"NIIT Limited's Q2 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the NIIT Limited Q2 FY'22 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 K. Thadani: Thank you very much, everyone for joining this call, which is in this busy results season for you to give your time for us, really, truly appreciate. I also want to wish you a belated Happy Diwali.

We are here to discuss the results of the second quarter of FY'22. This is a quarter ending September, though there have been some events which have happened on the 1st October as well, which we will cover, but mostly we'll be discussing about the second quarter. I think it's been a very significant quarter from a number of points of view, because there is of course, a steady growth in the Corporate Learning business and a growth which is at a much higher level than the growth that we had experienced for last so many years. Very healthy order intake and contract intake that we have and very strong revenue visibility, and also a very strong margin, much better than what we had projected and my colleagues here will take us through that. But it's also significant because for the last 18 months or so one of the businesses has been under transformation. And I think we have now gone through that transformation exercise and you can see the bump up which that business has experienced in this quarter. And that's another thing. So, this is a quarter in which both businesses have done reasonably well. And that's what we will take you through.

The event that I wanted to mention about which has happened on 1st October is that we added another member in our family and that is a company by the name RPS Consulting which we have acquired and we welcome the RPS consulting team into the family as well as that business will give us some additional wings to plan our growth forward. We will talk about all that and the environment that is in front of us.

I have with me the whole leadership team as well as the other members of the board. I have Mr. Rajendra Singh Pawar, who's our Chairman, I have P. Rajendran, who is the Joint Managing Director; Sapnesh Lalla who is the CEO and Executive Director will be leading this discussion, and then in addition to that, I have Mr. Sanjay Mal, our CFO; Kapil Saurabh, our Investor Relations and M&A expert, as well as Mr. Prateek Chatterjee, and the whole finance team, Mr. Prateek Chatterjee is in Com and the other members of the finance team will help us with other set of numbers. We will as usual keep it into a short briefing hopefully, Sapnesh, and then open it up for more detail Q&A.

So, with that, I hand you over to Sapnesh and we look forward to a very interactive discussion today.

Sapnesh Lalla: Thanks, Vijay, and thanks, everyone for joining. Happy Diwali. I will try to take everyone through some prepared comments and then we can open it up for questions. As Vijay pointed out, this has been a good quarter for us. The revenues stood at INR 3,142 million, they were up 44%, YoY and 4% QoQ. Both the Corporate business as well as the Skills and Careers business grew. I'll cover each of them as I make comments about the individual businesses.

Please note that these numbers do not include the acquisition of RPS which was done on the first day of October, and their numbers will start consolidating from Q3 onwards.

Our EBITDA stood at 739 million, it was up 115% YoY, EBITDA margin was at 24% of 780 basis points versus 16% last year. The sustained margins in Q2 predominantly driven by growth in the India business and improved run rate in CLG in spite of the impact of wage inflation and continuing investments and key capabilities. The PAT was at 524 million, up 101% year-on-year. EPS was at Rs.3.9 per share versus Rs.1.8 per share last year.

Talking a little bit about the Corporate business, CLG achieved a growth of 40% year-on-year. This is I think industry-leading growth. CLG continues to set benchmarks in revenue, growth and profitability across the training segment. It has also outperformed the forecasts that we provided last quarter. So, a great quarter for the Corporate business. In the second quarter, the revenue for the Corporate business stood at 2,722 million, up 40% year-on-year, up 3% QoQ and up 4% QoQ on a constant currency basis. The EBITDA was at 786 million, was up 97% YoY. The EBITDA margin was at 29%, up 837 basis points. The strong sequential growth was predominantly aided by accelerated ramp up in some of the new customers that we have acquired, as well as the expansion in wallet share in some of our existing customers.

During the quarter, the Corporate business signed six new MTS customers; it's probably the highest we've done in a quarter. Two of those customers who are large FMCG logos, two large BFSI logos and two well-known specialized consulting brands. The two BFSI customers were in the past project customers who signed up as MTS customers. The tally of MTS customers now stands at 63 and the revenue visibility is 294 million at the end of second quarter.

The margins improved owing to better product mix, some improvements in productivity, as well as continuing work-from-home environment and lower than expected expenses on travel and facilities. To a fair extent, these helped offset the higher expenses due to wage inflation and continued investments in improving capabilities and expanding the sales and marketing for this business.

As I had pointed out earlier, as markets start opening up, as customers start feeling better about meeting others and congregating some of these expenses due to travel as well as facilities are going to start coming back. And as I've stated in the past, we continue to target long term growth at 20% and profitability at about 20% though. Given that we've had a couple of good quarters, we expect the current year the growth to be over 30% on a year-on-year basis and the margin to be in mid-20s this year.

