"NIIT Limited Q4 FY22 Earnings Conference Call"

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MANAGEMENT: MR. VIJAY THADANI – MD & VICE CHAIRMAN
MR. SAPNESH LALLA – CEO & EXECUTIVE DIRECTOR
MR SANJAY MAL – CHIEF FINANCIAL OFFICER
MR. KAPIL SAURABH – INVESTOR RELATIONS & M&A

Moderator: Ladies and gentlemen, good day and welcome to the NIIT Limited Quarter 4 and FY22 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – Managing Director and Vice Chairman of NIIT Limited. Thank you and over to you, Sir.

Vijay Thadani: Thank you. Good afternoon to all of you, also good morning or good evening in case you are joining from international locations. First of all, thank you very much for joining this call today and your presence here means a lot to us because you decided to give time to guide us and to give us feedback.

This call is to discuss the business performance for quarter four, as well as the full financial year ending March 31st, 2022, of NIIT Limited. I am requesting Sapnesh to first provide an update and before he does that, I would also like to just set the context.

So, first of all, I would like to believe, or I would like to inform that the financial year ending March 31st, 2022, has indeed been a milestone year for NIIT. There have been a number of important milestones crossed. First, NIIT completed 40 years of operations and in these 40 years has touched nearly 40 million people. The second, one of the better years in terms of financial performance as well as in terms of customer addition, inorganic expansion, partner addition, new business models, peer recognition and, of course, ending the year with the beginning of the reorganization journey that we embarked on.

The strong results that we will share with you are in terms of revenue growth and profitability and they are also a testimony to NIITs resilience, sustainability, ability to transform, to remain relevant and the brand trust that we have built in the markets that we service over the last four decades. The results also reflect the sharp transformation that we have achieved over the last couple of years, defined and driven by the agile and decisive actions, the depth and breadth of our experience in learning technologies and the strong execution capability that the company has displayed.

So, we started the year by investing in the growth agenda and in talent which has become the top priority for every corporation. To describe to you the journey of the year as well as where we stand right now in terms of our readiness for the future, I would now request Sapnesh Lalla – CEO and Executive Director to share the initial brief.

I may also mention that we are joined here in today's call by our Chairman – Mr. Rajendra Singh Pawar and my other colleagues, Mr. P. Rajendran – the Joint Managing Director and Executive Director, Mr. Sapnesh Lalla – the CEO, Mr. Kapil Saurabh, who looks after the Investor Relations & M&A, and Mr. Uday Singh – the Chief Strategy Officer as well as Mr. Deepak Bansal, who is the Company Secretary. And we would all be very happy to entertain questions as well as answer then to the best of our abilities at the end of the initial brief. So, with that over to Sapnesh.

Sapnesh Lalla: Thanks, Vijay and thanks everyone for joining this call. Please note that based on the proposed reorganization of the company, the residual school's business which was earlier classified as an asset held for sale is now classified as a business with continuing operations. And therefore, the financials have been consolidated in the current as well as previous quarters for like-to-like comparison.

With that out of the way, let me start to give you the overall highlights for both quarter four as well as the financial year 22. In quarter four, NIIT's revenue stood at INR 3,750 million and it was up 35% year-on-year. Both the corporate learning group, as well as the SNC businesses have achieved robust growth on a year-on-year basis ahead of our expectations and I will cover this in more detail later on in my presentation.

The revenue was down 3% on a quarter-on-quarter basis given that quarter four is a traditionally low quarter for NIIT, both for CLG as well as SNC. Excluding the RPS acquisition which was consummated on 1st of October of 21, that revenue was Rs. 3,460 million and organically the business was up 24% YoY. The EBITDA was at 372 million up 6% year-on-year. The tax was negative Rs. 14 million for the quarter. This includes a net tax benefit of approximately Rs. 180 million arising on the planned completion of voluntary liquidation of NYJL during the quarter. The profit after tax was at Rs. 674 million resulting in an EPS of Rs. 5 versus Rs. 3.30 last year. The EPS is up 53% year-on-year.

Overall, for the fiscal year 22, the revenue was at Rs. 13,775 million and that was up 44% year-on-year. Excluding the RPS acquisition, the revenue was Rs. 13,183 million and that was up 24% year-on-year on an organic basis. The EBITDA was Rs. 2,999 million up 82% year-on-year. The profit after tax was Rs. 2,262 million resulting in an EPS of Rs. 16.8 versus Rs. 10.1 the previous year. Please note also that the EPS includes the impact of the buyback of 9.875 million shares completed earlier this year.

Looking at the corporate learning group, we are continuing to disproportionately invest in new capabilities, new markets, and in expanding sales and marketing to achieve higher market access. Our investments are enabling us to accelerate deal velocity and scale delivery capability globally. During the year we added 16 new MTS customers and increased our revenue visibility to $328 million.

As shared earlier during the year, we started investing in entering the higher education vertical in the United States. While it's still early days, we have strong traction with two large public universities in the United States. We expect to accelerate the deal velocity in this vertical in FY23 and expect this vertical to be a material contributor to our revenues in the year FY24.

