half between CLG and SNC, I think give me one second, I will tell you. Not including the IND AS treatment, the SNC margin would be about breakeven.

Shraddha Agarwal: Okay. Which was minus 1.6% as of last year same quarter?

Sapnesh Lalla: That is correct. There is an improvement in SNC performance in terms of overall productivity of revenue, either way, whether you look at it from AS 116 point of view or not.

Shraddha Agarwal: Agreed. Are we saying that we should be looking at positive growth in SNC for each of the next 3 quarters of this year?

Sapnesh Lalla: Certainly, for the go-forward business.

Shraddha Agarwal: Yes. So if I am not wrong. I mean, when you elaborated on the inorganic opportunities, which you will be considering on which the committee would be deliberating upon, you did touch upon SNC, but there were no comments made towards CLG. So would it be safe to assume that we are not looking at any acquisition in the CLG space?

Sapnesh Lalla: I already think I said anything like that. I think I will try to explain what was said. I think it was said by Vijay. I think what was said is that we have a committee who is looking at each one of our businesses. The committee's goal would be to help us use capital to accelerate businesses that are doing well, which includes the corporate business as well as the go-forward part of the SNC business and rationalize businesses that have either exposure to the government or our low-margin business or are not scalable and so on and so forth. So from an inorganic perspective, again, we have not made our choices yet. We have made recommendations, and we are in deliberations with the committee as well as external advisers, and we will finalize the recommendations, both from an acceleration perspective, as well as both organic and inorganic growth capital utilization as well as rationalization towards the end of this quarter.

Vijay K. Thadani: Maybe I need to comment since I had made the statement. So what I was referring to, first of all, was Corporate Learning Group. So first, the acquisition targets are primarily and the search mandate given is also primarily for the Corporate business. It is not to say that there are not attractive opportunities in Skills and Careers, but at this point of time, the action in figure is in Corporate business, where our primary focus will be to fill certain capability gaps or strengthen some identified capability on one hand and the second is to look at improving our market region, certain industry verticals.

Shraddha Agarwal: Right Vijay that is helpful and what will be your comfortable acquisition size and what is the target opportunity you would be looking at any roadmap in terms of what could be your acquisition strategy would be helpful?

Vijay K. Thadani: So I can tell you, typically, from our past experience and the philosophy and approach, which the company has used in the past, we typically go for midsized acquisitions; very large acquisitions create a very high degree of exposure and risk. Very low size acquisition creates consume a lot of energy, but do not give the adequate returns. So midsize acquisition, and as we have discussed before, is anywhere between $25 million and $40 million were midsize companies or businesses that we would look to acquire. We have certain hurdle rates, which our investment committee looks. For acquisitions, the hurdle rate is 25%. In addition, the business should be accretive on growth, margin as well as EPS accretive. We would typically go for such acquisitions. Having said that, in certain emerging technologies like AR and VR, some of these parameters may move, but then we have to take a larger view of the situation, given the overall strategy of the company.

Shraddha Agarwal: Right Vijay. Assuming that we go in for an acquisition of the size of, say, $40 million, we would still be sitting on a good amount of cash. So the question is basically to understand what will be our strategy in terms of giving us further money to shareholders? Or will acquisition be an ongoing part of our business strategy?

Vijay K. Thadani: Let me try to answer it in multiple ways, first of all at this point of time, the board has made an overall conclusion that we would obviously, handsomely reward our shareholders and the second trench of this visible in this buyback. This is the maximum eligibility that existed at this point of time, at the end of this and based on the economic situation, as you know the economic situation is likely to be rather volatile in the coming future and based on the finalization of our growth plans still there may opportunities in future for us to consider future rewards as well, but those we will cross those bridges as and when we reach there. The company is committed to rewarding shareholders and not keeping excess cash just for the sake of keeping the excess cash and sharing it at appropriate points of time in a prudent manner.

Shraddha Agarwal: So when do you think would we be getting more clarity on the future course of action of the company? By end of 2Q is when you get back to us in terms of what needs to be done with the remaining cash? Yes. Okay, that is it.

