NIIT Limited Q2 FY20 Earnings Conference Call

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Moderator: Good day, ladies and gentlemen. And welcome to the NIIT Limited Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – Managing Director and Vice Chairman of NIIT Limited. Thank you and over to you, sir.

Vijay Thadani: Thank you. Good afternoon, everyone. And thank you very much for joining us on this call, which is to discuss the quarter two business performance and future direction, mainly. But in addition to that, we would also take you through some of the progress that has been made on the buyback arrangement that NIIT had announced on 10th of August. Also, the impact of the recent changes in income tax rules and how they have affected NIIT. And as mentioned before, a special committee was set up by the Board, which was to give recommendations on a certain topics, and we will discuss that progress. Part of their recommendations have already been implemented, and Sapnesh will take us through that as he talks about the quarter two performance. But I think more interesting would be right now to discuss the business performance.

So, I hand you over to Sapnesh Lalla, who is the CEO of the company. And also with me are the senior leadership team of NIIT Limited. And we will all be very happy to address questions after his initial brief. So, over to you, Sapnesh.

Sapnesh Lalla: Thanks, Vijay. And thanks, everyone, for joining this call. Please note that the analysis that I discuss will be on a year-on-year basis. Also, in line with our earlier stated strategy to reduce exposure to low-margin capital-intensive products and services, the business of our 100% subsidiary NIIT Yuva Jyoti Limited, has become very small. And to simplify operations of the subsidiary, we are going to discontinue the subsidiary's operations. All of its commitments, including commitments to customers, to various stakeholders will be honored by NIIT. In view of that, the business has now been classified as discontinued operations. And in accordance with accounting standards, the net impact of this business is now reported under the head profit and loss from discontinued operations. The previous quarter's results have now been reclassified for a like-to-like comparison. I wanted to make sure that you were clear about that before we get started and dive into the results.

In terms of highlights, our revenue is up 5% on a year-on-year basis at Rs. 2,365 million. Our EBITDA is at Rs. 254 million, and the EBITDA margin is at 11%. Our profit after tax is at Rs. 2,093 million. This includes a reversal of a provision for tax related to the NIIT Technology transaction as a result of the recent changes in the tax code. For our business, the key highlights were, we added two new managed training services customers in this quarter. One, a very large semiconductor manufacturing company; and second, a large transportation association. The visibility is now at $250 million, it's up 11% YoY. In our Skills and Careers business, our StackRoute and TPaaS initiatives continue to show a robust growth

From an individual specific corporate business perspective, the business is back on the path of growth after about a couple of quarters of muted growth. The revenue of the corporate business stood at Rs. 1,740 million, up 8% Y-o-Y and 14% on a quarter-on-quarter basis. In constant currency terms, the revenue is also up 8% YoY. The 14% quarter-on-quarter increase in run rate was contributed by revenue from new customers that were added in Q4 and Q1. Increased volume from our existing customers and also the education program delivery launch of the programs we built for the Real Estate Council of Ontario. This is a project that we have been working on for the last couple of years. And Q2 was the first quarter in which we saw revenue from this project. This, as it was scheduled about 2.5 years ago, so the project has been on schedule and has met our expectations from a program launch perspective.

Our business continues to attract new global companies as customers and our customers continue to be among the top 5 to 10 companies in their category. This is also reflective of the 37 Brandon Hall awards that this business won this past year or this past quarter. This is the maximum number of Brandon Hall awards we have won. Brandon Hall awards are considered the Oscars of learning and development. And if you were to look at the percentage of awards we won, we won about 6% of the total Brandon Hall awards awarded this past quarter. So, that really tells to us and hopefully to you as well that, A, the excellence in quality that we deliver is not just recognized by our customers, but also it is recognized by industry leaders who judge these competitions. Second, the Brandon Hall awards and the categories of Brandon Hall awards where we have won, show that we are creating positive and substantial business impact for our customers. So, that was really heartening to note. Further, like I pointed out earlier, we added two managed training services customers this past quarter, and the visibility as of September 30th stands at $250 million, it's up 11% YoY. The EBITDA of the corporate business is at Rs. 271 million, up 14% YoY, and up 21% quarter-on-quarter. The EBITDA margin is at 16%, and it's up 86 basis points on a year-on-year basis.