Coming to the Skills and Careers business, the revenue for the quarter was 420 million, up 70% year-on-year, the revenue was up 11% quarter-on-quarter driven by acceleration in the StackRoute and the TPaaS product lines. We pivoted as you are aware to a digital delivery model last year and have been since working on ensuring that we are able to help our learners achieve the desired outcomes through our digital platform. As I had pointed out earlier, we see this business as a strong ed tech platform for digital talent transformation for both individuals and corporates. And the growth signifies that our customers are starting to take advantage of the capability that we have built.

As I've shared on the previous call, our accelerated investments in the S&C business which we expect will further lift our revenue run rate in the second part of the year. The results would be visible starting Q3 and would continue to accelerate in the future quarters.

As I said earlier, from Q3 on, we will start consolidating the results of RPS and we expect RPS to be EPS-accretive from Q3 onwards. The RPS business has a run rate of about 26 to 28 crores per quarter and is growing with margins in high teens. The RPS business as mentioned earlier provides training in emerging digital technologies to working professionals, a segment which is seeing strong demand due to digital transformation across many businesses in India. We see a multi-year cycle for growth in demand for digital talent, as you could see, not only across the global system integrators who are really enabling this transformation but also across the global capability center set up in India as well as most Indian enterprises. So, we expect the addition of RPS to be deeply synergistic with what we are doing.

Between StackRoute and RPS and the Enterprise business in India, we have very strong coverage of the global system integrators that are enablers of this digital transformation from most global corporations. The global capability centers set up in India were early adopters of digital transformation, and the cream of the Indian enterprises who get started on the path to digital transformation. I think we now have a range of training programs on digital capabilities ranging from full stack development to data sciences to game development to cyber security, Cloud, 5G and so on and so forth.

Overall, I think NIIT has a few significant transformations over the last six quarters across both its businesses, digital transformation being primary, CLG now is a top five global player in managed training services with industry leading growth, margins and return profile. The target market provides multi-year growth opportunity due to the large spends and low penetration that learning outsourcing businesses have at this time.

Skills and Careers business is transitioning into an EdTech business engaged in servicing the rising demand for digital skills both for individuals as well as corporates.

We believe that from an overall perspective, the company has the necessary ingredients for value creation as a differentiated delivery pedagogy for deep skilling with proven outcomes, a strong brand and innovative business model, and a strong balance sheet to help accomplish all of these through strategic investments. We continue to believe that more companies will adopt outsourcing post-pandemic and the demand for talent trained in digital skills will continue to grow globally.

From a balance sheet perspective, balance sheet metrics continue to be strong and improving. The net cash position improved quarter-on-quarter by about INR118 million to INR11,837 million. From a gross cash perspective, the gross cash was 11,930 million. The debt was down to 93 million. The DSO days were 57 days as of September 30th as compared to 52 days last quarter. The growth in the India Business predominantly, the billing that we had towards the end of the quarter contributed to the additional DSO days. Operating cash flow in Q2 was 369 million and free cash was 346 million.

With that, I'll open it up for any questions that you might have. I know I rushed through most of my prepared comments to make sure that you have enough time to ask any questions that you might have.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: I just have one clarification. My line was not clear. On the outlook for the CLG business, if I heard you, right, you expect the revenue growth for FY'22 to be 30%-plus, and the margins to be somewhere in mid-20s, right?

Sapnesh Lalla: That is correct.

Vimal Gohil: Again, please correct me if I'm wrong. You also gave out a long term view that this business could grow at about 20% and I wasn't sure the margin if at all you highlighted them for the CLG business?

Sapnesh Lalla: Approximately 20%.

Vijay K. Thadani: That is our stated long term directions. We are not changing that right now.

Vimal Gohil: And just on the Skills and Careers business, you made massive investments in this business, you're going to make some more going forward. Just to understand why you make these investments in people, etc., any idea on the overall industry opportunity, how large is this industry, and in terms of size of the industry, where are we currently, are we taking market share, how are we taking market share if you could just highlight that?