In Q4, for the corporate learning group, the revenues stood at Rs. 2,957 million and that was up 24% year-on-year. In constant currency, the revenue was up 23% YoY and flat on a QoQ basis.

Despite the seasonality, the business stayed strong in Q4. The EBITDA was Rs. 716 million. The EBITDA margin was 24%. It was down 37 basis points on a QoQ basis. As guided earlier, the margin was down QoQ driven predominantly based on investments and transition of the multiple new customers that we have acquired this past quarter as well as overall in the second half of the year.

The second part was the planned ramp up as guided and expenditure in sales and marketing, as well as to some extent the partial resumption of travel and premises related costs due to the opening up of the economy. Our investments are continuing to help us add and scale contracts, both existing as well as with new customers. During Q4 the corporate learning group signed three new MTS customers, all three of them in the life sciences segment, and one out of those three in the biotechnology manufacturing segment. So, we continue to expand our reach and breadth in the life sciences segment. We also expanded two existing contracts, one with a large technology company, and the second with a large global GSI. We also continue to maintain a 100% renewal track record by extending all contracts that came up for renewal this quarter.

Now overall, the managed training services customers tally stands at 66. So, overall strong order wins ensuring revenue visibility to be at $328 million At the end of the year. For the full year, the corporate learning group recorded a growth of 35% achieved an EBITDA of 2,989 million, which was up 68% on a year-on-year basis. The EBITDA margins were 26% and that was up 508 basis points on a year-on-year basis.

Growth and margins over the last two years have been robust and have been ahead of our guided range. As I had mentioned earlier, the consumption of our services with existing customers had dropped during the pandemic over this past year, the consumption while still at lower levels has stabilized and most of the growth that we have seen has been a result of proactive investments in sales and marketing and new capabilities which have helped us gain new customers as well as grow our business with our existing customers.

Growth has, like I mentioned, come through addition of new customers as well as the expansion in share of wallet with our existing customers. More recently, and I am sure you see it in the news, while there has been an increase in uncertainty in the environment, however, in terms of our preparedness and capability set, we are confident more confident than before in our ability to execute. We are doubling down on our investments and planning for the earlier guided 20% growth, 20% profit trajectory. Given the massive uncertainty in the environment, there may be some variations in this, which we would update you from time to time. The year has started well, and we expect to achieve a 5% quarter-on-quarter growth in the corporate business in the first quarter of this year.

In our skills and career business, quarter four is, as I mentioned earlier, a seasonally low quarter. In spite of that, the revenue for the quarter was a strong 793 million. It was up 97% year-on-year. Excluding the acquisition of RPS, the revenue was 503 million, and that was up 25% year-on-year. For the year for SNC, the revenue was at 2,465 million, and that was up 99% year-on-year. Organic growth was up 51% year-on-year. This business has shown smart recovery over

FY21 and is now on a robust growth trajectory. The EBITDA was a positive 10 million as compared to a loss of 132 million the previous year, despite the increased investments in our digital learning offerings. As stated earlier, we see this business as a strong digital learning platform across domains for both career seekers, as well as working professionals. The addition of RPS consulting has reinforced and further strengthened our offerings, both for the early careers, as well as the working professionals. The business provides, the RPS business, as I have mentioned earlier, provides training in the emerging digital technologies to working professionals, a segment which is seeing strong demand due to digital transformation across key businesses in India.

Given that we see a multi-year growth cycle in demand for digital talent, as businesses increase adoption of digital services to service their customers globally. Given the large opportunity, we have accelerated investments in the SNC business, which has helped us lift the revenue run rate. Between StackRoute, RPS and the enterprise business, we have a strong coverage of the global system integrators who are the enablers of digital transformation globally, the global capability centers who are early adopters of digital, as well as leading Indian enterprises who have started their journey on the path of digital transformation. We now have a range of offerings that cover key aspects of digital transformation, including 5G, cloud technologies, cybersecurity, game development, data science, AI, ML, full stack product engineering, as well as key programs in digital marketing. NIIT has contributed to the growth of IT industry over the last 40 years as you might be aware and continues to help the industry deal with its talent shortage. In FY22 the company trained and onboarded nearly 10% of the fresh IT graduates into the IT industry. A flagship offering StackRoute and TPaaS continue to deliver strong growth for the year FY22. StackRoute and TPaaS grew at 137% year-on-year and contributed 41% of the overall SNC revenues.

Our balance sheet continues to be strong. The cash position improved quarter-on-quarter by Rs. 258 million to Rs. 12,525 million versus Rs. 12,266 million at the end of previous quarter. Please note that this is despite the payout of about INR 400 million towards the interim dividend announced and paid during the fourth quarter. Our days of sales outstanding were at 48 days as of March 31st and this is as compared to 57 last quarter and 55 at the end of previous year. The operating cashflow in Q4 was at Rs. 747 million and free cashflow was at Rs. 627 million.