With respect to our Skills and Careers business, the revenue was at Rs. 583 million. As stated earlier, we continue to rationalize product offerings in line with our stated goal of moderating our exposure to government contracts and low margin products. Given this continuance of some of these product lines, our go-forward SNC business grew at 4% on a year-on-year basis. The go-forward business constitutes 97% of the SNC business. The India business, which is a part of the SNC business grew for the third successive quarter on the back of robust growth in StackRoute and the TPaaS initiatives that we had launched about 1.5, 2 years ago. The EBITDA stood at Rs. 34 million. The EBITDA margin is at 6%. In terms of our Schools business, as you are aware, the schools business is a seasonal business. Most of the revenue in the schools business is during the fourth quarter of the business. So, I am not going to spend a lot of time discussing that business.

From an overall perspective, NIIT now has a very strong balance sheet. The net cash stands at Rs. 16.6 billion. During the quarter we deposited the balance tax related to the NIIT Technologies transaction. The DSO has improved to 70 days versus 74 days at the end of Q2 last year. The operating ROCE is at 15.3% and our headcount is marginally up by about 19 folks.

Overall, I think the quarter performed as per our expectations, and we are really pleased with the quality and the excellence of work that the teams have put in. That is all I had in terms of my prepared comments. Vijay, do you want to take everyone through some of the points that we discussed earlier?

Vijay Thadani: Okay. So, I will talk about the portion to do with the special committee's recommendations as well as the buyback procedure. So, the buyback was approved by the shareholders. And on October 3rd and based on that a draft letter of offer was submitted to SEBI. And at this point of time, we are awaiting SEBI's approval to that draft letter of offer, following which the letter of offer and the process will get triggered off. At this point of time, the project is exactly as per the schedule that we had shared at the beginning of the process which was 10th of August.

The second is on the tax benefits that we got because of the announcement of new tax rules. So, NIIT Limited opted for the option where we would pay lower tax going forward, but would not therefore be covered by the MAT. And this gave us a benefit of about Rs. 179 crores in MAT reduction, which had to be balanced by the MAT credit books, which was about Rs. 9 crores, and therefore, Rs. 170 crores. And after accounting for the balances that was because of deferred tax credit as well as the taxation during this quarter, the overall benefit which is visible in our books is about Rs. 164 crores. So, this is a very positive news for us, and that is why we welcome the new tax regime.

On the overall rationalization, restructuring and other recommendations of special committee, one of them was to rationalize the low-profit, the low-margin, high-capital intensity and high-risk businesses, and one of those actions have already got triggered off with our moving the operations of the government's skills business from NIIT Yuva Jyoti to NIIT Limited. And then NIIT Yuva Jyoti now goes below the line as a part of the discontinued business operations. There was another transaction to do with a joint venture which we had with Genpact (NIPE). This, again, was rather small and this business is proposed to be brought back into NIIT and the joint venture is being wound up.

As announced earlier, NIIT bought over the stake of Genpact at a fair value, which was very close to the subscribed value. And now, for transfer of operation the Board just approved this afternoon and based on that the next steps will be taken. Again, it's proposed that after the transfer our business, NIPE and NYJ, both will be applied for liquidation in time. There was a further simplification done of subsidiaries and that will be visible in the number of subsidiaries. Some of those were step-down subsidiaries in China, whereas we have completed the project, some of the CJVs that we had to create locally, our local business had to be closed. So, those are being done as we speak.

Those are the actions which we have taken so far. The special committee is still in the process of examining other businesses. Certain growth capital opportunities have been identified, and that will get further clear as we progress. And tomorrow also there is a continuation of some of the committee meetings with the Board, where some of these discussions will be taken forward. And based on that, at appropriate times, we would be keeping you informed.

That, according to me, is the total brief that I have. At this point of time, we will now open it up for Q&A. And Sapnesh, myself, as well as the leadership team around the table, will try to address all your questions.

Moderator: Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Nisarg Vakharia from Lucky Investment Managers.

Nisarg Vakharia: This is for the first time that we have seen the EBITDA margin in the corporate learning business go to 16% from normally 15%. And it also coincides with the execution of the Canada deal in this quarter. Can the margins hit higher as we execute that deal going ahead?

Sapnesh Lalla: Thanks for the question, Nisarg. I think there is potential. And this is something that I have said many times, there is potential for margin improvement in our corporate business. And as I have also said in the past, we have been reinvesting so that our potential in improving sales and marketing, given the headroom that this business has. I think we will continue to invest substantially in sales and marketing to exploit that headroom and accelerate growth. While we might see some improvement in margins, but what I did want to mention is that NIIT will continue to aggressively invest in sales and marketing to exploit opportunities that are in front of us.