Sapnesh Lalla: I think that's a good question. I think the size of the industry is massive, if you just look at the folks working in the IT sector, that's greater than 4 million, more than a third of those work in global capability centers, several fairly high percentage work at GSIs. As I mentioned, both are significant customers of NIIT. If you look at banks, almost an equivalent number work in banks and financial services companies and insurance companies. So, if you were to look at the market that NIIT is addressing in India, a very significant market opportunity. With the acceleration in digital transformation, a very large percentage of the people who are working in these jobs need to get transformed or upskilled or reskilled. So, I think that represents a significant opportunity. Given the ongoing war for talent, as India starts to invest in growth, as Indian enterprises are starting to come out of COVID-related lockdowns and are able to see the growth opportunity, there is very significant hiring that's going on both in the IT sector as you may have noticed as well as the BFSI sector. So, both for our early careers, business as well as the working professionals business, it's a great opportunity ahead of us. In terms of how are we and how we set aside from our competitors. I think the core differentiator NIIT has vis-à-vis competition is our pedagogy, digital platform and our ability to create real outcomes when a person goes through a training. That's the reason why many brands trust NIIT for training some of their key professionals, some of the key new hires, as well as hiring from folks who graduate out of NIIT Programs. So, that's really our key differentiator and that's where most of the investments have been. In terms of your comment about massive investments, I don't know where you read that, but our cash pile has only grown over the last couple of quarters. So, while we made some investments, I guess the term 'massive' might be overstated.

Vijay K. Thadani: Just one more line. I think you also said what is the brand salience of NIIT. So, just wanted to talk about the fact that it's perhaps the oldest company in the IT Training business and we are credited with having trained about 1/3 of the nation's workforce, and have been a market leader ever since the time that we started. In recent times, one of the businesses, the Skills and Careers part of the business did go through a transformation process, because we switched from brick-and-mortar to digital or a hybrid model. And I think that is the transformation which Sapnesh was referring to and even I alluded to a bit earlier. But otherwise, it has a very, very strong brand appeal and very strong trust and recognition when comes in dealing with customers.

Vimal Gohil: A two part question related to Skills and Careers. Given the fact that, most of the business that we are doing is Skills and Careers is in India. Would that entail higher working capital requirements? And the second part to it is, we've grown extremely well this quarter on a YoY basis, albeit that is on a lower base. But at what revenue levels are we looking to sort of breakeven in this and any sort of margin guidance that you would want to give for this particular business as well? That is on Skills and Careers.

Sapnesh Lalla: So, we expect to continue to grow on a quarter-on-quarter basis in general terms from an S&C perspective. We expect that we will close this year with growth which is upwards of 40% for the year compared to previous year. So, that's a growth projection. And then the addition of RPS will add another 26 crores to 28 crores in terms of revenue per quarter.

Vimal Gohil: The RPS acquisition will be a part of Skills and Careers group, is it, and not CLG?

Sapnesh Lalla: That's correct. They transact most of their business in India. It's going to stay as an independent business, but we will report it as a line item under the Skills and Careers.

Vimal Gohil: And that itself should probably improve the margin profile of that particular segment, right, because mathematically, you're looking at an EBITDA positive company joining that line item, that should improve the EBITDA margins for the Skills and Careers?

Sapnesh Lalla: Indeed, it's accretive.

Vimal Gohil: Last question on the CLG itself. You spoke about outsourcing penetration levels. We are hardly at 2%-odd and correct me if I'm wrong on that. In FY'18 I had read somewhere that it was about 1.6%, it has come to 2% now. So, when do you see this outsourcing spending as a percentage of total learning and development spends going in the longer run?

Sapnesh Lalla: I'm curious where you got the 2%, but I think from what I know of the numbers about, 20% to 25% of the global 1,000 corporations have outsourced their learning in any significant manner. So, while 98% shows significant headroom, so does 75% to 80%. But I think the right number would be 75% to 80% headroom and then even the ones who have outsourced have a fair bit of room to outsource. So, from a headroom perspective, very significant headroom available.

Moderator: The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: In terms of RPS, I think someone mentioned that it's EBITDA positive. Have we given the EBITDA margin of the business pre-acquisition?

Sapnesh Lalla: We expect on a continuing basis to be high-teens.

Samarth Singh: Could you talk a little bit more about the acquisition, why was this acquisition for NIIT and can it be as transformational for Skills and Careers as the productivity solutions acquisition rewards for CLG?

Sapnesh Lalla: Thanks. I think it's a very good question. I think two real dimensions or maybe three. The first one is that the audience that they serve is working professionals. NIIT has typically addressed the early career audience, RPS addresses the working professional audience. Then like I was pointing out in an answer earlier, that audience is about 4 million working professionals in just the IT sector. And then as you go beyond IT, there are a number of IT professionals within different working professionals as well. So, a very significant audience, that NIIT was not covering in the past, we will be able to cover with this acquisition. Second, very strong market penetration amongst the global capability centers. So, these are organizations of the type of Bank of America, Wells Fargo, organizations which are global in nature, but have set up significant sized global capability centers in India. And that's a key market segment where NIIT has some penetration. But along with RPS, it enables us to get significant penetration in that market segment. And that's a market segment that has among the highest levels of spends on training across the Indian enterprises. That's the second reason why we think it made sense. The third reason is RPS comes with partnerships with significant technology originators, so organizations like Microsoft, organizations like Red Hat organizations like AWS, Google are partners with

RPS and we expect that strengthening NIIT partnerships with these global technology originators would do NIIT good. So, a number of positives in that acquisition.