As of March 31, 2022, we had 3,104 NIIT-ians and that is up 272 on a quarter-on-quarter basis, as well as up 503 on a year-on-year basis. Overall, we continue to believe that we have a tremendous opportunity ahead of us, both in the corporate learning group, as well as in the SNC business. For the corporate learning group, global corporate training is, and is a growing $400 billion market and it has grown significantly on a year-on-year basis. NIIT has established a strong right to win with significant differentiation and value creation for its customers, both in terms of effectiveness and efficiency of learning. Consistent growth and strong margins and an asset light high ROCE model has helped us deliver strong results and strong growth over the last couple of years and we continue to aspire to stay on this growth journey.

For the SNC business, training for digital skills in India represents a $15-$20 billion opportunity. NIIT has been a top provider of technology training to both individuals as well as enterprises over the last 40 years and we hope to consolidate our position among the top providers of technology training in India. We have an opportunity to establish leadership position in digital learning and establish NIIT as the number one choice for both career seekers, as well as working professionals.

With that, I'll hand it over back to Vijay to give you a quick update on the reorganization.

Vijay Thadani: Thank you, Sapnesh. So, as we had shared last quarter regarding the special committee appointed by the board that noted that to address the next phase of growth in CLG and skills and careers, it is imperative that target customers get undivided attention, differentiation focus and peer positioning. Also, businesses need agility, independent decision-making and capital allocation tied to value creation for our customers. NIIT has the necessary capital to support the growth ambitions of each of the two businesses and therefore creating two independently run businesses with significant growth capital will propel both CLG and SNC to realize the true potential that Sapnesh just shared. So, based on this, the special committee had recommended creating two independent entities and maximize their potential. Based on the recommendations of this special committee and advice from the experts engaged in the process, the board of the company had approved the reorganization of corporate learning business as an independent company separately listed on the stock exchanges, all assets, resources, contracts investments, including the subsidiary companies that form part of the CLG business would be transferred and vested into the NIIT's wholly owned subsidiary NIIT Learning Systems Limited. This would result in a vertical split of NIIT Limited and post the reorganization, NIIT Limited would run and operate the skills and careers business, and NLSL that is, NIIT Learning Services Limited would run and operate the CLG business. The shareholding of NLSL will be an exact mirror copy for our shareholders with every shareholder getting one share of NLSL for every one share of NIIT held by them. And post this reorganization NLSL shares would also get listed on Bombay Stock Exchange as well as National Stock Exchange. This reorganization is under Section 230-232 of the Company's Act through a composite scheme of arrangement which is subject to approval by shareholders, creditors and customary approvals from various regulatory bodies. And it was expected to take 12 to 18 months to complete. I, along with the management team are excited about this reorganization and believe that we can create significant value for the shareholders, customers and employees of both the companies. At this point of time, the company has taken the planned appointed date of the reorganization as April 1, 2022 and post the approval process that it is currently undergoing with the Bombay Stock Exchange, National Stock Exchange and SEBI, the next set of steps would be taken with the National Company Law Tribunal, which is NCLT. And once the approval of NCLT is obtained, the reorganization would be deemed to have been happened from the appointed date, which is April 1, 2022. So, at this point of time, we are in that phase and would keep our shareholders and investors posted on the progress in this matter in every quarterly result or in between the two results, if there is a significant development accordingly we inform the investors.

So, we are at this point of time, and I would now like to open this discussion for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Given the pending demerger have the domestic skills and services group begun to adopt a different go-to-market approach than that was perhaps different to earlier days? And importantly, how should we view the profitability of this vertical and organically what kind of growth rates are you looking at here?

Vijay Thadani: Thank you, Baidik. I will ask Sapnesh to answer this question.

Sapnesh Lalla: Thanks, Baidik for that question. I think from an overall perspective for our India business, we have a dual go-to-market which addresses two segments, both the early career segment, as well as the working professional segment and we address the working professional segment through our enterprise go-to-market. We address the early career segment, both through our enterprise go-to-market as well as our B2C go-to-market and our overall strategy is to expand the B2C, go-to-market to address working professionals as well over time. In terms of our growth, we are continuing to invest as I have pointed out earlier, continuing to invest in both go-to-market strategies and expect to have strong double-digit growth. Last year as I had pointed out we grew at more than almost 99% on a year-on-year basis and we expect to have a strong growth of over 50% in this coming year as well. In terms of profitability, we expect the investments to continue, and we will have either a breakeven or a small profit for the year 23. I think one part of your question was around organic growth for this past year. The organic growth for the past year was approximately 50% for the SNC business.

Baidik Sarkar: Sapnesh, thanks for that. Your comment on disproportionate investment in the market access in the corporate learning business, could you flesh that out better. And your thoughts on deal velocity for FY23, right? You sounded very upbeat. What are the lead indicators suggesting are right to success here?

Sapnesh Lalla: I think as you may have noticed over the last two years, we have seen accelerating deal velocity and this acceleration and deal velocity was the result of continuing investments or disproportionate investments in sales and marketing over the last five years. And I think given the environment and the success we have had; we would like to continue to increase these investments. About three and a half, four years ago, we started investing significantly in the life sciences segment from a sales and marketing perspective and that segment now is approximately 15% of our business. Earlier this year, we started investing in the higher education segment and we expect that segment to start contributing materially from FY24 onwards. So, we continuously have a track record of investing ahead of time in sales and marketing so that we can accelerate growth. In SNC as well, we have been investing disproportionately in sales and marketing, and you have seen some impact of that in the profitability in SNC. But I think from an overall perspective, that's part of the strategy to establish NIIT as the first choice, not just for our enterprise customers globally, but for our skills and career customers in India as well.

