“NIIT Limited Q3 FY19 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen and welcome to the Q3 FY19 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 and Vice Chairman of NIIT Limited. Thank you and over to you, sir.

Vijay Thadani: Thank you. Good afternoon, first of all thank you very much for joining us on this call. I do know that it is a busy result season for everyone and for you to have spared your time to listen to us. We consider it our privilege. As usual we have the whole management team here. We have our 2 leaders from US especially here to speak to you Sailesh, as well as Vijay**.** We have the Head of our School Business, Pradeep Narayanan. We have a new addition in the leadership team Bimaljeet Singh Bhasin, who is here today then I have the usual includes Sapnesh Lalla, who will lead this conversation. Amit Roy who is the CFO and the host of senior colleagues around the table. So, hopefully we will be able to answer all your questions as usual the format will be Sapnesh will start with the brief presentation. The results have been on the website for a while and hopefully you would have gone through the details. And after that we can get into a Q&A. Thank you very much. Over to you, Sapnesh.

Sapnesh Lalla: Thanks, Vijay. Thanks everyone for joining. I will open with the few prepared remarks and then we will get into the Q&A session. Do note that Q3 is seasonally a weak quarter for NIIT and therefore, I will be presenting information predominantly on a Y-o-Y comparison basis. Overall, Q3 2019 was the second consecutive quarter of 9% to 10% growth versus low single digit growth that we had seen in quarters prior to that. Many parts of the business are doing well what is most visible is the 25% revenue growth and the consistent 15% margin that was achieved by the Corporate Learning Group. The Corporate Learning Group also demonstrated its highest revenue visibility at USD 255 million up 28% Y-o-Y from USD 226 million previous quarter. Parts that you do not see in the numbers that you have in front of you are the improvements in performance in the skills and career business specifically our deep skilling initiative called StackRoute has grown over 50% Y-o-Y. We have added a large global system integrator as one of our key customers and they are looking at reskilling a substantial number of their engineers to become full Stack developers as part of their reskilling initiative.

During the quarter, a leading public sector bank awarded us a large contract for onboarding more than 2,500 employees. Part of that project was completed in Q3. New career programs helped build momentum and enrollments and we saw growth in enrollments, order intake and most importantly collections in our retail business specifically in IT and BFSI. At above, along with the new TPaaS mandates, we acquired 2 new TPaaS mandates. One from a large private bank and another one from a large IT services company set us up for improvements as we look ahead. As Vijay pointed out Bimaljeet Singh Bhasin has joined as President of our Skills and Careers Business in India. He brings with him rich experience in education and technology industry segments and we look forward to his contributions in growing the skills and career business in

India. From an overall financial perspective, the revenues stood at 2,278 million up 9% year-on-year. The EBITDA is at 200 million, operating margin at 9%, EBIT at 105 million up 28%. During the quarter we had an adverse impact on account of foreign exchange of 52 million predominantly due to revaluation of cross currency receivables given the sharp volatility that we saw in the quarter. Our PAT was at 194 million, the DSO days have improved to 77 days versus 83 days same period last year. The net debt is at 573 versus 599 million at the end of Q2. Our ROCE, operating ROCE has improved to 14.8%, an improvement of 375 basis points from same time last year. Overall, still ways to go. However, happy to see improvements across our key focus areas of growth, profitability, liquidity and capital efficiency.

A little more color now on each individual business. Our corporate business the revenue stood at 1,614 million up 25% year-on-year, up 14% on constant currency basis. CLG contributed 71% of the overall NIIT revenue. The EBITDA was at 234 million, the EBITDA margin is stable at 15%. As we had pointed out last quarter, 2 of our customers are seeing temporary reduction in volumes due to M&A activity and we expect that, that will continue into Q4. Despite that we are at our expected growth trajectory both from our revenue as well as the margin trajectory that the business has had for some time. This was a strong quarter from a sales and front office perspective in CLG. One of our large MTS customers renewed their contract with us. This customer, large technology company was in the throes of a significant M&A event. However, retain their faith in NIITs capabilities and renewed their contracts for 3 years. This has resulted into improve visibility or additional visibility of $52 million over the next 3 years. Our focus on Life Sciences with the acquisition of Eagle Productivity Solutions resulted into CLG signing 2 multiyear managed training services contracts in the Life Sciences space. One with the large pharma company and another with among the largest operators of hospitals in the United States.