Samarth Singh: Any synergies between our current S&C business and RPS, our current business turn EBITDA positive?

Sapnesh Lalla: Like I mentioned the India S&C business, the predominant audience focus is early careers and with RPS focus on working professionals, we will be able to increase the wallet share in most of the customers that NIIT has as well as RPS has. So, a lot of complementary skills and therefore very synergistic.

Samarth Singh: On CLG, would you be able to tell us what is the customer concentration in terms of either top one or top two customers percentage of revenue?

Sapnesh Lalla: The top customer would be about 10%, 12%, the top three would be a shade below, top 10 are in the 60% range, the top-15 would be about 67% range, the top-20 would be in the 75%, 76% range. I would also want to add that, from a segmentation perspective, our customers tend to be in a reasonably diverse set of segments all the way from technology, telecom to BFSI to energy and natural resources, life sciences, FMCG and so on and so forth. Reasonably diverse set of customers.

Samarth Singh: Constantly we've been highlighting sort of a very heated Canadian real estate market and something that should tamper down over a period of time. My first question is, are we only involved in as far as RECO is concerned, in new broker training or do we derive revenues also from continued training for these brokers?

Sapnesh Lalla: So, we focus on the new sales agents as well as the broker segment. So, those are the two segments that we focus on. We offer continuing education as support to the alumni as well as all existing registrants or sales agents and brokers.

Samarth Singh: Okay, so from the RECO data available, it seems like the number of new sales agents has been fluctuating between 9,000 to 11,000 a year and that's since 2017. So, why is it that we keep highlighting that this is excessive number of or rather heating market in terms of number of agents that we are training?

Sapnesh Lalla: I think the part about a heated market is more to do with seasonality and to some extent to do with increase we saw due to COVID, as well as the fact that we made it convenient for a number of folks to take that program because of the digital transformation of that program. During COVID, real estate became an attractive second career for a lot of people as some of them lost jobs, some of them could not step up, and so on and so forth. So, taking real estate education to become a realtor became both an attractive second career as well as the digital transformation of that program made it convenient to participate in that, and therefore, it resulted into a few spikes. But if you were to look at sort of secular data, your data is right, every year, the market adds about 9,000 to 10,000 net new agents to the pool of agents, which I think is about 1,000.

Vijay K. Thadani: But work in progress, there's a lot. Students who are undergoing who take breaks, they don't do modules, they take a break, they do more modules, so therefore, the total students on roll will be different.

Sapnesh Lalla: You're very right, Vijay.

Moderator: Next question is from the line of Sangeeta Purushottam from Cogito. Please go ahead.

S Purushottam: I actually wanted a little more color on the transformation, which is happening in the Skills and Careers business. Basically, since you're moving more digital versus physical, what would be the current breakup of revenue that you're getting through the digital medium versus physical? Also, are you transitioning more towards corporate? And if that's the case, could you also give me a sense of how much revenue comes from sort of corporate requests for training versus individuals walking in and paying for the training programs? And my last question is that what are the long-term margins that you are aiming towards in this business and how long would it take us first to get EBITDA-positive, and then move towards those margins?

Sapnesh Lalla: I think you had a mouthful of questions, but I'll try to remember, every one that you asked, but if I miss out any, do remind me. I think your first question was, what percentage of our business is physical versus digital. 100% of our India business is digital at this time. Whether it's going to be the same one year down the road, it's hard to tell. But at this time 100% of that business is digital. I think your second question was around what might be the split between the business that is transacted on behalf of corporations versus on behalf of individuals? The split right now is, I would say about 1/3, 2/3 in favor of corporations more specifically because of the acquisition of RPS. So, as you look ahead, about 1/3 in individual and 2/3 corporate. But given the investments and brand that we have, we expect to gain some parity between these two as we look ahead. Now, I'm missing a couple of the last questions that you asked.

S Purushottam: My last question was on the margin profile. By when do you think that the Skills and Careers business will actually a breakeven and what are the long term margins that you're targeting in this business and by what timeframe?

Sapnesh Lalla: The Skills and Careers business should start seeing some level of profitability in the coming quarters and then will go up and down a little bit maybe a couple of quarters. But as we look ahead, the next few quarters, we should start seeing profitability. So, I think from a breakeven perspective, we are pretty close to breakeven from a Skills and Careers business perspective. In terms of long-term margins, we are aiming to hit a 20% margin business as we start hitting steady state.

S Purushottam: Does the digitization of this business open up overseas opportunities for you and at what stage if at all are you going to look at those?