Baidik Sarkar: So, you said 20% growth and 20% profit trajectory, Sapnesh. Do you reckon that from this year FY23? Because if our margin sustained even at 24% in this segment, I am not sure how the numbers will add up at the bottom-line level. I am just alluding to your guidance of 20% profit growth in CLG.

Sapnesh Lalla: Like I pointed out, we are investing significantly for entry and expansion in the higher education segment. We have already had traction with two large public universities and obviously to stand up a go-to-market team costs a fair bit of money and that's really the difference. To some extent, the difference is also because of the inflation in overall cost. Predominantly people costs, as well as the opening up in terms of premises costs as well as travel related expenses in FY23.

Baidik Sarkar: We would still be in a position to end 23 at 20% higher than last year earnings, is that what you meant? Did I get you right there?

Sapnesh Lalla: I think I said that we would be able to end the year with 20% growth at 20% margin.

Baidik Sarkar: Alright, thank you very much and my best wishes.

Vijay Thadani: I think Baidik, one more thing which I would like to point out is I think both the businesses have a certain degree of seasonality across quarters. So, you should not read 20% to mean 20% across the year, because last two years are not, have not been typical years and in the coming year, once more and more time, while we believe that end of the year the growth will be…we are aiming for 20% growth and 20% EBITDA. The profile that it will follow across quarters may vary. And second is also growth year over year versus last four quarters may also vary given the peculiarities of last year, as well as the seasonality which is very relevant in the coming years. So, you would like to check the past track record of our quarterly performances, you would be able to correlate with that.

Sapnesh Lalla: I would also say that there is significant environmental uncertainty and as the situation changes, if we see any changes we will of course, come back to you.

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

Siddharth Bassi: I have been a long-term investor in NIIT, and it has made substantial wealth for me. So, thank you for that. Just going on to the future term. When we are talking about growing the SNC business and disproportionate investments, could you give us more data on the same like what do you mean exactly by disproportionate investments in terms of quantum? Secondly, with respect to the demerger or rather with respect to the split of companies into two, there would be significant, I am assuming real estate assets as well. Could you give us the valuation of the same? And secondly, while taking this decision the board would have come across certain numbers in terms of valuations of either companies on a standalone basis which would obviously be greater than the valuation of NIIT right now as it stands. So, would you be in a position to share the sum of the parts valuation so that there's less information asymmetry in the market because different individuals seem to have different numbers for the same? And thirdly, in a market in the US, which is talking about recession, how do you see training as a skillset being prioritized where NIIT will then have an opportunity to grow and maintain margins. Thank you so much.

Vijay Thadani: Siddharth, first of all, thank you very much for your very kind words in the beginning. I think it's a great source of encouragement for the team. Second, I have to compliment you on very deep understanding of our businesses. So, indeed you are, have been studying this company for long. I'll request Sapnesh to answer some of these questions for you and if there is any left, then I'll chip in.

Sapnesh Lalla: Sure. I think I'll try to start with your third question first and that was I think around how do I see recession playing out as far as our corporate business or the business overall is concerned? I think from an overall perspective in the medium term, every recession has resulted into increased propensity to outsource, and that is really a result of most organizations trying to focus on what is core to them and then work with specialists to do what might not be core to them. For most of our enterprise customers and prospective customers, training is not a core business that they are in. Our customers tend to be in the technology space, in the telecom space, in the banking space, financial services, insurance, energy, for all of these organizations, training is not core to their business. They do it because they are good at it. They have done it all along, but they also feel that they are a reliable source for training their own people. As our customers would testify, our customers find in NIIT a reliable organization who they can trust to deliver as well as themselves, if not better on their training needs. And I think as the propensity of corporations increases in terms of outsourcing as they start focusing more and more on their core services, NIIT will have an increasing ride to win given how well we have done with our existing customers. So that's really my take on recession. Now in the short term, we might see headwinds as organizations look at optimizing their spends overall, but in the long-term, across the last two or three recessions that I have had to participate in or have experienced, we have seen an increased propensity to outsource. I think you had a couple of other questions. I think one of your questions was how would we value the two organizations separately? I think that's really for your community to decide rather than for me to put a price on the organization. I think it's going to be in the eye of the beholder. What I think we will continue to really execute on is to do our best to create value for our customers and to have as much growth, as much profit and do all of that to the highest standards in terms of ethics. That's what we will guarantee, and I think if we do that for our customers, growth will come, and our customers and our shareholders will value us for that. So, that's really my take on it. I am not the one to value. I think it's going to be in the eye of the beholder.

Siddharth Bassi: But I am sure when you are splitting the company into two, there's an SOTP I'm sure that comes at your desk since individual investors often don't get to know as much data as institutions or larger investors. Just in the interest of fairness if it's possible the research numbers have come across to you if you could share those? Secondly, in terms of other assets as the company may own, how would you value those and how are you valuing them at this point of time and which company are we putting them in?

