

NIIT CEO explains the rationale behind the demerger of its two verticals

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Synopsis

"With this reorganization, we would like to enable both these businesses with independence to pursue their individual growth trajectories so that they are unencumbered in their pursuit to create value for their key stakeholders – customers, NIITians and investors. Each business has a remarkable opportunity to grow and be a leader in their space."



IT skilling company NIIT NSE 2.91 %, which has announced the demerger of its two business verticals, expects its corporate learning group (CLG) unit to grow by 20% per year and the skills and careers (SNC) business by 50%. In this interview with ETMarkets, Sapnesh Lalla, CEO and Executive Director, NIIT Ltd NSE 2.91 %, explains the rationale behind the demerger plan and how it would benefit all stakeholders. Edited excerpts:

NIIT's FY22 revenue zoomed 44% to Rs 1,377.5 crore. What are the key factors driving this growth trajectory?

The key investments and actions taken by NIIT over the last few years have propelled us to be a leading force in the learning and development space. The company's 40+ year experience and investments in learning science and technologies, combined with its strong execution capability, and global reach have resulted in NIIT becoming a key partner which large global enterprises look at for solving some of their most challenging talent challenges.

The Corporate Learning Group (CLG) has enabled scale and acceleration through investments in digital capabilities, S&M and entry into key verticals such as life sciences and higher education. Taking advantage of these investments, CLG has been able to accelerate new customer growth and scope expansions.

Accelerated investments in the Skills and Career Business (SNC) – specifically on StackRoute and TPaaS as well as the acquisition of RPS Consulting have enabled accelerated growth of our business in India. Some of the largest Global System Integrators and Global Capability Centers of large multi-national corporations partner with NIIT to onboard and train their employees as they accelerate their journey with Digital Transformation.

The company is emerging as a strong digital learning platform across domains for both career seekers and working professionals.

Can you elaborate on the revenue visibility in the corporate learning group (CLG) segment in FY 22?

The CLG business recorded a revenue visibility of \$328 million at the end of FY22. CLG signed 16 new MTS customers during FY22 and now the total number of MTS customers stands at 66. During the quarter 4 of FY22, CLG added 3 new global MTS contracts, did 2 contract expansions and 1 contract extension.

Can you explain the rationale behind the split of CLG and SNC businesses? How would shareholders benefit from the reorganization?

Between our two learning businesses, the CLG business generates 80-85% of the company's revenue and encompasses all of the corporate learning and employee training programmes that we provide to our clients. The SNC business, on the other hand, includes all online skills and development courses for early career aspirants and working professionals.

While the two businesses share the brand and our unique culture and ethos, they are very distinct in the customers they serve, the markets they operate in and the products they bring to market. A number of practices and platforms such as content creation, learning engines, testing engines, and platforms were all common in both businesses. However, these practices and platforms are used quite differently to service our customers across CLG and SNC.

With this reorganization, we would like to enable both these businesses with independence to pursue their individual growth trajectories so that they are unencumbered in their pursuit to create value for their key stakeholders – customers, NIITians and investors. Each business has a remarkable opportunity to grow and be a leader in their space. Each will start out with a strong balance sheet, marquee set of customers and a seasoned management team to give it the best chance of success in their individual pursuit.

What does the outlook look like for this financial year in both the segments?

In recent years, we have seen remarkable growth in terms of both value additions and profits. We grew 44 percent year on year in FY22 and increased profitability by 456 basis points. Our customers continue to entrust us with their most pressing talent transformation challenges at a time when talent is at the top of most CEOs' agendas. We believe that the figures will continue to rise in the coming years.

Both of our businesses, CLG and SNC, have grown at a fast pace. From a growth projection point of view, the CLG group's business has a strong order book which will benefit us in the next quarter. The CLG business has been growing at an average of around 20% per year and it will keep on growing at a similar pace. On the other hand, we expect the SNC business to grow by over 50% in the next year.

How does the deal pipeline look like in the next 2-3 quarters?

Both CLG and SNC have enormous multi-year growth potential. Our investments in digital capabilities and S&M are allowing the CLG business to scale and accelerate. These have enabled us to outperform our stated guidance as a result of new customer growth and scope expansions.

In addition to this, using the strength of our brand, deep expertise in pedagogy, and use of technology in learning, our SNC business has emerged as a strong Digital Learning platform across domains for both career seekers and working professionals. We have increased our investments in the business, which has helped to increase revenue run-rate, and we see a multi-year cycle of growth in demand for digital talent as businesses increase their use of digital to serve their customers globally.

The CLG group has signed 16 new MTS customers during FY22 during the financial year 2022. It recorded revenues of Rs. 295.7 Cr, up 24% YoY during Q4, and Rs. 1131 Cr, up 35 % YoY during FY 2022. On the other hand, the Skills & Careers Business has recorded net revenue of Rs. 79.3 Cr. up 97% YoY in Q4, while revenue of Rs. 246.5 Cr, up 99% YoY during FY 22. We are expecting this momentum to continue in the upcoming quarters too.

Do you think that the momentum that you saw in the last two years in particular is here to stay for a long time?

Both our businesses – CLG and SNC – have very strong long term opportunities for sustained high growth. The market for learning outsourcing is underpenetrated and, CLG with its global platform and a marquee list of existing customers who form the top ten of their categories, is positioned well for sustained double digit growth.

The SNC business is a key enabler for GSIs, GCCs and young adults who want to enable and adopt Digital Transformation as a way of achieving growth and value creation. Products such as StackRoute and TPaaS have already started growing at a fast pace. The SNC business with its commitment to use deep learning to create tangible outcomes that matter is also well poised to take advantage of the current environment and achieve accelerated growth.

NIIT's strong balance sheet and proven ability to acquire and integrate companies globally will enable NIIT to further accelerate growth through inorganic activity.

We feel that this growth trend will continue to propel and develop in the coming years as well.

What are your plans in the higher education vertical in the US?

Higher education as a vertical represents a significant opportunity, as many higher education institutions are considering alternate credentials as a key method of attracting more students. We see enormous opportunity in assisting higher education institutions in capitalizing on this trend with NIIT's platform, pedagogy, and content. In fact, NIIT has signed agreements with two public universities and is currently collaborating with them. As we move forward, we anticipate that this business segment will be significant in the next two years.