Sapnesh Lalla: Overseas opportunities are not closed for our business, we operate in more than 30 countries today through our corporate business and our corporate business has the ability to bring all the capabilities of our S&C business to our corporate customers and we routinely do that. So, in terms of new opportunities, there will be some because with RPS we are bringing in new capabilities which we will start leveraging overseas, but across NIIT we leverage all the capabilities that we have so that we can benefit our customers globally.

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

Shradha: Most of the questions have been answered, just a few questions, Sapnesh. What is the proportion of Stack Route in our S&C business coming to?

Sapnesh Lalla: We don't go into individual line items. But I would say StackRoute and TPaaS together are about 65% of our S&C business.

Shradha: No, why I am asking this is I thought probably there's some commonality between what RPS offers and what we already do under StackRoute. So, from a complementary portfolio that you...

Sapnesh Lalla: They are complementary. So, the commonality is that they both address IT professionals, but like I pointed out earlier, the StackRoute business focuses predominantly on early career segment and the RPS business focuses predominantly on the working professionals.

Shradha: And secondly, you did indicate that we're looking at long-term 20% margin in S&C. Do we expect to have with this kind of a margin towards the latter half of '23 or is it a '24 kind of a phenomena that we're looking at 20% kind of a margin?

Sapnesh Lalla: In FY'24.

Shradha: And secondly, on the CLG business how should we look at the RECO deal. I guess, that you have kind of hit the stake in probably 1Q. So, from the current base which has already seen some moderation, do we expect further moderation in volume from RECO in the next coming quarters?

Sapnesh Lalla: We don't get into talking about details of individual customers, but I think RECO and the real estate business in Canada continue to be a great customer. And as one of the other callers mentioned that the real estate market adds about 10,000 agents every year. Now, like I pointed out earlier, COVID accelerated some of that things might normalize, but as we move forward, so I would say it's a good customer, it's a healthy customer, and we continue to do well in it.

Shradha: No sir, the reason I'm asking because I assume RECO is a very high margin business for us. So, if you see some significant compression in volume from RECO, that it might impact the overall margin structure of our CLG business quite considerably. From that perspective, I just wanted to check is this in the base already or are we looking at further cool off and we could do volume?

Sapnesh Lalla: From a long term perspective, we do not see major compression. That market like one of the other callers put it, adds about 9,000 to 10,000 real estate agents every year. And that's been so for the last seven, eight years and that's while it saw a little bit of a spike due to COVID, but in a normal sense that 9,000, 10,000 is likely to stay the way it is going forward unless something major happens in the real estate market which we are not aware of at this time.

Shradha: And similar to what we do in RECO, we're also looking to get into other real estate markets in other countries. So, have we seen any breakthrough in any such large deal or are we in discussions earlier?

Sapnesh Lalla: We are continuing to look at opportunities not just in real estate, but other license to operate categories of work and as soon as we have something material to report, we will talk to you about it, but we are making progress in that direction.

Vijay K. Thadani: Thank you, Shradha, thank you for joining and we are very regular on our calls. Appreciate that.

Moderator: The next question is from the line of Ashish Agarwal from Principal India. Please go ahead.

Ashish Agarwal: So, two things. First of all, on the CLG business side, just wanted to understand, has the pandemic changed something structurally, which will make us grow at 20%-plus going forward if you can explain that? And secondly, on the CLG side, last three quarters, we have seen our revenue visibility remaining at a $290 million level. So, just wanted to understand the reason, is this something some client loss, etc., which is impacting that number?

Sapnesh Lalla: So, maybe I'll address that first. And then just remind me what the first question was, but we haven't seen any customer losses. However, given the growth, we have consumed more quarter-on-quarter which lowers the visibility. And while we've added a significant number of new customers, we've also consumed a fair bit as revenue has grown quarter-on-quarter. The second thing I would say is that visibility is a number that's built up of contract values remaining over the life of contract, we have a few large contracts coming up for renewal over the next couple of quarters. And as those contracts renew, and we expect that they will renew favorably, we will see an improvement in visibility.

Ashish Agarwal: Has pandemic changed something on the corporate side where they want to accelerate the learning for their employees, and are more amenable to now outsourcing that piece of training so to speak?

Sapnesh Lalla: So, we haven't gone to the post pandemic timeframe as yet, at least that's my belief so far. We might get into that period sometime next year, but at this time, we are not post pandemic. During pandemic, the consumption of training has actually gone down for most of our corporate customers. The growth that we have seen from a CLG perspective has been predominantly based on the investments that we have made or the disproportionate investments we have made in sales and marketing over the last few years in terms of customer acquisition as well as the result of some of the good work that NIIT has done which has resulted into wallet share expansions with our customers. I think however, what you're saying is likely to happen over the next few quarters as our customers get into post-pandemic and start investing in consumption of training to achieve transformations that they are looking for.