Nisarg Vakharia: Because of that investment, sir, the depreciation expense also has gone up by Rs. 1 crore quarter-on-quarter from Rs. 12.7 crores to Rs. 13.7 crores. So, this depreciation expense at some point of time will normalize because we don't see too much profit in the reported profit after tax due to the high depreciation expense.

Vijay Thadani: Let me attempt to answer that question. This is because of reclassification of accounts after a change in IndAS standard, which we had discussed last quarter, it is IndAS 116 where leases have to be, including premises, leases have to be classified as CAPEX. And therefore, part of the rental expense goes into depreciation and interest categories. That is the reason you don't see a difference in PAT?

Nisarg Vakharia: Sure, sir. And my last question is that, are there any more deals in the pipeline, like the large Canada deal in the near future?

Sapnesh Lalla: We have more than one deals in the pipeline, let me say that it is plural. We have deals in the pipeline that are large, and we are aggressively pursuing them. And as you would have known, we got a large deal last quarter that we announced. And as I said earlier, we started accruing revenue from that and other deals that we acquired last quarter.

Nisarg Vakharia: I understand. And lastly, sir, I think you have done a very good job at normalizing the Skills and Career business and the EBITDA has now come to 6%. But some of the peers or the competition make EBITDA margins northward of 25%, 30%. Now I understand this is a direct function of growth, but any thoughts or insights on this business?

Sapnesh Lalla: Yes. I think, like I said earlier, there are two initiatives that we started about two years ago. They are both growing in a really robust way. I will not go into specific numbers because it's still early days for those initiatives. But suffice it to say that both our StackRoute business and our TPaaS business are growing very well. And I think over the next few quarters, you will see those initiatives meet the growth improvement in the SNC business. While I know it has bucketed around the low single-digit mark, it might still do that over the next one or two quarters. But I think as those initiatives mature and become a more substantial part of our India business, we will start seeing the results of that investment.

Moderator: Thank you. The next question is from the line of Shradha Agrawal from Asian Markets Securities. Please go ahead.

Shradha Agrawal: Congratulation on growth returning back to CLG business. First question is, what drove growth in CLG this quarter? Was it across the portfolio or is it some top clients who drove growth?

Sapnesh Lalla: Let me dial back a couple of quarters and talk a little bit about why growth left us for a couple of quarters, and that might help answer your question on why growth came back. And I think I have said this over the last two calls. We have about 51 customers now. And out of those customers, some of our customers had got into M&A related structuring over the last couple of quarters. There were also another couple of customers who had environmental issues, which I will not go into specifics, but just assume they had substantial environmental issues. One of them, an aerospace company, and another one who supplies engines to an aerospace company.

These businesses are leaders in their respective categories, and they had issues. Any time a business has issues that are as substantial as that, they try to cut down their L&D expenses just as they try to cut down all other discretionary expenses, and we got caught in that. That is what caused us to show low growth over the last couple of quarters, because some of our run rate business came down quite substantially. We continue to do business with these customers, but the volumes came down. As you may have noticed, we continued to increase the velocity of customer acquisition over the last few quarters. And that is what really helped us in getting back to growth. So, the new customers that we acquired in our Q4 and Q1 started generating material revenue in Q2, and that is what caused growth to come back. I think, as we continued to provide solid service to our existing customers, including the ones who had paused their work or reduced their volume with us, as those businesses come back online and get pass the environmental issues, I think those customers also will come back to run rate, we will see our growth rates coming back. Long answer to a short question.

Shradha Agrawal: Sure. So, I think last quarter you had indicated a broad range of 10% to 15% growth in CLG. So, would you still stick to that revenue growth trajectory or do we see some upside to this number?

Sapnesh Lalla: At this time, we are fairly confident of that range.

Shradha Agrawal: Okay. But the client-specific challenges are all behind us. We do not see any further rundown in any of these accounts, right?

Sapnesh Lalla: See that is the leap of faith that you have to make. It's hard to tell who's going to buy whom next quarter. I am sure you might be able to tell about your customers, but it's hard for us to tell about our customers.