Vijay K. Thadani: So I think 2Q and 3Q will be very important milestones. Our 2Q, because I think our strategy will become clearer and our advisers, etc., will work on it, would have kind of given us a direction, but Q will be more appropriate because by that time, I think we will get a high degree of clarity and also get the results of the buyback action.

Shraddha Agarwal: Certainly, thanks a lot.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: So congratulations on completing this large deal and also on announcing a very regarding dividend and buyback package. A couple of questions on my part: a, on the CLG business, if I heard it right, you said 10% to 15% is the growth one should be looking at this year and also that the RECO deal should be giving partial revenue in Q2? And how many days is that number if you can please reconfirm that?

Sapnesh Lalla: Like I said earlier, we will start delivering education to students from 16th of September. So we will have a couple of weeks of revenue in Q2. What was your second question? You had a second question as well.

Rahul Jain: I think in your closing...

Sapnesh Lalla: Yes, guidance of 10% to 15% is accurate.

Rahul Jain: And this 10% to 15% for CLS business only right?

Sapnesh Lalla: Yes. That is correct.

Rahul Jain: And from a revenue growth perspective, you said that some of your clients have seen an M&A kind of situation, if you could give a bit more on that? And is this 10% range that we are assigning to on the lower end, is it related to some unexpected events, which we see now versus what we might have seen at the end of Q4? Because given that RECO possibly would add significantly to our run rate at least on the exit quarter. So is that number still conservative at this point of time?

Sapnesh Lalla: I think that is a very good question. The events did not necessarily happen after Q4. However, over the last 6 to 7 months is when most of the M&A activity has happened. I think from an overall perspective, the M&A activity that has happened would be to our benefit because in a number of cases, it is our customers who are acquiring others as well as, in some cases, 2 customers coming together. So from an overall perspective, long term, I think this activity will keep us in good stead. However, like M&A, like in any M&A situation, things come to a pause or there is uncertainty in terms of structure or how people are placed, and that causes our business to go on a pause. And then we have to wait for things to pick back up. So from an overall perspective, we feel that we are not in a fatal situation. We are in a reasonable situation. I think better than what would be if we were in a situation where our customers were getting acquired by somebody else who have a different view on training or there are contract cancellations. Like I have said, I think in the last quarter or the quarter before that, one of our large customers, Red Hat, was acquired by another one of our customers IBM. And Red Hat ended up renewing our contract before the IBM deal consummated so that goes to state that our customers continue to have great confidence in our services, however, in a number of situations. There is a pause in the work that they do with us just because M&A create reorganization and such.

Rahul Jain: Right, it is a cautious stance than any risk due to the M&A per se?

Vijay K. Thadani: I would say that from a long-term perspective, we do not see huge risk in revenue. I mean I would say, some of our customers have seen volatility in terms of environment. For example, one of our large aerospace customers has seen volatility in their business due to things that you may have read in the newspapers. I cannot name names, but that is just how it is. So I mean that at times, some of these things come together, and we have to anchor down and ensure that we continue to service our customers so that even when they are going through relatively volatile situations, they continue to trust us as a partner who will be with them and help them continue to get benefit from the training dollars that they spend.

Rahul Jain: Right and on this payout kind of a thing, so as you said, we did all this maximum kind of a limit, which were allowed, so technically, this eligibility is relevance for the fiscal, right? So it is not possible to do anything in this fiscal in any format, even if the board has approvals, right?

Vijay K. Thadani: So there are two answers to this. One, this eligibility is determined on the basis of unaudited balance sheet. Our audited balance sheet on March did not permit us to give this. We got a special audit done for first quarter balance sheet so as to create an eligibility. Second, once a buyback process starts, then the next buyback process can only be initiated about a year at the end of this process, which means nearly 1.5 years, before the next buyback process happen. Having said that, there is a dividend-paying policy of the company, which is to provide a stable and consistently increasing dividend based on the cash and reserves available in the balance sheet. And I think those opportunities will come in the last 2 quarters of the year.

Moderator: Thank you. I would request Mr. Jain to come back in queue for follow up question. We will move to the next question, which is from the line of Vivek Joshi from B P Capital. Please go ahead.

Vivek Joshi: I had just a quick accounting question. Out of this MAT that we have paid in excess of the normal tax, what is the credit? What is the amount that is available as credits going forward?