Moderator: The next question is from the line of Ronak Vora from OHM Advisors. Please go ahead.

Ronak Vora: Sir, I had two questions, mainly on the CLG end. The first question is basically in terms of demand that we are witnessing and the revenue ramp up that is currently happening in the CLG business, is it all based on increased revenues from existing customers that is more mining from them or is it the new deal that are ramping up for us?

Sapnesh Lalla: I think it's a combination of the two like I pointed out earlier. The work that we've been doing with our existing customers in terms of consumption of training, that part has not grown, though, I would want to report that the negative slide that was there, because of COVID, has stabilized, but we haven't seen growth in consumption as yet. The growth that we are seeing in revenues is predominantly due to improved wallet share that we have at each customer, as well as the acceleration of the new contracts that we've won over the last few quarters.

Ronak Vora: Basically, we can say that the growth coming from the newer verticals that we are entering or the existing vertical, or can you just throw a picture in terms of what kind of verticals do we see this whole 20% sustainable growth from, is it just IT, healthcare or any other spaces?

Sapnesh Lalla: No, I think, for us, we expect growth to come from a diverse set of verticals though fairly significant part of our business comes from the technology and telecom vertical, though that significant percentage is south of 30%. So, our portfolio is fairly diverse and we expect growth to come across different verticals.

Ronak Vora: The revenue visibility has been fairly constant in the CLG business at around 280, 290 million. So, are we seeing any lags in closing all these large deals or what kind of revenue visibility do you see going ahead?

Sapnesh Lalla: Like I was explaining to the previous caller, while we have added a significant number of new customers, we have also given quarter-on-quarter growth consuming a fair part of what we are adding into the bucket. As I explained earlier, for us visibility is the balance of contract value left over the period of contract. A couple of our significant contracts are up for renewal in the next couple of quarters, and as they renew, we will see a jump in visibility.

Ronak Vora: Just a clarification point of view, our revenue visibility should be equal to new contracts, less contracts, which are a work-in progress or under execution?

Sapnesh Lalla: Over the contract duration.

Vijay K. Thadani: If it's a five year contract and three years are over, then only next two years visibility will be there unless it is renewed.

Ronak Vora: Execution of a contract is completed, it is deducted from a revenue visibility, right?

Sapnesh Lalla: Yes, that is correct.

Vijay K. Thadani: Every quarter. So, what gets deducted is the revenue. Why don't we call it order intake? Because these are not firm orders, these are based trends of what they have spent. Remember, it's an outsourcing business, it's not a projects business.

Moderator: The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: Thank you for the follow up. I think a previous participant also touched on a possible margin compression due to reduction in growth in terms of the RECO deal. So, the point I was making was that if we look at the average value of Canadian real estate investment as a per cent of nominal GDP historically has been about 6%. And since 2017, it has been rocketing up into 10.5%. So, in case it reverts back in this, is there a risk to our revenue and margin guidance or are other enough levers in the business where we would be able to sort of protect our profitability if there's a significant deceleration in RECO business?

Sapnesh Lalla: See, RECO is one out of 63 customers that we have. It's a significant customer, and it enjoys significant profitability and we are continuing like this quarter, we added six customers. So, we're continuing to add new customers. In terms of compression-related risk, there could be, real estate market is a cyclical market, it's enjoying a significant high at this time and that high is encouraging a lot of people to choose real estate career, also given COVID and given that this program is delivered digitally, it's a convenient method of getting into a second career in real estate. Interestingly enough, the interest in real estate, while from a headline perspective might appear that as prices go up, so should the interest in real estate. But even when prices are not high, it's not like people are not buying and selling houses, it's just that when prices are high, they're paying more money. But buying and selling of homes continues to happen. And that's why I think as you were saying earlier, every year, 9,000 to 10,000 real estate agents become certified. So, I think while prices are up across all of North America in terms of real estate, but if you were to really look at the number of transactions that are happening, it's not like the number of transactions have become very high, in fact, as you might know, in a transaction, there's always a buyer, and there's a seller, and in a buyers' market, there might be 10 buyers to one seller, in the sellers' market that could be 10 sellers to one buyer. But whether you are a buyer or a seller, you have to engage with the real estate agent.

Samarth Singh: Just two housekeeping questions. One is the net cash number that you gave us that is prior to cost of acquisition for RPS, is that right?

Sapnesh Lalla: That is correct, that was the Q2 ending number, and as we pointed out, the acquisition happened in October.