Shradha Agrawal: Sure. And secondly on SNC, you said that StackRoute and the other business has started contributing, TPaaS. So, how much portion of our revenue would be coming in from TPaaS and StackRoute to SNC India now?

Sapnesh Lalla: Let's just say that it is material, but we are not at a point where we are starting to discuss it.

Shradha Agrawal: And then how many clients would we have on-boarded this quarter in both these businesses, if that number you could give out?

Sapnesh Lalla: In CLG, we added two MTS customers. And in the corporate business, we added two MTS customers. And in our Skills and Careers business, we added three large customers. The tally of our managed training services customers crossed 50 this past quarter, and we are at 51 managed training services customers.

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

Ganesh Shetty: Congratulations for a good set of numbers and a good performance in CLG business. Sir, SNC businesses I think still showing some stress as far as sales are concerned, now it is stuck at around Rs. 60 crores for quite a long time now. Can you just let us know how it could be improved in coming quarters?

Sapnesh Lalla: I sure can. I think you asked a question about our SNC business?

Vijay Thadani: Yes.

Sapnesh Lalla: Our SNC business is going through transformation, as I mentioned to you earlier. We have invested a fair bit in two initiatives, which are growing at a robust pace. While some of the older things that we have been doing, have been ramping down, and that is why you see growth muted, even though there is substantial excitement in what we are doing with these new initiatives. And more excitement in terms of when we talk to our customers and see the outcomes that they are getting from the education that their employees receive at the StackRoute's center. So, what we are doing is pathbreaking. It is very exciting, and it is highly scalable. We are in the process of trying to invest so that we can achieve scale. And I think, like I mentioned, over the next several quarters you will start to see the impact of this investment reflect in our growth.

Ganesh Shetty: Sir, my second question is regarding the same CLG business. Corporate learning business is now, I think, as achieved a critical mark, and now we are on our way to good run rate and revenue growth also. And is there any possibility of an acquisition in near future, like last time, we had Eagle Solution acquisition, and we could add some more strength to our CLG business. And I guess I wish to know how that part of our business is growing? And is there any other acquisition targets that we are aiming for to further strengthen our CLG business?

Sapnesh Lalla: From an overall perspective, inorganic growth is a substantial part of our go-forward growth strategy. We are looking at growth through acquisitions, both in India as well as outside of India. We have appointed an entity to help us with the growth aspirations that we have for our corporate business. And as and when things get materialized, we will keep you informed.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Just one question from my side. Sir, for this Rs. 335 crores buyback, does this include buyback tax as well or this is excluding that tax?

Sapnesh Lalla: This is excluding the tax. With tax, the amount will be Rs. 410 crores, if it is fully subscribed.

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

Sangeeta Purushottam: My question, actually, I think I keep coming back to the same question across calls, is really relating to your schools business. You talked a little bit about some part of the business which is discontinued, which is NIIT Yuva, was that earlier a part of Schools business? I didn't completely understand that. And what happens to the rest of the business, have you made any progress in taking a strategic look at it like you had said that you would be looking at this business to see what you need to do about it? If you could just tell us a little bit about that.

Sapnesh Lalla: Thanks for your question. I think it's an important question. First, the NIIT Yuva Jyoti business is our skills business. This is run in partnership with NSDC, which is to skill the youth of India for achieving entry-level jobs across the services sectors. That has actually nothing to do with our Schools business. It is a business that we predominantly transact with state governments for overall CSR related entities. And that is the business that has been refocused on a go-forward basis.

With respect to your question on our Schools business. Like we have said earlier, the committee reviewed the Schools business, it also appointed an entity to get an external point of view about that business. And I think we have identified a few options that we are looking at for the strategy from a go-forward perspective. It is going to, however, take us another few months to decide on what to do. We have looked at what's going on in the market. As I have said to you earlier, there is a very, very substantial opportunity in Schools. But on the other side, there are regulatory uncertainties as well as other issues that are at play. So, we are taking a little bit longer to come up with a considered view, and I think we will have our strategy solidified over the next three to four months.

Sangeeta Purushottam: And at the moment, on a balance sheet basis, how much capital is actually invested in this business? By capital I mean everything, which is working capital investment, fixed assets, past losses, whatever, how much have we actually invested in this business to date?

Vijay Thadani: Yes. It's approximately Rs. 25 crores, but that is ex-memory, and we could give you a more accurate number.