Vijay K. Thadani: about 175 Crores.

Vivek Joshi: That is against future tax right. Thank you so much.

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

Suresh Agarwal: Sir, I was going through your buyback questions. Sir, wanted to know, like you have said that after buyback you are considering buyback because after buyback the EPS will be much more and the equity capital will be less. But Sir, we are investor in your company this last 5 years. We are holding more than 50k shares in my family, but we have not got benefited anyhow. After this, actually, shares of NIIT Technology's shareholding actually, we thought that we will be rewarded handsomely. But looking at the cost of actions taken by the company, it feels that management is not at all interested to part this money with the minority shareholder. I do not know what is the motive behind that but because in different investor forums, it has been discussed repeatedly that the investors are not at all willing to part any money. They want to take all the money by turning to some other ways, okay? Because you are going through buyback and because the taxes and rate is on the dividend and the buyback is the same. But still, you are going through a buyback because you want to lengthen the process like three or four months or five months, okay, because all the small shareholders get frustrated and get out of the company actually. Actually, you are only a minority shareholder. You are having 23% shareholding. You should not mind all of their vision because I am looking at your company since last 5 years. But I am seeing that you have good results, you do not want to part any money with the investor. You have declared only Rs.5 dividend and still, you have not credited that amount with the shareholders, okay. And then you are going through buyback and you are taking so much long time that all minority shareholder, they will get frustrated and they will get out from the company. This is not good Sir. You people are different and respected people. But now it is looking that new people are trading on money, hungry for the money, so okay. So you are going for this money, but you do not want to part any money, you purposely did a committee these recommendations. What recommendation the committee has given? Nothing. You people do not want to part any money with any investor, which is really very bad. These are bad corporate procedure. Thank you very much.

Vijay K. Thadani: Okay. I would not like to respond in detail, but I just want to say the following two or three statements. Number one, the money, which is lying in the company belongs to all shareholders and not to any particular category of shareholders, small, big, medium. It belongs to all shareholders. The second that the company has to make sure that it is the interest of all shareholders and not just one or two or certain category or not, number three, the company has appointed professional advisers, consulted experts, consulted investors extensively over the last 5 months that this whole process has been going on, and based on these recommendations, the company felt that in addition to rewarding shareholders, the company also needs to make sure that the existing or the continuing shareholders because at the end of buyback process or at the end of any other distribution process, the company's own capital base should reduce so that they can deliver a better return on that capital going forward. It is after considering all those requirements that a buyback was thought of. If buyback was a method of delaying capital, then there were many other methods which are available, for which the company did not have to take a Q1 audited results, but could have waited very happily. So I hope that these things will help you change your impression about what is the intention of the company. The intention of the company has to be consistent across all shareholders. Having said all this let me tell you that by the end of the buyback process, Rs.520 Crores out of the Rs.1256 Crores that are available would have already got distributed. You would agree that as a shareholder and as a company for which you want to be consistently involved in, having been involved for the last 5 years, you would like company to grow consistently and not just distribute everything that it has on a given day. Second, there is an economic volatility facing us. The whole world is going for a slowdown. And as you can see in the press, there is lot of risk in the environment going forward. I am sure you would like your company to be adequately protected and not having to go and start borrowing again to run its future. Number three, in these downturns, there is also a new opportunity has come up. And the company should be ready to take advantage of new opportunities. Having said all that, you must know that our overall business is not as capital-intensive as it used to be and company has systematically worked towards deploying lesser and lesser capital so all these are pointed in the same direction. Number one, increase the value that we offer to the shareholders, obviously, that can only happen if we increase the value that we offer to our customers and the second is make sure that we keep giving a consistent reward and consistent return on people's capital. Yes. And by the way, you also had a comment that we kept this money after declaring dividend. Dividend, unfortunately, can only be declared after all the shareholders approve. Now whatever are your sentiments as a shareholder, similar and other sentiments will be available with the other shareholders also. And that is why these decisions are not taken by the Board. These decisions are taken with shareholders' permission. So all that we are discussing today is recommendations made by the Board, and the shareholders of the company will take a final call in the matter based on the recommendations that we make.