Samarth Singh: And the last one is what should we expect as a dilution in terms of shares outstanding every year due to ESOP?

Vijay K. Thadani: I think our ESOP pool is 10% of equity and it's very huge and very little is given away. I think more people might have exercised in recent times because of the spike. So, I think you have our fully diluted EPS also available. If not, we can give it to you fully diluted EPS. We will share that with you.

Samarth Singh: No sir, I wasn't talking about the full year diluted EPS. As a policy, what percentage of our shares outstanding, would we expect to pay out every year going forward?

Vijay K. Thadani: It's a very, very small percentage. I don't have it, I mean, it's not a data element, which is large enough for us to track but we'll get back to you, let's give you the proper data.

Moderator: The next question is from the line of Vikram Dugal, an individual investor. Please go ahead.

Vikram Dugal: My question is more on shareholder with a futuristic thinking. I had two questions. One is that India's new education policy. So, how are you kind of participating in that India story, what is your vision on that? And the second question is that would you replicate 1998 to 2009 education model for younger India to physical centers since you're 100% physical in India like you said?

Sapnesh Lalla: The first thing I would want to say is we are 100% digital at this time, not 100% physical. Unless I heard you wrong, I just wanted to clarify that we are 100% digital today as compared to almost 100% digital in 1998.

Vijay K. Thadani: So, just to give you a historical perspective, first of all, the company has existed from 1982. There was an element of technology-based learning even from day one. But predominantly physical and 25% to 30% was delivered digitally as a part of the hybrid scenario. At this point of time, thanks to the pandemic, we have moved to 100% digital, because all this while people had to get trained, even though education centers couldn't be open because of regulation. And so we have continued to deliver 100% digital, but over a period of time how it will settle down will now also depend on how new consumer tastes evolve. So, that's perhaps where it will.

Vikram Dugal: That leads me to one more thing which I would like to understand is that with the newer kind of universities which are coming in, NIIT newer universities also there, although might not be in this company, but are we university kind of ready with content which you would like to participate, or it would be more the older model where you would be having that in the consumers, say, younger India?

Vijay K. Thadani: Let me explain to you, I think the shelf life or the content shelf life with the university is larger. The average lifetime of content is reducing very dramatically. So, what happens is that every university anywhere in the world needs top professional skills training, which is deep skills in the area that the university would educate them on. So, just a fundamental difference between education and training, is education is more broad based, but not as deep and training is when you go very deep with a certain set of skills. So, this is a supplemental area to formal education. What new education policy will do is provide a lot of flexibility and multi-disciplinarity and would create spaces for this deep skill training also to become a part of the formal curriculum.

And there I think universities would also benefit from NIIT's intervention and NIIT's contribution.

Vikram Dugal: That answers my questions, because I was just particularly just going digital, we have a lot of competition also coming in, the newer unicorns, as they say, but NIIT has been around for a long time, so just wondering if an IT model would probably kind of tutor-led learning could have helped us. But that's very, very premature, I mean, it's just a comment. So, thank you for taking the question sir.

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

Rahul Jain: My question specifically is in terms of understanding that the broad prospect of the CLG business, I'm sure, you might have said something earlier, which I might have missed, but I understand you're constrained given the kind of a major shift this business has seen in last couple of quarters. So, it is difficult to capture very precisely. But the kind of a new client addition that we are seeing, the kind of untapped opportunity we have client budget which can make some kind of at some point of time, what kind of two to three or five year kind of a goal we should have in this business from a growth perspective? And also, our margins, you have been very conservative but we kept on delivering better than what we've been saying in the past, so how one should see from both short term and long term perspective?

Sapnesh Lalla: I think from a long term perspective, like we pointed out earlier, we should look at the corporate business as a 20-20 business, 20% growth, 20% margin. From a short term perspective, the corporate business should see for the year 30%-plus growth and the margin in mid-20s for this fiscal year.

Rahul Jain: Yes, you have said about this earlier. So, it's not I am looking for a guidance for FY'23 or '24, but some of the benefit is, one is that you may have more demand from the same customers and we are seeing a significant jump in total customers that we are servicing. So, if let's say, from a three year perspective, can be made for much higher growth and much better margin that 2020 that we are kind of indicating?

Sapnesh Lalla: That is our goal, but what I pointed out is what we are able to see at this time.

Rahul Jain: So, essentially, you can do it, but from a more steady state, 20-20 is a more ideal way to put that?

Sapnesh Lalla: That is correct from a long-term view.

Moderator: The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Just wanted to check on when we are sort of looking to grow our Skills and Careers business rapidly, does that have any implication and that too with profitability, so, does that have any implications on our working capital by any chance, should we assume sort of a slightly higher requirement of working capital because we are looking to sort of grow that business rapidly, so, will that growth come at any small cost in working capital is what I am trying to understand?