Sapnesh Lalla: Well, as you know, the Schools business is an independent subsidiary, it's called MLSL, MindChampion Learning Solutions Limited. And the total capital employed, which is actually very difficult to determine immediately because part of that business used to be in NIIT. And therefore, some of the working capital of that entity when they were dropped down into a subsidiary, got left behind. But right now, the correct number on the balance sheet of MLSL is Rs. 25 crores.

Sangeeta Purushottam: Okay. So, it would be this Rs. 25 crores plus whatever losses we would have incurred in the past, which would have gone through to NIIT's balance sheet, right?

Vijay Thadani: Very correct.

Moderator: Thank you. The next question is from the line of P. Sachdev from Albatross Capital. Please go ahead.

P. Sachdev: Could you just throw some light on the distribution of cash, once the buyback is completed going forward?

Sapnesh Lalla: Yes. So, at this point of time, just to give you the math again for the benefit of all of all of you, is, from the Rs. 2000-odd crores that we got through the acquisition, after accounting for tax, which is less by Rs. 170 crores compared to old calculation, the rest of the numbers remain the same. The total cash available for growth capital as well as part of it for distribution is Rs. 1,430 crores. Of which, we have already committed Rs. 510 crores for distribution. And as far as growth capital is concerned, during this quarter we will get a clearer picture of the number. So, given the fact that right now there is a buyback process in the offering, at this point of time, the board cannot even consider any proposal for distribution. But certainly, there will be opportunities for further distribution, as we have stated before, and that would be taken up after the completion of the buyback process.

P. Sachdev: So, is there a time for distribution. I understand the buyback is on and could take its own time subject to approval, but is there a timeline for further distribution?

Sapnesh Lalla: Depending on the method of distribution, assuming that the buyback process gets over in the month of January. And depending on after that, the meetings, I guess one should expect some things to happen by end of the year, because by then we would already be towards the end of the financial year.

Moderator: Thank you. Thank you. The next question is from the line of Siddharth B, an individual investor. Please go ahead

Siddharth B: Firstly, congratulations on the great numbers and the great year that NIIT has had, especially in a turbulent market and turbulent market condition that we have all been through. So, I think it shows great strength on the part of the promoters and the promoter entity as to how they have managed the flux in businesses and how they have created value for shareholders all across the value chain, be it small shareholders like myself, and larger clients of yours.

Saying that, I had a few questions and I just wanted to ask those. So, firstly, sir, you mentioned that the total cash on books is Rs. 1,430 crores minus. So, is this the total cash on books after the buyback Rs. 510 crores extra has been added or that will have to be further subtracted? So, if I were to ask you, what would be the net cash on books on NIIT post buyback, assuming 100% tendering happens?

Vijay Thadani: Yes. So, first of all, I think you should attend this conference more often, your words are nice. And hope we continue to live up to your words, buts that is unjust. No, the Rs. 1,430 crores, I was giving an account of the money that we got from divestment and where is it committed for. So, at this point of time, the net cash in the books is Rs. 1,666 crores, give or take. Now, that obviously does not include a few things. There is an indemnity reserve that we have kept because of the Intel transaction there was an indemnity period, so that is built into this. The tax, according to us, whatever taxation was due, we had deposited it in the first two installments itself. So, therefore there is no more tax liability coming on because of the transaction.

And the third issue is that the dividend has already been distributed in these results. And the buyback is not yet started because it's awaiting now at this point of time SEBI approval which will come. So, the account that I gave was, and that is normally a question which comes from the analyst community, is that, please tell us what did you do with the money that you got out of divestment. So, I was giving an account of that. In this, there is the benefit of cash which must have come from operations, as well as the cash which we got from treasury income, etc., etc. So, this and Rs. 1,430 crores should not be compared. And I hope I have answered your questions. If you want to understand any of the details of this cash, we could spend some time. But I guess there…

Siddharth B: So, sir, the Rs. 1,666 crores that you are mentioning, in the indemnity reserve, reserve would be added to this or it includes the indemnity?

Vijay Thadani: It has the indemnity. In Rs. 1,666 crores, those Rs. 220 crores has been kept. Why? Because it is a reserve cap, so it's available in the books.

