"NIIT Limited Q4 FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and FY 2021 Earnings Conference Call of NIIT Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 & Vice Chairman of NIIT Limited. Thank you and over to you, sir.

Vijay Thadani: Thank you, Margaret. Good afternoon. My apologies, we had a little delay in starting, some technology issues we were trying to resolve. But thank you very much for joining us, like always, when we share our quarterly results. And this time we have the quarter for as well as the annual results for FY 2021. Just to make sure that all of you and your families are staying safe and healthy.

This call, we are going to discuss very quickly the business performance for the quarter and the financial year. We will also discuss the future direction and opportunities in front of us. The business has shown a finance phenomenal transformation that the company has achieved over the last four quarters, resulting in a very strong financial recovery. This recovery was driven by very, very agile leadership, a very cohesive and resilient team, NIIT leveraged the depth and width of our experience in learning technologies and the strong execution capability of our company. The results have also shown the acceleration and efficiency that digital learning models can help us achieve. There are a few of the corporate actions which have taken place which are available in the press release. But we would all like to share those with you more in detail.

I have with me. Our full management team Chairman, Rajendra Singh Pawar, P. Rajendran – Joint Managing Director, Sapnesh Lalla – CEO, Kapil Saurabh, Sanjay Mal – CFO. And we would all do our best to answer all your questions. I do understand the time will be short, but we will keep our remarks to the minimum, hoping that you have gone through the results in detail. And we would take this opportunity for you to ask us all the questions. And last but not the least, that in case you still have follow-ups to do, we will be very happy to answer your individual questions later in one-on-one calls.

With that, I hand you over to Sapnesh, the CEO.

Sapnesh Lalla: Thanks, Vijay. And thanks, everyone, for joining. Please note that the results of the previous year have been restated for a like-to-like comparison in accordance with accounting standards. I will take you through some of our prepared comments and then we will open it up for Q&A.

During this past pandemic year, NIIT has remained focused on driving business transformation towards digital. There has been an acceleration in our Corporate business in spite of COVID impact, which caused lower volumes from large existing customers. But the business was more than compensated by a significant ramp up in new customers added over the last few quarters and scope expansions with a number of our existing customers. NIIT achieved a digital transformation of the Skills & Careers business during this past year to address the growing need for digital-ready talent and take advantage of the recovery that we are starting to see in hiring. Going forward, we will continue to invest in acceleration of the Corporate business, expanding digital capability and accelerate our growth in our India Business.

Our revenues stood at Rs. 2,755 million for the quarter, it was up 30% year-on-year and 9% on a quarter-on-quarter basis. EBITDA stood at Rs. 694 million with operating margin of 25%. The improvement highlights the sharp improvement in profitability due to the transition to the digital model over the past few quarters. Profit after tax was at Rs. 465 million as compared to Rs. 6 million last year. The EPS for the quarter stood at Rs. 3.3. Please note that these numbers do not include the impact of buyback on the number of outstanding shares, as shares were extinguished in May 2021. For the year, the revenues to that Rs. 9,495 million, it was up 7% on a year-on-year basis. The strong recovery was aided by addition of significant number of new customers over the last few quarters. The EBITDA was up 106% year-on-year at Rs. 1,753 million. The profit after tax was at Rs. 1,430 million, up 134% year-on-year on a like-to-like basis.

Coming to our Corporate Learning business:

With industry leading performance, the Corporate business recorded a growth of 34% in Q4 and continues to drive improvement in performance for the company. Our investments in sales and marketing and digital capabilities have helped the business achieve growth with ramp up in new customers despite near-term reduction in consumption of learning and development services for some of our large customers due to the Coronavirus pandemic. In Q4, the revenue of the Corporate business stood at Rs. 2,353 million, was up 34% Y-o-Y and 8% Q-o-Q. On a constant currency basis, the revenue grew 28% year-on-year, and 8% on a quarter-on-quarter basis. The EBITDA was at Rs. 675 million, up 35% Q-o-Q. Q4, which is typically a weaker quarter as compared to Q3, stood out given the growth in our North America real-estate training business. The real-estate market continues to be very strong in the near-term in North America, and is driving strong uptake of our courses, in addition to the benefit of increased convenience, due to the shift to digital learning models.