Vijay Thadani: So, let me try to solve mention this. First of all, there is no information is symmetry between what a large institutional norm I and you know. Everybody has the same information, by law we are mandated and as a practice we have done so from day one. Whatever data that is available and we do not like to create a speculative practice and speculation around what the price might be. It will be very, very unfair. I think our job is to ensure that we create value for our customers, our actions result in there paying us and that creates value for our shareholders. How the shareholders' value that is visible in the way. Now for comparison's sake, typically the CLG business gets valued versus the service outsourcing companies like IT outsourcing companies and given the unique position we are in typically we believe statistically that we get valued at a premium to our equal sized companies, the same sized companies that is just experience and nothing and I'm not adding data to that. As far as the Skills and Career businesses is concerned, they get valued more like the companies of similar nature which are there not too many of them are listed, but from private valuations and whatever other methods that we figure that are there, you could think of comparative valuation, but please take back as my guidance we are not here to guide you on how the valuations will be. What we can tell you is what the company strategy will be in terms of the business. The third element of the question that you had was assets that the company has, both businesses have their assets clearly marked out because a) many of them are in different geographies and even the soft or the hard assets are clearly marked. Having said that there are common soft assets and both entities will have access to those soft assets. In terms of the real estate the company has never been, has been an asset like and does not have a lot of real estate, but real estate whatever there exists at this point of time in this part of the world would remain with NIIT Ltd. That's what is mentioned in the scheme of arrangement and that is shared with everyone.

Participant: Absolutely. Thank you so much for the opportunity. I must say NIIT, and its management has always been transparent and great, and I've had a great journey with this company for the last four years. I mentioned the stock prices ever since the 70s levels. I hope to see it to go to 10,000 and still be riding on it. This is a shout out to Mr. Kapil Saurabh as well yesterday, I had issues in terms of being able to get to the call and he was very prompt in resolving my issues. Thank you so much. Thank you so much for all your answers and keep up the good work. Thank you so much.

Vijay Thadani: Your comments made mean a lot to us. Thank you very much.

Moderator: The next question is from the line of Priti Panchal an individual investor, please go ahead.

Priti Panchal: My question is regarding employee benefit expenses. In the Quarter 4 the employee benefit expenses has reduced, whereas in the presentation it is mentioned that the employee numbers are increasing. I just wondered to understand the contradiction between these two.

Vijay Thadani: Employee benefit expenses, have you read those from the published? Are you reading standalone results or are you reading or consolidated?

Priti Panchal: Both? It is reducing in both.

Vijay Thadani: Okay. We will just handle the question because typically we have a summary sheet in front of us, but we will get you an answer to that question.

Priti Panchal: No problem. Thank you.

Moderator: The next question is from the line of Harshil Shethiya from AUM Fund Advisors LLP, please go ahead.

Harshil Shethiya: I want to clarify on the previous participant's questions, when you have already guided with revenue guidance of 20% and EBITDA margin guidance of 20%. Does that mean that going ahead, that there will be an EBITDA de-growth going into FY2 for the CLG business?

Sapnesh Lalla: Like I pointed out the EBITDA we are guiding at about 20% predominantly on account of the following, number one, additional investments in sales and marketing and second, we are also going to see, or we are anticipating travel and premises costs to resume. And that's the reason for the guidance.

Harshil Shethiya: That is just for the CLG business, not the company as a whole, correct?

Sapnesh Lalla: That's correct.

Harshil Shethiya: Which means that your EBITDA on an approximate estimate would be around Rs. 270 crores for the next year assuming that Skills and Career business remains flat at 0%.

Sapnesh Lalla: Give or take yes. That is the numbers we just gave you that's the mark, add exchange variations to that and then again like I pointed out earlier, we are in an uncertain environment at this point in time. In case we see any uncertainties in our business we will come back to you.

Harshil Shethiya: Okay, so Rs, 300 crores approximately Rs,299 crores EBITDA will be Rs. 270 crores going ahead for the next year, and I have a second question. Earlier we were of the view that we were hiring off the school's business. What changed that now we are clubbing it with the CLG business?

Sapnesh Lalla: I think from an overall perspective, that business is less than half a percent of our overall business and from a materiality perspective, it is insignificant. Like we pointed out earlier, the CLG businesses is being merged into that entity.

Harshil Shethiya: So, are we planning to add further resources in the school's business?

Sapnesh Lalla: Like I pointed out earlier, we stopped taking on new contracts. We have some existing contracts, which we are servicing as promised to our customers and we will continue to service those contracts till those contracts stay in force.

Moderator: The next question is from the line of Srinath M from Motilal Oswal AMC, please go ahead.

Srinath M: Just one or two questions, if I read the exchange release dividend was one of the agenda of today's Board meeting but there's no mention of final dividend or any such thing? Any clarification on that?

Vijay Thadani: I will respond if you were there in last board meeting or last call, then I would like to remind that in quarter three, the company had given an interim dividend and that was given in line along with the statement, which is in the transcript also saying that given that the company will be in the next 12 months in the period of restructuring or reorganization and the scheme of arrangement is in force, the board felt that it will be prudent to consider any dividend only after completion of the scheme of arrangement otherwise there'll be technical difficulties in figuring out how to split that between the two companies.