Siddharth B: Secondly, I had questions regarding RECO, the project that we are doing in CLG. So, now the fact that we are doing RECO, can you give us like a sort of a revenue number per quarter that is adding to the bottom-line because of RECO? And you also mentioned two new corporate clients, so what revenue visibility can we see in terms of numbers on the bottom-line as far as these three large contracts are concerned? And secondly, sir, what as a number do you classify as a large contract order, like what number should we think? Is it Rs. 100 crores, Rs. 200 crores? So, what figure would you give you that as?

Vijay Thadani: Okay. So, Sapnesh will answer this. These are very good questions, so I think Sapnesh will answer it. It is good education for all.

Sapnesh Lalla: Thanks for asking the question. A lot of what you asked infringes on client confidentiality. So, we can't get into specifics of how much revenue do we earn from a specific customer, whether it's RECO or Shell or whoever it is. So, we can't get into specific numbers. But what I can say is that a large customer for us is a customer who does about $7 million to $10 million of revenue per year with us. And therefore, and technically our contracts tend to be 3 to 5 years; large contracts tend to be longer in duration, so about 5 years. So, you could say, a large contract will be $35 million to $50 million contract for us.

Siddharth B: Right. Sir, few more questions regarding the strategic direction of the company. So, why is it that when we are looking at acquisition, since you guys have been running NIIT Technologies and you were basically sold that and gotten now focusing completely on NIIT. Now my question was, we are a company sitting on Rs. 1,600 crores of cash, so it is basically like we have one, I would classify SNC and CLG as two small businesses for people of your stature. So, we have two small businesses running, which can be looked at. Why is it that the Rs. 1,600 crores is not looked at as a start-up capital for two very accomplished IITians to look at something in the technical field or look at other unrelated businesses, maybe acquisitions or start-ups or investments in other companies? Or is the company looking at that because you have added Mr. Kashyap on the Board, who has been involved in buying and selling of startups and has got his startup acquired? Is there a certain amount of capital that we are looking to break the tag or just Skills and Careers and corporate learning group and going to compete bigger? Because that is what you guys can generate greater value for shareholders and compared to just focusing on training. Because my worry is that whenever there is a recession, the first budget that gets cut is your training and development. So, shouldn't NIIT as a company, considering it has the brains behind it to look at unrelated businesses, which can create greater value than just focusing on CLG?

Vijay Thadani: I think, as I mentioned to you, you should attend this more often, your enthusiasm is very contagious. Yes, thank you very much for your suggestions and for your nice words. But I think and some more are under discussion. And at this point of time, in an investor call and in our investor communication, we should be talking only about what has already got decided. So, when we look at the future, we start from first principles and look at all opportunities. We have a certain vision and mission to which we are committed to, and that has done us well so far and we think there is a lot of headroom in what we have done. And we would like to make sure that we take advantage of all the core competencies that we have built, as well as marry them together to get the best out of the opportunity that we have in the future. But any ideas from your side are also welcome. Please do give us ideas, at this point of time we can put many of them as we are thinking them through together.

Siddharth B: Because sir, as an investor when I look at the company and I look at the group, I see the fact that you have built businesses which are far bigger than training services. So, I feel that as an investor, considering now that we have growth capital, it's important and instead of just focusing on say a 10% or 12% growth in CLG, it's time to now take it to the next level by focusing on other businesses, maybe which are technical in nature, which deal with technology.

Vijay Thadani: Certainly. And I think all this and more is already in the thought process. So, more as we come clearer. So, thank you very much once again, and please join us again and keep contributing.

Siddharth B: And sir lastly, just a recommendation, and a slight complaint as well. We have been trying to get through JM Financial, the brokers for the buyback, they just do not answer investor queries and they do not get on calls. And even when they do, and if I am able to manage to get them after 10 phone calls, they gave me an answer that they were not willing to take ownership for their answers. As a result of which, I had a lot of problems on the record date as far as my stocks were concerned. So, it would be really good if a message could be given to JM Financial that the investor queries be answered, and they take ownership of the fact that what they are saying is accurate and correct, not a mere answer where I have to then decide what is in my best interest. I mean, a procedural thing, JM Financial should be able to take ownership and say, this is how it is to be done, and if it not done we are liable.

Vijay Thadani: No, I think we take very serious note of your comment and feedback. I am sure, JM is also on the call, somebody or the other must be there, but we will take it up independently with them. And you can be rest assured. I can give you a point of contact in case, and that is our Investor Relations, Kapil Saurabh.

Siddharth B: I spoke with him yesterday.