The improvement and margin was driven predominantly by better product mix, higher productivity, continued work from home and no travel expenses, improved leverage of fixed expenses as well as the full impact of cost optimizations achieved during the pandemic year. The Corporate business saw strong deal flow during the quarter including, one, new managed training services customer; two, signal significant expansions, one with a large global bank and another one with a large technology company, as well as a significant number of renewals. For the year, the revenue was up 19% year-on-year, 13% in constant currency terms. Continuous investments in sales and marketing over the last few years and new capabilities developed over the last few quarters have helped the Corporate business recover from the impact of the pandemic in a remarkable way. The company plans to keep investing in sales and marketing as well as capability development to accelerate growth. As I mentioned earlier, the growth has been driven by new customers added over the last quarter, in spite of seeing volume declines in some of our existing customers.

For the year, the EBITDA was at Rs. 1,885 million, up103% year-on-year. EBITDA margin improved by 938 basis points year-on-year to 23%. During the year, the Corporate business added nine new managed training services customers, expanded its business with five customers and renewed 12 contracts. As of March 31, the company had 58 managed training services customers and visibility stood at USD. 287 million. While India is emerging from the second wave of COVID, we are starting to see our target markets, which include the United States, North America, overall, and Europe start to come out of the COVID related stresses and lockdowns and start to open up. This is likely to lead to some resumption of costs and investments that would effort due to restrictions the past year.

Coming to our Skills & Career business:

For the quarter, the business is starting to show growth. The revenue was at Rs. 402 million, up 12% on a quarter-on-quarter basis, as well as 12% on a year-on-year basis. The EBITDA improved to Rs. 19 million, as compared to a loss of Rs. 100 million in Q4 of last year. Sequential growth of 12% quarter-on-quarter in the Skills & Career business was driven by a resumption of some of the hiring in BFSI and IT sectors. Revenues have recovered sequentially through the year, driven by transition to digital models of learning. We see this business to become a strong ed-tech platform for digital talent transformation, for both individuals and corporates.

As I have mentioned earlier, we pivoted to the digital delivery model in April of 2020. And have spent the last year ensuring that we are able to deliver the outcomes our students and employers have come to expect from NIIT. As India starts its effort to service the acceleration in digital transformation globally, NIIT will continue to be seen as a key enabler for this transformation. We have seen positive endorsements from our placement partners and our students of our mastery learning pedagogy when delivered digitally as well. Achieving the significant milestone has enabled us to start accelerating investments in NIIT digital for the new products as well as new methods of digital customer acquisition. We have launched new programs in areas of 5G, cloud, cyber security, game development, data science, and full stack product engineering over the last few months. For the year, the revenue for the Skills & Career business stood at Rs. 1,241 million.

Overall, NIIT has achieved significant transformation over the last 12 months. Today, the company has two high potential growth businesses, the Corporate business is a top five player globally in managed training services, with industry leading growth, margins and return profile. The target market provides multi-year growth potential due to the large spends and low penetration of managed training services or learning outsourcing across Fortune 1,000 companies. Skills & Career business is transitioning to an ed-tech business, engaging in rising demand for digital talent transformation for both individuals as well as corporations. The company has the necessary ingredients for creating value for its customers, a differentiated pedagogy for deep skilling, strong brand, innovative business models and a strong balance sheet to invest. We continue to believe that more companies will adopt outsourcing post pandemic and the demand for trained talent will continue to be in short supply and will fuel growth for the business. The company plans to continue to focus on accelerating growth in this coming year.

Our balance sheet continues to be strong and was strengthened during this past year. The net cash position improved quarter-on-quarter by Rs. 448 million to Rs. 13,689 million, and by Rs. 2,260 million for the year. Gross cash was at Rs. 13,894 million. Our days of sales outstanding declined to 54 days as of March 31 compared to 63 days as of December 31, 2020. Our operating cash flow in Q4 was Rs. 520 million. The operating ROCE has improved sharply over the year, highlighting the capital efficiency in the business. The ROCE stood at 38.4% as compared to 7.3% last year.

As mentioned earlier, we will continue to pursue investment opportunities both organically and in organically to drive growth across all dimensions of NIIT's business. We continue to expand our Corporate business through expansion and creating global platform to improve geography coverage, addition of new capabilities and penetration in new customer segments. For our India business, we will continue to achieve leadership in digital talent transformation through investments in the NIIT digital platform as well as new programs from StackRoute.

That brings my prepared comments to an end. I will send it back Vijay to you for further comments.