Moderator: Thank you. We will take the next question, which is from the line of Rahul Jain from Dolat Capital Market Private Limited. Please go ahead.

Rahul Jain: One more question regarding the profitability. When we see this profitability on the CLS business back to 85% and beyond I mean 15% and beyond or 14% to 15% is the kind of a band that we should be pertaining to.

Sapnesh Lalla: Okay. I think you are referring to the EBITDA margin of the corporate business. Yes. Right but like you rightly pointed out, the EBITDA margin for this business has hovered in the 14% to 15% range and one of the reasons why it has done so is because we have continuously increased our investment so that we can accelerate our sales and marketing activity to grow our business. I think, like I pointed out earlier, we will continue to accelerate our investment in sales and marketing so that we can accelerate customer acquisition as well as work with our existing customers to generate more from them. That having been said, on a go-forward basis, our contract mix is changing for the better, and we should have improved margins on a go-forward basis.

Rahul Jain: Lastly, if you could spare a minute on the acquisition pillars. So please, as we shared, do you think the ideal acquisition size for us would be $25 million to $40 million in revenue and I feel within IRR, I think there's 25% is what I heard. Is that for the threshold is? And if it is the number, do not you think it is too stretch a number and there will be very little opportunity in that zone?

Vijay K. Thadani: Sorry. Your question is there will be very little opportunity? See, these are our investment hurdle rates and obviously, as I mentioned, sometimes you have to take deviations from them based on the overall attractiveness of the target. So that is our call, which we will take, but the Board's investment committee typically puts through any of the acquisition targets through a certain set of filters. And one of the filters is the hurdle rate. And that hurdle rate, as we said, is 25% IRR or better.

Rahul Jain: All right. Lastly, on this revenue, ideal revenue size of $25 million to $40 million, any ballpark number in terms of how many such companies would be there? I mean is it a very large number of companies that you will be operating in this revenue zone? But there are very select few names.

Sapnesh Lalla: There are several that operate in this range. Yes. I mean there are many companies who get stuck at about $10 million or $20 million, then there are companies who have stuck at $50 million, and then there are a few that are greater than $100 million. And then beyond a couple of hundred million dollars, you start seeing very few companies. That having been said, in the mid-range that Vijay commented on, there is a fairly significant choice.

Rahul Jain: Got it. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities Private Limited. Please go ahead.

Ravi Menon: My apologies if this has been covered already, I joined the call late. Could you give a breakup of Ind-AS impact the EBITDA level for the 3 segments separately?

Kapil Saurabh: Yes. Ravi, I can get back to you quickly offline. Is there any other questions?

Sapnesh Lalla: Because Vijay shared this with everybody a few minutes ago...

Ravi Menon: Just a question about again the acquisition strategy. Do you think that on the CLG business, if you are in more verticals or if you, I will say, in more geography here? Does scale actually act as a real benefit of this business?

Sapnesh Lalla: It actually does. I mean if you notice, our acquisition philosophy has been to improve capability, to create intersections of increased capability and market access. And that is what we have done in the past. As Vijay mentioned earlier, we have appointed an adviser, and the adviser has met several companies so far. Our goal is to continuously improve our capabilities so that our customers can depend on us for most, if not all, of their needs. And there are a plethora of capabilities that we can add so that we can do more and more for our customers. End of the day, if we did everything for our customers, we would be looking at a $300 billion marketplace.

Ravi Menon: Right. Sapnesh, do you think that the trend of contribute outsourcing more people or more enterprise customers. Now you are evaluating training outsourcing compared to, say, two or three years back?

Sapnesh Lalla: Yes. Absolutely and that is also visible from the acceleration in deal volume as well as velocity. You are seeing more deals in the market. We are also finding our customers look at NIIT as a differentiated and distinct partner, and they are preferring us and that is the reason why you see acceleration in the number of deals we are able to bring to the table.

Vijay K. Thadani: We have a tally of 49 customers there. No. I was saying that out of the tally of 49 that we have now, 10 were added over the last two quarters. So there is acceleration and momentum.

Ravi Menon: Right, we take it that and this is not just market share gains, that overall market is also gaining, it is growing, so it is the combination of two factors or would you say it is primarily the market growth and the less of market share gains for you because it is really not a very contracted space, you are not displacing?