Vijay Thadani: And he also gave you a similar response?

Siddharth B: No, I was very satisfied with Kapil's response. But I wanted to bring it to your notice.

Vijay Thadani: You were very satisfied.

Siddharth B: Yes.

Vijay Thadani: Thank you very much. You can come across to our office, it will be a great idea to meet you as well. But thank you very much. There are others on the call, so maybe we should give them a chance to ask a question.

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

Rahul Jain: Basically, a small follow-up. Any plans on the allocation towards driving the organic growth? I think on an organic front you said that you are doing more, you have hired agency to help you out on that. But any step that you have moved forward, both on the organic front and inorganic front towards allocating this capital?

Vijay Thadani: Absolutely. A significant number of initiatives. And as each of these initiatives start coming online, we will keep you posted. But suffice it to say, at this time, a significant number of organic initiatives to accelerate growth. An easy one is increasing investment in sales and marketing, and a number of associated activities. But I completely agree, there are a number of organic initiatives that are currently on. One of the areas that we are focusing a lot on is significantly expanding our consulting capabilities in the corporate space. We started doing that about seven months ago, and we are going to start investing more significantly so that we can bring higher level of value to our customers.

Rahul Jain: Okay. So, anything in terms of what we talked about a better balance sheet what will give us a much better position in terms of anticipating in large deals. So, I mean, any those reference you want to mention which could have helped us forge this transaction or these peer pressure?

Vijay Thadani: I think that is a very good question. A strong balance sheet is a key criteria for Fortune 500 companies to work with a partner. And I think, given the strength of our balance sheet, we now are in a better shape to compete. We are better positioned today to make investments, like the one that we made with respect to the Real-Estate Council of Ontario. So, like you pointed out, strength of balance sheet is an important criteria for our customers. And the fact that our balance sheet is strong is comforting and heartening for our customers and will give us competitive advantage.

Rahul Jain: If I may add one, I could not get much implication on the tax thing that we did, if you could please give more impetus on what exactly has happened and how it changes actual tax liability and cash part of it from your payouts? Payout as in cash tax payouts...

Moderator: Thank you. We seem to have lost his line, so we will move to the next question in the meanwhile. The next question is from the line of Supratim Basu from Amerigo Capital. Please go ahead.

Supratim Basu: So, if I could go back to the depreciation question which was asked earlier. You mentioned that moving to IndAS has raised the depreciation number. So, did you move to IndAS from first quarter of this year or last year?

Vijay Thadani: No. IndAS, we shifted to the standard last year and therefore one more year before that. Overall, IndAS transition. This is AS116, which is a change which was brought about effective 1st of April 2019. So, we are already an IndAS company, that is not an issue, because that was mandatory and we did that as per the due date. So, our accounts are aligned with IndAS even for last three years, if you read now 2017, 2018 and 2019 years ending FY17, FY18, FY19. But in 1st April 2019, AS116, the new standard came up, a change came up about accounting for what was earlier called operating lease, is now treated as financial lease in the book, by law.

Supratim Basu: So, what happens is that, what was above the EBITDA line now has moved below the EBITDA line, am I right on that?

Vijay Thadani: Yes, correct.

Supratim Basu: So, that has happened for first quarter FY20 or first quarter FY19?

Vijay Thadani: FY20.

Supratim Basu: Okay. So, that difference of Rs. 3 odd crores that we see is primarily related to this. So, effectively, we should be looking at the EBIT number rather than the EBITDA number to get a better idea going forward on the margin side and cash flow side?

Vijay Thadani: Yes. Even EBIT will not give you a correct picture because that is divided in two parts. Larger part goes in depreciation, smaller part goes in interest. Interest is below the EBIT line. The right thing to compare with PBT.

Supratim Basu: Okay. So, which sits in pretty nicely into the next question that I have. Which is that NIIT should publish a balance sheet and cash flow on a quarterly basis.

Vijay Thadani: Which we did last quarter and which even right now, it's a provisional balance sheet that we do publish. It's not fully audited. It's a limited review balance sheet, but last quarter was fully audited. And I think it's just convenience, there is no other reason, because there are a number of subsidiaries which are spread all over the world, and therefore to ensure that things happen on time we follow this process. But it's your suggestion, in any case, two more quarters later you will have the fully audited. But balance sheet is available at all levels, in all quarter.