Vijay Thadani: Okay. Thanks, Sapnesh. Indeed, an exceptional quarter, just wanted to give two important updates. One, the Board proposed a final dividend of Rs. 2.50, which is 125% of face value per share. And the second that while the buyback process was started in December of 2020, the process was fully completed on 11th of May, when 9.875 million shares were bought back and extinguished, and the total shares outstanding post the buyback are Rs. 132.47 million. The buyback process was quite successful, it was 5.5x oversubscribed. And the buyback was for 6.97% of the shares of NIIT at a price of Rs. 240 per share. And that price was 92% premium to the previous buyback price.

So, with that, I think the financial highlights are over. There have been some Board expansions, and I would request Rajiv Pawar to talk about that.

Rajendra Singh Pawar: Good afternoon, everybody. Just wanted to take some time to highlight the very important development in the history of our company, in the growth of our company. So, you have heard about the results, you have heard that in difficult circumstances as well the leadership team, the management team, led by Sapnesh, has managed exceptional performance. And I think they have grabbed the opportunity that digital transformation is showing up in an accelerated way in the world now. So, we have all been talking about digital transformation and that has been going at a reasonable progress. But COVID did many bad things, but it also accelerated a few good changes, and digital transformation is one of them. So, while the world was busy coping with it, we saw Sapnesh and team leveraging this opportunity.

Now, this we see as a very important dimension of the future. So, as a company, we have been preparing for it. As you are aware, we now have had capital which we are looking to deploy for growth. And we have been building ambitious plans for our growth. And so commensurate with that thinking, we have also been thinking of expanding and enhancing the capability of our Board to cope and deal and leverage the next phase of growth. So, we are making additions to the Board, let me lay out the addition that we are doing.

So, we are adding two Independent Directors, they become effective from tomorrow and of course finally we will be putting a recommendation and discussing it at the AGM for the approval. But for tomorrow we have two additional directors. The first one, Ms. Sangeeta Singh, joins with about three decades of experience after working in Wipro, Infosys, as well as IBM. And she has been focused on the U.S. and European markets, has run $1 billion line of business. Focused on healthcare towards the end of her career in these companies but has very good capability to deal with Fortune 500 companies and to look at large multi-year transactions with exceptional relationships at the top levels and therefore a very deep understanding of the market. So, her experience, as you can understand, will be extremely helpful as we grow our B2B international business of the learning process outsourcing that we are building a very strong recognition.

The second Independent Director to join is Ms. Avni Davda. She comes with more than two decades of experience in the consumer retail and business leadership. For the longest part of her career in the Tatas, she was the youngest CEO to head a venture, and that was the Tata Starbucks JV. After which she spent some time in Godrej leading their company called Natures Basket. And now is joining our Board. She serves on another Board of Mahindra Logistics, and is also advising Bain & Co. on their retail and consumer activities. So, she can bring a very deep and good understanding of consumer markets and consumer behavior. And something that will relate us as we expand our NIIT digital B2C line of business. Between them, they add very strong capability to the Board in the two dimensions of B2B and B2C that we are looking at.

Third addition to the Board, which is in a sense part of a larger process of succession or let me say preparing the organization for perpetuity comes with our CEO Sapnesh Lala, being elevated to the Board as Executive Director and CEO after having served in the company for more than two decades, but also having played this role very successfully for the last four years. So, this again represents an important development in the company of management coming into governance. And this will be effective from the date of AGM, when the AGM will approve the appointment.

Then as promoters, Mr. Thadani and I also have our personal succession of our family holding, and the family office, which has been going on for some time. And to reflect that in the ownership, we are inviting two more people to the Board, Udai Pawar and Leher Thadani, representing in a sense the family office in the governance of the company on the Board.

Now, between these five additions, we have now managed to add to significantly enhance the diversity on the Board. And the diversity is in many dimensions and let me comment on those. First and foremost, I think we all know that this whole opportunity in front is showing up as unprecedented changes. And when there's a large amount of uncertainty and volatility, then diversity is a very important attribute to have for an individual or any community. So, diversity is coming in the following dimension. First and foremost, it comes in the dimension of experiences. So, two people coming from large, successful corporations with a great culture Wipro, Infosys, IBM, Tatas, Godrej, that enhances those capacities in our Board. In addition, of course, to the competencies that I mentioned earlier of understanding the international or the global information services business, where India has excelled, as you know, and built the capability to do very large size multi-year deals, and which is the direction in which Sapnesh is building the business.