Sapnesh Lalla: No. It is not just predominantly market share gain. The market, if you were to look at the outsourcing space, it is about a $4 billion space. It's not like that space is growing by 15%, 20% year-on-year, it is doing a low single-digit growth from a year-on-year perspective. However, more customers in this space are choosing to outsource. And a lot of them are choosing NIIT versus others. And I mean given where we are and given where others are, there is substantial headroom for us to grow in the segment of our choice.

Ravi Menon: Thank you.

Moderator: Thank you. The next question is from the line of Ganesh Shetty an Individual Investor. Please go ahead.

Ganesh Shetty: Yes. I really appreciate our company's high corporate governance practices. And I would also add that the NIIT group has really done a lot for the administers, especially NIIT technology, stake sale has given a lot of value to NIIT, group shareholders and the acceptance of NIIT Technologies in the buyback was also very high. So I would say that as an individual who has been as a shareholder of the company for more than 13 years, NIIT has been really a backbone of my investment and wealth creation. So I am really grateful to all the NIIT Limited Group, its founder members and the Board of Directors. Thank you very much Sir.

Vijay K. Thadani: Thank you very much Mr. Shetty. You make our eyes water. Thank you. Really appreciate your comments. You have been more than kind. I am sure everything that we did was not right, and I am sure we can keep learning as we go forward, and we keep taking feedback from all of you. And there is obviously a different kinds of feedback, but we act on all that feedback, positive or negative, to make sure that we create more value for our shareholders.

Ganesh Shetty: Thank you very much, Sir and all the best for the future.

Moderator: Thank you. We will take one last question from the line of Suresh Agarwal an Individual Investor. Please go ahead.

Suresh Agarwal: Sir, what is the deferred tax you have booked?

Sapnesh Lalla: I beg your pardon?

Suresh Agarwal: Deferred tax, 96 Crores?

Sapnesh Lalla: Deferred tax?

Suresh Agarwal: Yes.

Vijay K. Thadani: No, no. So I will explain to you. When NIIT Technologies was a part of NIIT Limited's Investment Portfolio, at that time, we used to get a share of their profit as their profit which would get added in our profit as associate profit because we had more than 20% holding. And last year, the government announced that the treatment of that profit should be that not only should you book that profit, but also create a deferred tax liability on that profit. Now because we have reversed the profit itself by selling the investment, therefore, the deferred tax liability also needs to be reversed. That is the Rs.91 Crores.

Suresh Agarwal: So that deferred, that will come in next quarter?

Vijay K. Thadani: No, no, no. It was a deferred tax liability sitting in our balance sheet.

Suresh Agarwal: Okay, okay, okay. Sir, one more thing. Like you are lying with now like Rs.821 Crores worth of cash in the explanation given by you, if we include CLG like indemnity, then it will come around Rs.1021 Crores. So regarding acquisition, you are telling that the future acquisition, all of these. So you are talking about acquisition of Rs.4 Crores or Rs.5 Crores, 40 million, 50 million. Then, Sir, a great amount of money will be left with us. Is not it, Sir?

Sapnesh Lalla: Yes. So the first question is that the company believes that the company should return the excess cash that is requires over and above its requirements of growth capital as well as providing for environmental risk back to its shareholders. And the company believes in sharing that in a stable and consistent manner. Number two, the number that you talked about, Rs.4 Crores to Rs.5 Crores is 25 to 40 is the millions of dollars. I do not think it would be viable for us to go and buy our Rs.2 Crores or Rs.4 Crores company because otherwise, the cost of managing that company and doing that transaction will far exceed the benefits that we may derive from it. So we are discussing the ideal size of an acquisition to be $25 million to $40 million of revenue run rate. That is 250 Crores to 300 Crores.

Suresh Agarwal: Just one more thing, Sir. While going through all this, please consider from minority shareholder. Those who are with you for last so many years, like one participant has already told already thanked you for like he has made a lot of money investing in NIIT Limited. So I wish him best luck, but he would have made money in NIIT Technologies; but in NIIT Limited, since last 10 years, nobody has made many money because from 2011, actually, I myself invested in this company. So I know that from last eight to nine years. But I will request Mr. Thadani and you all like please consider the benefit of small and marginal shareholders because they are expecting a lot from this transaction. Okay. That is my request, please.