Srinath M: A related question is…

Vijay Thadani: We had guided that the next dividend would therefore be considered at the end of the scheme of arraignment by the two companies each individually and that will be the more prudent thing to do and to that extent therefore there was no announcement of dividend this time.

Srinath M: The related question is on the cash balances, which is actually deflating our return ratios. The two hand-in-hand actually they could have reduced the cash balances and improve our return ratios and also the second point is I remember having read that the cash is going to be equally divided between the two companies you spoke of other assets, bought the cash which is at around I think Rs. 1200 crores is going to be equally divided between the two companies, is that reading right?

Vijay Thadani: No, your reading is wrong. We had actually shared that about Rs. 500 crores would be given to the NIIT Learning Services Ltd., and the balance would be with NIIT Ltd. would remain with NIIT Ltd. We had also explained that rationale that the NIIT Learning Services Limited, which is the CLG business, is a cash generating business and at this point of time, this would be sufficient to look after their growth ambitions as well as the needs that they have from time to time. On the other hand, NIIT Ltd is an investment cycle right now and there would be cash in the short and medium term before it starts generating enough cash to look after its own ambition. That is as far as the cash division was concerned. I would also like to comment that while the return ratios in short-term may appear the way they are and you are right. But I think given the uncertainty in the environment and a very specific inorganic growth plan that the company is embarked on, of which one action happened in the second part of last year, I think this cash in the kitty will create a state of readiness for both businesses. We'll look at appropriate opportunities and take advantage of them. We believe that at this point of time, having cash in the balance sheet is actually a very strong positive for the company. I must also mention that many of our customers look at the financial stability of the company in these uncertain and volatile times, before they would consider us for the award of the contract, including one very recent one, which we got two quarters ago, where I think the financial due diligence was to look at the financial stability and they were greatly comforted by the fact that we had sufficient cash to handle any ups and downs in the environment.

Moderator: Next question is from the line of Sahil Sharma an individual investor, please go ahead.

Sahil Sharma: I was asking that S&C business as far as we understand it as outside investors this is a very crowded or with a highly competitive intensity kind of space right now, a lot of competition from PE funded startups as well. What I wanted to understand is that on the S&C side, like what is the strategy for NIIT that differentiates our offering to our customers?

Vijay Thadani: I will ask Sapnesh to answer that.

Sapnesh Lalla: Thanks. And thanks for a very good question. I think the most fundamental thing that differentiates us is the same that has differentiated us over the last 40 years. It is our ability to use technology, learning pedagogy and learning design to ensure that the learning outcomes that our students aspire for are actually created. That is really why NIIT's brand holds the trust of its students while I would agree that the market is crowded. There are many organizations who offer all types of training programs, but I think what we are proud about is our ability to deliver the outcomes that corporations and employers very specifically valued. That is seen by the testament that the students who graduate from NIIT are often able to get jobs that pay twice as much as the students who got jobs directly placed from campus. It's that brand trust that we have earned over the last 40 years, which is driven by the pedagogy, the technology, the design that we use that ensures that the outcomes that we promise in our training programs actually get delivered and the students who graduate have the skills to be able to perform the day they start working.

Sahil Sharma: Okay. Thank you for that. I also wanted to understand in terms of the CLG business, you have mentioned that one of the previous conference calls that we have 30% deal win rate and in a separate conference call you have also mentioned that actually capture the market share has accelerated in the COVID period. What I'm trying to understand is that what is the rationale behind the higher sales and marketing spend in the subsequent quarters, given that you're already doing very well in terms of capturing the deals and gaining market share?

Sapnesh Lalla: I think that's an excellent question. I think I pointed out often on these calls that the learning outsourcing market is a significantly under penetrated market at this point in time, fewer than 25% of the companies in the Fortune 1000 outsource appreciably and so we have very significant headroom. I think given the fact that we are doing better than competition, it is only upon us to invest and ensure that we create distance between NIIT and competition and gain higher market share in the shortest period of time. That's really the reason for disproportionate investment in sales and marketing, as well as creation of new and expanded capabilities.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital, please go ahead.

Deepak Poddar: I wanted to understand specifically on S&C segment. Now we did speak, I think we are looking revenue to grow around 50% and maybe a small break even or profit this year FY23. I just wanted to understand the next three to four years, how you see the trajectory for S&C segment EBITDA margin?

Sapnesh Lalla: I think over time we expect high teens to almost 20% margin. We have guided that this business has the opportunity to grow 5x over the next five years. As the business accelerates and reaches a critical mass, we expect the margins to go into high teens and overtime into the 20% range.

Deepak Poddar: High teens and the next one to two years, I think in the fourth quarter we were at about 2% EBITDA margin, right? I believe that one should envisage that this margin percentage should keep on increasing in the next one to two years as well.

Sapnesh Lalla: I think what I've said is that we expect to either we are just about breakeven on the EBITDA margin for the S&C business like Vijay also pointed out that's a business, that's an investment cycle at this point in time. We expect that the margins will be just about breakeven or thereabouts.