We also have enhanced diversity in terms of gender, now will have four women directors on our Board. The third dimension of diversity, equally important in terms of geography, we are getting international experience coming to our Board as well. And finally, and perhaps very significantly, is a diversity of age as well. Just to let you know that the existing Board's average age 63, and the new additions are all at an average age of 45. The Board is becoming younger, more diverse, more versatile, more experienced. And we see that as a very important development as we embark on what we think is a very exciting period of change. We are equipped with capital coming from the transaction, which we all know about. We have started deploying it and we are now building the capacity to cope with all the new strategies, changes and opportunities that are in front of us. With that, back to you Vijay.

Vijay Thadani: Thanks, Raji. I think but now we would like to open it for questions, and I am sure you will have plenty of them. And depending on the number of questions we have, we will check if we need to extend the time, because we have gone beyond our normal briefing time which we have, but that will depend on the questions. So, operator, can you open it for questions, please?

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashish Agarwal from Principle India. Please go ahead.

Ashish Agarwal: Sir, three, four questions from my side, first one on the Corporate Learning business. Despite the problem because of COVID etc., we were able to grow the Corporate Learning business in double-digits this year also. So, wanted to understand how should we look at the growth in this business going forward, given the fact that with the global economies opening up, hopefully we will have some of the existing clients also now starting to grow in next year. And secondly, wanted to understand on this profitability front of this business. We have expanded the margins in this business considerably, Q4 margins of almost 29% is the highest ever. So, how should we look at the profitability of this business? Earlier we have been indicating maybe this business would do high teens or maybe a 17%, 18%, 19% of margins. So, how should we look at the profitability of this business going forward?

Sapnesh Lalla: Thanks for asking that question. I think your first question was from the point of view of growth that we expect in the Corporate business. I think like you pointed out and like many people are saying, it's possible that the economies are going to start opening up. I do see, given the vaccination rates in the United States, U.S. might be the first one off the block. While there are uncertainties around how that might take shape. But you are right, it's likely that both the United States and Europe as economies will start opening up. And given that it's also possible that our existing customers where we have seen significant decline in L&D volumes will start consuming more training. My expectation of growth is in the mid-teens to high teens this coming year. And I would just like to make sure that you understand that while economies are going to start opening up, the uncertainty continues. There is a significant number of people who are yet to be vaccinated in the United States and Europe. So, we are expecting mid to high teens in terms of growth for the next year.

You are right, profitability was significant in Q4, owing to the growth that we experienced, as well as the significant control on expenses that we put in, some because of COVID and some because we wanted to conserve cash. I think some of these expenses will start coming back as the economy opens. And we will also start investing or making investments that we had deferred out given our desire to conserve cash this past year. So, we expect the margins to be higher than what was typical before the pandemic year. We expect the margins to be in the 20% plus range for the Corporate business this coming year.

Ashish Agarwal: Got it, sir. But sir, on the growth front, given the fact we are already exiting at 14% annualized growth rate for the FY 2022, that would mean that even if we grew at 1% to 1.5% Q-o-Q, we will be closer to 20%, rather than on mid-teens?

Sapnesh Lalla: I didn't understand quite the math that you had. But like I pointed out, while the economy will open up, it will take time for the consumption of learning and development to start. When the economies open up and come out of recession, tere are a number of priorities that organizations spend money on before they get started to spend money on learning and development. By way of comparison, spend on IT starts head off spend on learning and development.

Ashish Agarwal: Right. Sir, my point was simply that we did Rs. 235 crores in this quarter, so even if I annualize that, that is close to Rs. 940 crores, and we have already done Rs. 825 crores last year in FY 2021, so that itself is a 14% growth rate, even if we don't grow quarter-on-quarter in FY 2022. So, that was the math which I was trying to do.

Sapnesh Lalla: Yes, I think you are referring to the comment I made about North American real-estate business that we participate in.

Ashish Agarwal: Right.

Sapnesh Lalla: Real-estate in North America is on a tear, as you may have noticed, over the last few months, predominantly because of COVID earnings because of COVID that folks have had which they want to reinvest in real-estate. My expectation is that, that market will normalize. It is not natural for the real-estate market to be on such a tear. It's likely that it will normalize. If it doesn't, yes, it's possible that we will grow at a higher pace. But my expectation is that, that market is likely to normalize over the course of this year.

Ashish Agarwal: Got it. And sir lastly, two things, on the Skills scale business. Is it fair to assume that it is out of the woods and we might see this business starting to show profitability on a yearly basis now?