Sapnesh Lalla: Not very material, but maybe marginal.

Vimal Gohil: And that would be because again, it's a B2B sort of a business, maybe that's why, right?

Vijay K. Thadani: No, it' not because of B2B, because it is a balanced business where retail customers pay in advance. In fact, in this business we have seen in the past negative working capital. It will definitely not put a strain on working capital. If at all, when it used to, at that time it was asset-heavy because there were licenses and computers and real estate involved, but now that part is not there. So, it's not capital intensive, just to make it simple for you to understand.

Vimal Gohil: But there are no risk on higher receivables over there as against our overall business?

Sapnesh Lalla: No, I'd say very comparable. If it all it is plus/minus one or two days here and there.

Moderator: The next question is from the line of Ronak Vora from OHM Advisors. Please go ahead.

Ronak Vora: On the margin end, since we are going more on cloud, more on digital, and with existing ramp up of our own customers which will happen, increased wallet share from our existing customers, don't we see that our margin should see operating leverage benefits when you're guiding 20%, is that very conservative on your end or we should do upwards of 30% margins also going ahead?

Sapnesh Lalla: I think I've mentioned this in the past that one of the reasons why we've been able to grow in spite of the fact that many training companies actually did not grow was because of the timely investments we made in sales and marketing, as well as capability creation. Those investments are continuing. So, while with growth, we should get higher leverage, but we are continuing to reinvest so that the growth can perpetuate.

Ronak Vora: You mean to say that we will reinvest almost like if we say 20% growth in terms of our revenues, all that money accrued cash flows or whatever it would be, would be reinvested in sales and personnel only to get more growth. So, that should lead to a much higher growth than 20% if you're trying to saying in the manner?

Sapnesh Lalla: I think, it is not right to assume that the cost efficiencies that we have today, because of all the lockdowns will continue, some of these costs will come back. So, just from business as usual perspective, it would not be right to expect 30% margins going forward, because travel will start, user facilities will start and a number of these customers will expect to meet with us face-to-face or get trained face-to-face. So, while at this point in time, we have significant efficiencies in the business from a cost perspective, some of them would not be sustainable. IT companies and training companies are very different. If you've been to our training program, you will notice that the training program goes on for three days or five days, whereas an IT engagement goes on for many months. So, it is a very different business. I did want to point out that the training business and IT businesses are two different businesses.

Ronak Vora: So, what I'm trying to say is once we have added a new client to our portfolio and say it's like a quarterly training program or a six monthly training program or whatever this kind of repetitive business every quarterly does a training program for all the freshness hires or for the mid-level managers to reskill or whatever it may be. So, once our training program is fixed for one customer, say, a large customer, so can it not be replicated, like 70% can it be replicated for other customers also, I understand that some level of customization is necessary?

Sapnesh Lalla: I love to spend a minute to describe in a little more detail how our corporate business works. Most of our corporate business focuses on the proprietary training needs of a customer. And these are non-transferable. Proprietary training needs, for example, somebody like an oil exploration company would be to figure out how to drill a hole in the ground and see if there is oil beneath it. Now, how one company does it versus another company is very different. So, there is little reuse in that which is unlike what a catalog training provider like a skill soft would do where they would invest in creating, let's say, a course in or Coursera would do, who would invest in creating a course on Excel and then a million people will use that course. That's not our business model in the corporate group.

Ronak Vora: Say, suppose the same oil exploration company example, if we have just added a new oil exploration company and in the first year, we've developed courses for them for the middle level freshers and all level of hierarchy for learning and corporate training, suppose for the middle or the lower level guys or the freshers you introduced a course how to drill an oil well, or how to do the analytics of data, so can it not be replicated for the same oil company 'n' number of times for 'n' number of training programs that they do throughout the years, doesn't this kind of replication lead to operating leverage benefits is what I'm trying to understand?

Sapnesh Lalla: For that customer, it does, but there are only so many oil and gas companies who actually have drilling operations in the world. So, while I understand what you're saying, but from a practical perspective, that part is not material.

Vijay K. Thadani: We can always discuss more when we meet on another call. I am just being mindful of time because we asked for a 10-minute extension and even that is over.

Moderator: Any closing comments you'd like to add?

Vijay K. Thadani: Yes, I just want to thank everybody for a very spirited discussion and I think there's a lot of good questions and as usual, I would like to state that every question of yours does gets us to think and not only do you benefit from the answer, but we benefit a lot from your question. So, thank you very much for your cooperation, guidance, questions and we look forward to your continued support in the future. With this, we would like to end this call and wishing you all the best.

Sapnesh Lalla: Thank you.

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