Deepak Poddar: Understood. My second query is on your demerger. I just wanted to understand that in terms of demerger, is there any cost angle, that there was some synergies that we were getting on this combined entity and because of the demerger that synergy will go away, or it will add some duplication of that some costs. Any kind of comment on those lines would be helpful?

Sapnesh Lalla: I think, you may have heard this when the scheme was announced as well. The two businesses are significantly separate, but they are joined by our culture and our ethos and our brand. As we separate the two businesses, we will have some additional costs with respect to overheads in terms of HR or finance and so on and so forth. But outside of that, the business-related expenses are significantly separate.

Vijay Thadani: I think most of the synergies or the common resources that Sapnesh had are more of the soft nature. I think there the management teams, which will go to each side, will carry that tradition and culture forward. What we see is a significant upside versus the small costs that may be there in short-term. Independence, agile decision-making and investment capability will create significantly more value for our customers as compared to the marginal increase in costs.

Deepak Poddar: That's great.

Vijay Thadani: Operator, I did want to have Mr. Sanjay Mal – CFO to answer the lady's question on employee benefits.

Sanjay Mal: There's a question that in Quarter 3, this Q4 versus previous quarter, there has been a decrease in employee benefit expenses. This is around Rs. 22 million as you would see from the results. This is primarily on true up of provisioning in relation to actual valuations on leave and leave benefits and gratuity benefits. As we all know that the interest rates have basically gone up and the discount rates are accordingly factored, which leads to basically a lower provisioning in this quarter. Of course, there has been a net addition which has also had the impact of a net addition of people which has had the impact of higher costs. The net impact basically is about Rs. 22 million after truing up of the provisions on account of provisions in leave, gratuity and related expenses and the addition into the number of people every year.

Vijay Thadani: This happens every year. This true up is done every year at this point of time and that is what has happened. That's part of that, is that the last question? There are five people waiting for questions. So, operator can we stop at these five questions because we already well past the time, but definitely we would like to answer each one of them, we can answer one question each please.

Moderator: We would request the participants to limit your questions to one at a time. The next question is from the line of Ashish Kacholia from Lucky Investment Managers, please go ahead.

Ashish Kacholia: My question pertains to the opportunity size for the S&C business that you mentioned. Did I hear correctly that you said it's a $15 billion opportunity?

Sapnesh Lalla: That's true. It's a $15 to $20 billion opportunity.

Ashish Kacholia: Any thoughts that you can share the logic of this $15 to $20 billion?

Sapnesh Lalla: I'll start with the fact that there are 5 million people who work in the IT industry and every year the IT industry adds an additional this year, they've added an additional 450,000, other years they've added about 250 sometimes 300,000 people, but that's just the IT industry, from an overall perspective India graduates about 6 million or 6.5 million students each year. From an early career perspective, if you look at two years and assuming that only about 10% to 15% of those graduates get jobs straight out of campus, just in the early career segment, we have an opportunity to educate approximately five and a half million people and help them get the aspirational jobs that they're looking for. If you go beyond that, to people who are working adults, like I pointed out about 5 million people work just in the IT industry, approximately one and a half to 2 million people work in the banking industry and then significantly higher numbers in India enterprises. Given all of that I think we have a very strong opportunity ahead of us given the routes that digital transformation has already taken and the acceleration of digital transformation, not just with GSIs and GCCs, but spreading across Indian enterprises as well. I was at a meeting about three weeks ago with among the largest search companies. I'll just not name the company. From their point of view, they said that digital literacy is going to be equal to literacy in citizen programming literacy in data and literacy in cyber security. So, if you look ahead, every person who's a working adult, they will have to be literate about digital technologies. I think that will only accelerate the opportunity set that I just described.

Ashish Kacholia: Of this $15 to $20 billion, how much do we think we are already kind of addressing as a market or as capabilities and going forward how do you see that?

Sapnesh Lalla: I think we have what I would say is I am pretty close to the numbers that we have generated. I'm sure you are as well, and I think the headroom is phenomenal.

Ashish Kacholia: No, I was just saying out of the $15 million, what percent of this market can we target with our capabilities as of today?

Sapnesh Lalla: I think we can, like I pointed out there are 5 million people who work in the IT industry. There are about 300 to 450,000 people who joined the IT industry each year. While capability set is beyond that, even if were to limit ourselves to that capability set, it's a significant percentage of that 15 billion.

Ashish Kacholia: Thank you very much all the best.

Vijay Thadani: Thank you Ashish your comments mean a lot to us and so does your questions.

Moderator: Thank you. The next question is from the Shradha Agarwal from Asian Market Securities Ltd. please go ahead.

Shradha Agarwal: One clarification on the Skills and Career business segment, you said that you expect the profitability to be just breakeven or there about, so does that mean organic S&C or for the overall S&C business including RPS, because if I'm not mistaken RPS was operating at a good double-digit margin. If you consolidate RPS for the full year, we should be ideally looking at single digit margin if not more for the overall S&C business in next year?

Sapnesh Lalla: Yes, it is for the consolidated and it really represents the investments we are going to make in the growth of the S&C business. Like guided we are hoping to be on a trajectory that gets this business to 5x of what it is today in the next 5 years.