Sapnesh Lalla: I think this business is on a path for growth. It will require us to continuously invest in that business for it to continue to be a path breaking digital business. It will see double-digit growth going forward. But it will take a little bit for profitability.

Ashish Agarwal: And lastly, any update on the monetization of the school's business?

Sapnesh Lalla: We have been in conversation with companies. As you might imagine, schools have been shut down for a fair part of this past year and likely to stay shut till India comes out of the grips of the virus. As soon as there is something to share, we will come back to you.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Just wanted to understand again on the margin expansion that the company has seen. And now going forward, we are expecting 20% plus EBITDA margins. Just wanted to get a sense, given the fact that the Corporate Learnings solutions business is going to going to have much higher, I mean, above 25% EBITDA margins, and that is going at significant pace. But on a blended basis, we are still expecting that 20% plus. So, just wanted to understand the conservatism in margin expectations going forward. That would be question number one. My second question is on…

Sapnesh Lalla: Let me pause you there because there were a couple of things that you mentioned, which were not quite what I had said. So, let's pause there, so that I can make some of the corrections in what you said. I expect that the Corporate business or at least I mentioned that the Corporate business is likely to grow in mid-teens to high-teens, not 25% that you mentioned but mid to high-teens, as I had mentioned earlier. And we are expecting the margin of the Corporate business to be in the 20% range.

Vimal Gohil: Fair enough. Okay. And how much of the normalization in margins going forward is going to be because of some of the travel costs, etc., coming back? And how much of that is going to be circular in nature going forward? And my second question would be, the corporate learning solutions industry as a whole, and maybe let me put it that way, your addressable market as such, how much is that growing at, how large is the market? Can you just quantify that for me?

Sapnesh Lalla: Okay. I think you asked two questions, let me see if I can phrase your first question. I think your question was, by how much are the expenses likely to grow because of normalization with respect to travel and other things? I think there are two dimensions to normalization of expenses. One is the travel and related expenses with respect to facilities owing to markets opening up, both globally as well as in India. The second is, like I pointed out earlier, investments that we had deferred starting to get made so that the business continues to get the oxygen that it deserves. And third, overall, organic investments and initiatives that are likely to help us perpetuate the growth trajectory that we are on. It's hard to quantify each one of them on this call but suffice it to say that we are planning to make significant investments to continue the growth trajectory that we have seen, continue to strengthen it. Like I pointed out, we have a global platform to build. We have new capabilities to build and new market segments to address with respect to our

Corporate business. And each of these activities will require investments, either in organic initiatives or inorganic initiatives. The investments in organic initiatives will affect the operating expenses and, therefore, EBITDA. So, from an overall perspective, the expenses will go up because of normalization of some of the activities as travel and related expenses come back, but also due to the investments that we have not made over the last one year.

Vimal Gohil: And sir, if you can just comment on the second question, the size, and the growth.

Sapnesh Lalla: Say the second question again.

Vimal Gohil: Yes. So, what would be the overall size of your addressable market in the Corporate Learning solutions?

Sapnesh Lalla: Addressable market and how it's growing?

Vimal Gohil: Yes.

Sapnesh Lalla: So, during the pandemic year, it's possible that the addressable market shrank because the consumption or the spend on training went down. But in the simple terms that I typically use to look at the addressable market size. If we look at our markets, its Fortune 1,000 companies who are significant in terms of their spend on learning and development. It is our estimate that only about 250 or so of Fortune 1,000 companies have outsourced their learning and development to a reasonable extent, not fully, but to a reasonable extent, or a material extent at this point in time. So, in terms of just the head room with respect to Fortune 1,000, there are a majority of companies still left who do not materially outsource learning and development. And then in the 25% or so who do, there is significant headroom in terms of how much they outsource. So, from an overall perspective, there is significant headroom.

Also, as you are probably aware, whenever an economy comes out of recession, outsourcing is a tool that they often use to transform themselves and start focusing on what's most important for the organization to grow and come out of slow growth rate as caused by the recession. We think that learning outsourcing will gain from that. It has gained in the past recession, and I think it will gain in this one as well, though learning outsourcing is second to IT outsourcing in terms of sequencing.

Vimal Gohil: Fair enough, sir. I have few more questions, but I think I will come back in the queue. Congratulations on a great year and all the best for FY 2022.

Moderator: Thank you. Next question is from the line of Vijay Sarda from Crescita Investment. Please go ahead.