Vijay K. Thadani: Thank you so much. First of all, I am about to tell you, for us, the small and marginal shareholders are a very important part of what you call marginal. No investor is marginal. All are investors in the company. I want to tell you that we give equal importance to everybody's comment, number one. And we would definitely take your suggestions as well. The second, which I want to tell you is we are committed to share and reward the shareholders going forward, our current shareholders. And through our subsequent actions, I hope we will be able to change your view about what you said a little earlier. I am saying, even in the buyback, the smaller shareholders have a larger benefit because there is a reservation for them, which is 15% of the issue volume, and given our current distribution of shareholdings, they will get a disproportionately higher allocation and entitlement for their buyback requests.

Suresh Agarwal: Also, please if this buyback can be conducted for dividend because the taxation is the same. So please do not consider this like our equity will reduced after this buyback and the future remaining shareholders will be benefited. Simple ask, what is for future one because we are with you from the last 5 or 7 years.

Vijay K. Thadani: I hope you understand that buyback is beneficial to current shareholders only. That is the shareholders who are there because after we buy back and let us assume that the buyback gets fully subscribed, the EPS for the company for those shareholders who are continuing will increase. And that will benefit all the existing shareholders. And by the way, dividend distribution is not a onetime announcement. It is a continuous announcement. So please look forward to more such announcement for those are decisions which the Board has to take at that particular point of time. And as I mentioned that the next such event will be perhaps in the third or fourth quarter once the buyback results are clearly visible.

Suresh Agarwal: Sir, like in Meghmani Organics Limited, if you have heard, actually, that company was very good. But their management actually, they were thinking of their own benefit instead of marginal and small investors and their company is now such a state that Rs.125 or Rs.130

share now they are giving it for Rs.57 or Rs.50. So, everybody has got out from that company because the management was so self-centric promoters are so self-centric, they only wanted everything for them. They are not thinking about the smaller and marginal shareholders.

Vijay K. Thadani: Mr. Agarwal, I would like to explain to you in person or on phone or/and explained to you how these management's decisions are not of the kind that you are referring to. We have been listed since 1993 and have built a reputation for ourselves in very strong corporate governance as well as other practices to do with shareholders. So I hope I will get a chance to explain this to you and help you change your thinking about, at least, this company. So give us an opportunity to do that. And I do not think we need a public forum for this debate right now because there are many others who are on the call at this point of time, but I will be very happy to talk to you. Kapil will be happy to talk to you. Where are you based? We can even meet you because we travel all over the country.

Suresh Agarwal: I am basically in Guwahati, Assam, myself is a mechanical engineer.

Vijay K. Thadani: No problem. We have operations in Guwahati, Assam. We will meet you there.

Suresh Agarwal: Sir, getting old, they want to get out of the business. So that is why they are getting out from the listed entity and they wanted to take all the profits with them. That money is actually going on the investor cycle. That is the report which I am getting. That is why I am telling you something, is there is no problem because I am invested in so many companies. It will not benefit me, not for them. I will think that it is my mistake investing in this company. But I think you will think about all these things. Okay, Sir.

Vijay K. Thadani: I will do that, and I hope once we speak to each other, it will help you change your mind about NIIT. Thank you very much for that.

Suresh Agarwal: Thank you very much.

Vijay K. Thadani: I think we have gone 30 minutes beyond, so operator can we now close the call unless there is a question.

Moderator: We do not have any one in queue, you may go ahead with your closing comments.

Sapnesh Lalla: Thanks every one for joining and we look forward to a continue conversation. Thank you.

Vijay K. Thadani: Thank you very much for all your suggestions. We take all the suggestions very, very seriously and all the comments and really appreciate your giving us a very precious time on a weekend to listen to us, to participate and to help us grow this company. Please do reach out to us in case there are any further questions or interactions or clarifications required. And as usual, we stand benefited from this interaction like always. So thank you very much, and we look forward to speaking with you or meeting you soon. Bye-bye.

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