Shradha Agarwal: That was always the aspiration that you would want to take this business 5x of the present size. But I think the directional sense on margins, were that margin should ideally look up each quarter and from the 2% exit margin that we are at, we are talking of margins going down further in full year 23. So how should we read about the profitability trends of S&C going ahead because this is a good deviation from earlier stance of margins being trending up rather than going down in this business segments?

Sapnesh Lalla: I think at least in the conversations I've had, and I know of the conversation we as a team have had, we've always felt that for the S&C business it's very important to be at a fast growth path and be able to ensure that we become the first choice in the first couple of years and then start looking at a margin expansion.

Shradha Agarwal: On the corporate learning segment, where are we in terms of split of physical and virtual training currently and or our clients pressing upon us to go in for more in-person training than virtual training before?

Sapnesh Lalla: Yes, in Q4 we started to see the beginnings of in-person classes, and I think that is only likely to accelerate.

Shradha Agarwal: Any number can you give as to what is the split between virtual and in-person now versus what it was two quarters back?

Sapnesh Lalla: It's still a small as a number, but as things become more normal, this number is likely to grow quite significantly. It is likely to come to not exactly the pre-pandemic levels, but maybe just short of that, but certainly not hundred to zero .

Shradha Agarwal: Right. Just on the CLG business again, last time you had indicated that we want this business to be 3x of the run rate, like from $150 million we can expect this business to go to $450, to $500 million in the next five years, implying a CAGR of almost 25%, 26%. Now we are guiding to a 20% growth in this year. Are we building in some conservatism in our guidance for next year or how should we look at the medium-term aspiration versus the immediate guidance that we have given out for this segment?

Sapnesh Lalla: I think we are preparing ourselves to achieve the 3x that we mentioned, and we know what it would take for us to get there. I think we are taking one step at a time and I'm also cognizant of the environment that you see in the market today. Given all of that, I think our guidance of 20% would make sense.

Moderator: The next question is from the line of Nirmal Bari from Sameeksha Capital, please go ahead.

Nirmal Bari: The question is on the two orders that we had in the education sector in the US, so when this order in the current quarter or previous quarter and secondly if you can't throw some light on the kind of contract that is, we have won and how similar or different would it be from the order win that we had with RECO a few years back in terms of revenue and profitability?

Sapnesh Lalla: I'll try to answer your first second question first. RECO is a regulatory body that regulates the conduct of real estate agents in the province of Ontario in Canada. It is not a university or a college, but it does provide license to operate education for real estate agents. Here, the operative word is licensed to operate. Universities on the other hand are public universities who don't operate in the license to operate model. So that's a big difference. We have started making investments in our higher education go to market over the last 9, 10 months. Like I have mentioned that we acquired 2 large universities as our customers. We are entering the higher education segment for the first time in the United States in many years. Before I start commenting on how and whether those customers are likely to turn out as other managed training services customers of CLG, I want to ensure that we have the ability to experience these contracts. However, our expectation is that these contracts will turn out to be as our managed training services contracts. However, the new segment and it's not another enterprise in a different segment, we would like to take the time and execute on some of these contracts before we start solidifying what a future contract might look like.

Nirmal Bari: So, the revenue that we would be generating in this universities contract, would it be from the fees that the students would be paying, or would it come from the universities in terms of fixed avenue contract or something?

Sapnesh Lalla: Eventually the universities earn from the students, that's the university's method of making money and we will be participating in that method. So, the university outsource the education to NIIT.

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

Rahul Jain: One question and one clarification, firstly, S&C are we commenting anything in terms of what could be the key driver for the growth for FY23 or beyond for each of these sub segments which is India B2C, India B2B and all?

Sapnesh Lalla: Like I think like I've pointed out we expect the overall S&C business to grow quite significantly in the 50% or so range and also from a long-term perspective, we expect that business to reach 5x in the next five years.

Rahul Jain: And can you share the revenue, EBITDA for the quarter?

Sapnesh Lalla: I don't think we offer segment wise revenue or profitability. What I can say is that they've seen growth, their business has seen growth and they have maintained their profitability.

Rahul Jain: Growth from YoY not QoQ?

Sapnesh Lalla: That's correct. The seasonality of the India market is secular for them as well as us.

Rahul Jain: Just lastly, a clarification you said 20% margin for CLG business but will not be on exit basis of the annual basis because if it is former then do we expect it could go sub 20% on an exit basis?

Sapnesh Lalla: I think, what I'm ready to talk about is that for the year, our profitability will be in the 20% range.

Rahul Jain: Yes. I mean the same way, if you can do the math then it has to become 20% next quarter or at least in one of the quarters it has to go below 20%, that's what the question was.

Sapnesh Lalla: I can find three more ways of telling you that it will be 20% for the year.

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: Thank you. Thank you once again, for not only very incisive questions, but also a very good guidance and kind words, which many of you had to say, and those mean a lot to us. As usual, we would be available for any further questions that we may have missed or may not have understood or may not have had the right data for our continuing conversation and for that you are most welcome to contact Kapil Saurabh. He will schedule a call with whoever is responsible for giving those answers. With that, I would like to bring this call to a closure. Thank you once again and have a nice day.

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