Vijay Sarda: Congratulation on good set of numbers. Sir, just wanted to get two things. Basically, can you share in terms of the profile of the customer which industry we are getting in to in terms of how this mix is currently, like you said, this quarter the real estate has contributed significantly, so how is the mix of that revenue that is coming in CLG? And just secondly, coming to the inorganic growth point of view, what is the strategy going to be? Because currently we are sitting on a huge cash pile as you can see from the balance sheet. So, means if you look at the kind of inorganic initiative and all that, so what kind of company that we are looking at in terms of size and scale? Are we actively pursuing it or we are in process of doing so?

Sapnesh Lalla: Sure. Thanks. I think your first question was on the profile of our customers. Our customers come from a diverse set of profiles. A significant customer percentage is in technology, in oil & gas and energy, commodities, banking, financial services and insurance. And more recently in the area of life sciences. Those are our key customer segments. The real estate project that you mentioned is a large project that we undertook about three years ago and is starting to pay dividends. I think your second question was with respect to inorganic growth. In terms of the profile of organizations that you asked, I think from a Corporate business perspective, our goal is to improve our global platform to cover gaps that we might have in geographic coverage. There are gaps we have in Europe, there are gaps that we have in Latin America. Second, to look at increasing our or improving our capability set. And third, looking at new market segments that we can pursue our business in. Those are the three dimensions that we look at. We would be looking at mid-sized companies, we are not one to do inorganic for the sake of adding revenue. We like to look at an organic activity to build capability or to close geography gaps or to pursue new market segments.

Vijay Sarda: Okay. Sir, just the last thing in terms of the kind of investment in, as you said, in real-estate you started investing three years back. So, what kind of investment it is needed to get into particular sector? Because as you rightly said, we are getting into all kinds of sector like oil and gas, technology related. So, how this investment has to be done? And basically, if I look at the kind of depreciation, so it's some function of that only. So, we need to create a platform or course material or whatever. So, we need to invest on that. And that is what we are talking about, the investment apart from sales and marketing.

Sapnesh Lalla: That's one way of investing and that's the significant mechanism we use to invest on the real-estate project. The other way of looking at similar investment to get into market segments is an investment we made by acquiring Eagle Productivity Solutions I think about three years ago now. That was an acquisition to get us into life sciences as a segment. And when we made that acquisition, NIIT had only one NPS customer in life sciences. Over these past three years, because of that acquisition, we have been able to grow those number of managed training services customers to over 10 now, and they represent more than 15% of our revenue.

Vijay Sarda: Okay. Sir, just last question. How is basically the overall retention, basically repeat businesses as well as the new business? As you pointed out, there are so many companies which are yet to come up for this, basically, to outsource the training part of it. So, the companies that you have been working, how those companies have been growing along with you? And basically just wanted to get repeat business versus the new business, how is the mix for you currently?

Vijay Thadani: So, we have a very high track record of renewing our contracts with our managed training services customers. We haven't lost a contract over the last several years now. In terms of how our customers are growing, our customers are very large Fortune 200, Fortune 300 companies, several times our business with them is not necessarily aligned with their growth patterns. But what I can say is, our customers tend to be the top five or top seven of their categories. So, in oil and gas for example, our customers include organizations like Shell and BP and Equinor who are top oil and gas companies.

Vijay Sarda: Thanks a lot, sir. Thank you very much. And congratulations again on the good set of numbers.

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

Ganesh Shetty: Congratulations for great set of numbers. And also congratulations for new Board members coming into the Board, and I especially congratulate Mr. Sapnesh Lalla for his extraordinary achievement and elevation in the Board. I have been following NIIT for last so many years and I think a new NIIT is coming up now. And in this juncture, I just want to ask whether, apart from Corporate Learning business and Skill business, NIIT wants to enter into new area of business, can you please throw some light on that?

Sapnesh Lalla: Over the last few years our goal has been to create focus for this organization so that we can focus on doing a few things and doing them well and doing them at scale. I think we have achieved some scale with the Corporate business in terms of growth and investments, our focus is going to continue on Skills & Career business as well as Corporate business so that we can accelerate both. There is tremendous opportunity. Like I pointed out earlier for Corporate business, given the under penetration of learning outsourcing in Fortune 1,000, as well as for the Skills & Career business given the acceleration in digital transformation, there is significant opportunity for Skills & Career business. So, we would like to continue to focus on these two businesses and put them on a growth trajectory that is market leading.