Supratim Basu: Okay. It just basically helps to give a better picture on the cash flow side, so that is fine. And then on the tax write-back of Rs. 163 crores at a net level. This is just an accounting entry, right, there is no actual movement of cash that is happening here.

Vijay Thadani: There is a prevention of future movement of cash, which would have happened in the rest of the year.

Supratim Basu: Which is due to the movement because you have taken…?

Vijay Thadani: No, we would have deposited Rs. 315 crores of tax, MAT, minimum alternate tax, by end of the year. Of which we had paid the first two installments of Rs. 145 crores when the law changed. And coincidentally, Rs. 145 crores is the amount that is due from us, plus/minus a little bit. So, therefore, we do not now have to deposit MAT, which we would have otherwise deposited in this year. And that Rs. 315 crores of MAT we had accounted in the last quarter. So, as per the accounting practice, that had to be reversed in this.

Supratim Basu: I get that. Okay. That makes sense. So, if I were to look at Q1 and Q2 in conjunction, one thing that still doesn't tally from a numbers perspective, is you have got Rs. 2,000-odd crores from the sale of NIIT Tech. Other than that, on a net basis is Rs. 1,300 crores. Tax paid out last quarter is Rs. 145 crores. And from a corporate law perspective, it was Rs. 316-odd crores. So, the Rs. 13 crore, plus Rs. 13 crores, plus Rs. 316 crores don't add up to Rs. 2,000 crores. So, what am I missing here?

Vijay Thadani: Yes. Remember, in other income you account for the book value of the share which was as per in your books. And the sale value, because you account further the profit that you got out of this activity. So, for profit, that is not the cash that you got.

Supratim Basu: You are saying that the book value was Rs. 700 crores?

Vijay Thadani: If I'm not mistaken, it was Rs. 598 crores of NIIT Technologies. I am just rattling off these numbers with whatever I remember. But exact numbers are close to that. Now why did that happen? Just to explain you that. NIIT technologies, a few years ago, was held by a SPV called Scantech. And Scantech was merged with NIIT. And when the merger happened, at that time NIIT Technologies value in the books of NIIT was revalued at Rs. 500 and whatever odd crores.

Supratim Basu: Okay, got that. So, I think I am done on the financial questions. And if I have the time, can I just ask you a couple of questions on the corporate strategy side? When I met up with Mr. Roy about a year back, he had mentioned that sales and marketing expenses will continue to move ahead of revenue numbers for the next 12 to 18 months. So, are we at the inflection point or do we still have some more time to go where you will be spending more on the sales and marketing side than your revenue growth?

Vijay Thadani: So, I think I will ask Sapnesh to answer that question, and on separate note, Supratim, nice to have you back.

Sapnesh Lalla: Thanks for the question. I think, as I pointed out earlier, there is a very substantial headroom as far as our corporate business is concerned. I will be repeating if I said that in Fortune 1000 there are still a thousand companies, only 20% to 25% of those Fortune 1000 companies have outsourced their learning in any substantial way. So, there is significant headroom. And it is important for us to continue to over invest in sales and marketing so that we can grow faster.

Supratim Basu: So, just as a quick follow-up, if you could very briefly explain what is the sales and marketing strategy that you are following in terms of number of salespeople that you may have and how do you approach new clients, etc?

Sapnesh Lalla: I think that is the level of detail that we do not get into. But I think, suffice it to say, our corporate sales and marketing strategy would not be very, very different from the corporate sales and marketing strategy for any B2B outfit who is meeting with Fortune 500 companies.

Moderator: Thank you. Ladies and gentlemen, that was the last questions for today. I now hand the conference call over to the management for closing comments.

Vijay Thadani: Well, I think we went through a very detailed round of questions, Thank you very much. And your questions always help us reflect more on what we have done and what we should be doing. Thank you very much for your very enthusiastic response to these results. I think the team is definitely enthused to do better. And thanks for all these remarks. We are, as usual, available to you. Kapil Saurabh looks after Investor Relations, Deepak Bansal is the Company Secretary, Amit Roy is the CFO, Bimal heads the SNC part of the business, and Sailesh and DJ, they are based in the U.S. but are here. So, in case you have any questions, we will be very happy to answer. And thank you very much for your support, cooperation as well as guidance. So, with that, wishing you a Happy Diwali and prosperous Diwali, telecom sector aside. Thank you very much.

Sapnesh Lalla: Thank you.

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