Ganesh Shetty: So, my second question is regarding your Corporate Learning business, which is mostly concentrated in America. And are we looking for expanding it in the European region? Can you throw some light on this?

Sapnesh Lalla: It's actually split almost evenly across the United States and Europe. We have significant presence with our customers in Europe as well.

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

Shraddha Agarwal: Congratulations to the management for a great quarter. Sapnesh, just to probably dig a bit further on the margins question in the Corporate business. You said the work from home benefits under digital mode of education has been benefiting us. But this has been around for some quarters now. But what specifically changed between Q3 and Q4 for us to deliver a 500-bps margin expansion in just a quarter's time? So, was there any one-off in this quarter or what led to such a huge margin surprise? Because even last quarter we were thinking that probably we must have reached a peak in terms of margins and we then delivered margin improvement over that great numbers. So, really want to understand if there were some one-off, or what changed between the two quarters.

Sapnesh Lalla: We can consider it as a one-off. I think the leverage improved as the business grew, the revenue grew significantly on a quarter-on-quarter basis. Remember, Q4 is typically a flat quarter from a quarter-on-quarter perspective for the Corporate business. And given the growth that we had from a quarter-on-quarter perspective, we had improved leverage. Second, like I pointed out earlier, the real estate market is on a tear, and that caused the revenues to grow. And given the digital nature of that contract, it came in at significantly higher margins, which caused the bump up in the margins. Whether this is going to be a one-off phenomenon or not, time will tell in terms of confluence of these different dimensions, whether the real estate market will continue to be at the stage where it is today. Whether the pandemic will enable opening up of the economy opening up of travel and so on so forth. So, there are a confluence of factors which will determine the way forward.

Shraddha Agarwal: So, assuming this real-estate market continues to do well for the next two quarters, because there are no indications of this market slowing down at least immediately. Do you think then in that case, given it is a high margin business, in that case such a high 28%, 29% margin can be sustained for the next two quarters, if not beyond this?

Sapnesh Lalla: Probably. I mean, I won't hazard a guess, because like I pointed out, there is a confluence of factors, one is the real-estate market. Second is, as I pointed out to an earlier question about our investments and expenses to sustain growth rates. We have not made investments in the last one year, or maybe a little bit more than last one year, owing the uncertainties due to COVID. While COVID is still there, given the vaccination rates in the United States and Europe, we think that we are going to start making investments so that we can continue to provide the oxygen needed for the business to grow. And that will result into operating expenses increasing.

Shraddha Agarwal: Thanks for clarifying. And just another thing on the growth rate in the Corporate business. You said that spend on learning and development follows spend on IT. And FY 2022 is expected to be a great year for IT spend at least. In that sense, for us also FY 2022 will be a good year by the ramp-ups and deal signings. But with volumes and existing clients coming back and overall market looking better in terms of spends on L&D shaping up better in 2023, so you think 2023 growth rates could be similar to FY 2022 growth if not better for us?

Sapnesh Lalla: It's quite possible. Like I said, we are continuing to invest in sales and marketing and improving capability. And with markets opening up and organizations starting to invest in talent transformation and L&D, it's possible that consumption of training will increase and volumes will start coming back.

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

Rahul Jain: Congratulation on great execution throughout the year. My first question is, if you would like to share any outlook or colour on the SMC business, both in India and the international market? What are the three-to-five-year kinds of scalability potential and expected investment required here?

Vijay Thadani: Let me try to answer the first part of your question, which was, how do we see the Skills & Career business and what might be the trajectory of that business. In terms of opportunity, given the compression of the digital transformation cycle from multiple years to less than a year, because of the pandemic, the need for digital-ready talent has grown phenomenally. And I think that's really the opportunity for this business. This need for digital talent is going to be a secular need, it is going to last for many years going forward. So, the business has significant opportunity in front of it. Second, we have been able to transform this business to a digital business, which means we have significant ability to provide high quality outcome-based training to a large number of professionals as well as career seekers. And I think both professionals, working professionals who are part of companies today, as well as folks who are graduating out of college or graduating out of engineering college who are seeking employment are going to be looking at upgrading their skills to digital skills, either funded by corporations where they work or funded individually.

And so going back to opportunity, there is significant opportunity in that business. I look at that business now as an ed-tech business, it's likely to have the characteristics of an ed-tech business where we can expect to see strong growth trajectory over the next three to four years. We will have to fuel this growth trajectory through investments, both in the platform and digital forms of customer acquisition and customer engagement. So, I see strong growth trajectory for this business over the next three to four years. It is starting from a smaller base, but with the benefit of the platform that we have, which is highly scalable, as you see from the North American real-estate business, strong digital platform, very strong and trusted brand, I think, and strong opportunity in terms of shortage of digital skills. These three things gave us the impetus to invest in this business and take it to a growth trajectory that it is capable of.

Rahul Jain: Right. And any number you would like to give in terms of broad range of growth, and the expected investments for the same?

Sapnesh Lalla: I think the likely growth rate is going to be in the high 20s, mid 30s in terms of percentage growth rates for this business in this coming year. In terms of investments, I think it's going to take significant investments, we are not going to go into details of our investments. But just from a number perspective, while our CAPEX has been muted over the last year, our CAPEX is likely to be in the Rs. 50 crores to Rs. 60 crores range for this coming year.

Rahul Jain: That’s the total CAPEX?

Sapnesh Lalla: That's correct.

Rahul Jain: And just lastly on the different allocation and other efforts. Firstly, on the inorganic side, since it's been almost two years since we did the deal on the NIIT Tech hive off, we didn't do any inorganic investments. Is it more lack of scale operation because we are not able to identify or is it more about the valuations of these assets which we are not comfortable with?

Sapnesh Lalla: I don't think it has anything to do with the scale side of the comment that you made. The valuation has been hard during the pandemic year because many training companies globally have been affected by the pandemic and valuing them has been hard. However, we are continuing to be in conversations with a number of organizations who are potential targets. And we think that our good assets that are available. And as soon as things stabilize a little bit, we should be able to solidify some of these conversations.

Rahul Jain: Right. And I missed your comment on the schools part, which was earlier asked during the call. The reason we still probably distancing ourselves for more than 12 months, when we expect this to come through?

Sapnesh Lalla: I think, simply put, I don't know about you, but I haven't seen too many schools that are open at this point in time. So, I think, again, given the pandemic, schools are shut down and the activity from a school's perspective is not very high. So, as we mentioned earlier, it's an asset held for sale and we will continue to look for opportunities for that asset. And as and when a new opportunity shows up, we are able to solidify it, we will let you know.

Rahul Jain: And lastly, the annualized investment in terms of loss filling or anything that we expect in this business, assuming it stays for full year of FY 2022?

Sapnesh Lalla: Not very significant.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: Sir, what percentage of the Corporate businesses are accounted by real-estate now, I mean, the last quarter?

Sapnesh Lalla: Like I pointed out earlier, and I will continue to point out, we do not provide numbers in terms of what percentage of our business is with a particular customers and I will just repeat that same thing. It is sensitive information, and it is under non-disclosure. So, we don't talk about specific numbers for specific customers.

Vijay Thadani: Plus, I must clarify. This is training for realtors, it's not in real-estate business.

Sapnesh Lalla: Yes, we are not in the properties business, we are continuing to be in the training business.

Vijay Thadani: And that's the only business we are in by the way.

Jay Daniel: And from your commentary, would it be correct to surmise that this particular quarter would not be essentially replicable going forward in the next two, three quarters?

Sapnesh Lalla: I would say things will normalize and our investments will start. So, there are a confluence of factors which will affect quarters going forward. This is, as I pointed out, at the start of our call, is an exceptional quarter.

Jay Daniel: And what is the cash which is available post the buyback?

Sanjay Mal: Rs. 1,368.9 crores as on 31st March, and you can reduce Rs. 300 crores further.

Jay Daniel: So, around Rs. 1,000 crores.

Sanjay Mal: Yes, Rs. 1,000 crores plus.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Vijay Thadani: Well, I thank you very much. This was a very engaging conversation and I thank you very much for thinking through it and asking us some very searching questions. As usual, we find these discussions extremely enriching and educative and they help us reflect on some of the actions that we might have taken. I see there is a lot of interest in both the Corporate Learning business as well as the Skills & Careers which is going for a massive transformation. And I am sure there will be more opportunities to discuss this incoming times.

In case anyone of you are wanting a more detailed conversation on any of these subjects, you may reach out to Kapil, and then Kapil will organize to have a more intense and focused conversation on any of the subjects. So, I thank you for being on the call, for all your support, for all your guidance and all the nice questions you ask us each time. So, wishing you all the best and hope you will stay safe and healthy. And that's a very important requirement in current times. 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.