In addition, we expanded our contract with one of our large banking customers. CLG therefore, added 4 contracts, 2 new MTS customers, one expansion and one renewal resulting into the increase in visibility from $226 million to $255 million given the additions we now have 42 manage training service customers. The large deal that we had talked about which was in negotiation when we had met last is still under contracting and we expect to close this deal in Q4. Finally, a word on our large engagement with the Real Estate Corporation of Ontario we are in the final lap of completing the first set of content development or first set of courses and we expect to go live with them on 1st of July this year. This project is going on as per schedule and we should start seeing revenues coming from this project as we get into July of 2019. In our Skills and Careers business the revenues stood at 634 million down 10% Y-o-Y. However, while the business has traditionally been, the business sees Q3 as a traditionally weak quarter it grew on a quarter-on-quarter basis by 3%. The EBITDA was at 16 million versus 7 million same period last year. Some of the steps that we had taken to reenergize that business are doing well as I had mentioned earlier StackRoute as an initiative has grown 50% on a year-on-year basis and I had mentioned has acquired a large global SI as a customer to reskill the substantial number of the engineers.

During the quarter a leading public sector bank awarded a large contract for onboarding their new hires. As I mentioned earlier part of this contract was executed in Q3, also new career programs helped build momentum, resulting in increased order intake and collections. During the quarter we also added 2 significant talent pipelines as a service customers one large bank and a large IT services company. Overall, I see some of the key initiatives showing improvements and given that we were able to see improvements in Q3 versus Q2. So, we saw improvement, sequential improvement in Q3 in revenue versus Q2. In our Schools business, as we had pointed out earlier, we have completed execution of our government contracts. We are now in the transition phase where we are transitioning our projects to the state governments and in the process of completing final collections.

For our private schools' business, Q3 is quarter in which we do market activity to prepare for the decision-making quarter which tends to be Q4. So, we perform a significant amount of market development, business development activity and we are expecting a strong funnel as we go into Q4, so that we can have a solid Q4. We have built a significant pipeline and we are in the throes of closing parts of that pipeline. We also launched a new set of math programs in partnership with Marshall Cavendish and the initial response to these programs has been good. So, from an overall perspective, I would say number of visible improvements from a financial perspective in our Corporate Learning Business as well as the number of subjective improvements which will result into financial improvements as we go forward in our Skills and Career business. That was all the prepared comments I had, I am going to now request the operator to open the line, so that we can get into our Q&A session. Margaret, if you can open the line for our guests.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manish Kanakia, an individual investor. Please go ahead.

Manish Kanakia: Just wanted to understand regarding the Corporate Learning business. So, usually what is the revenue from one client on average which we do over a year?

Sapnesh Lalla: Our average revenue from, I mean our total revenue across this business is approximately I would say about $90 million give or take a little bit and about 42 MTS customers. So, approximately a couple of million Dollars per customer.

Manish Kanakia: Per year?

Sapnesh Lalla: Per year.

Manish Kanakia: And what is the highest we would have won anytime, the highest deal which we would have won in the past?

Sapnesh Lalla: These tend to be in the $15 million to $20 million per year. The highest deal is still in transition but is expected to start generating revenues from 1st of July this year and that is revenue at steady state is going to be upwards of $15 million to $20 million as well.

Manish Kanakia: 20 million per year?

Sapnesh Lalla: That is right.

Manish Kanakia: And that also at EBITDA of 15 approximately?

Sapnesh Lalla: We do not talk about EBITDA margins per customer because the number of expenses are across the board but I think, most deals are at similar margins.

Manish Kanakia: Just one last question. So, usually in a year how many, say customers we approach or say tenders we fill in? So, what is the win rate compared to?

Sapnesh Lalla: We work on about 35 to 45 opportunities each year and we win between 10 to 15 new customers every year.

Vijay Thadani: I would just add in Sapnesh mentioned that the margin measurement is best done at the margin of the project in contrast to the EBITDA margin where you have the SG&A also. So as the volume goes up then obviously the SG&A gets spread across a larger revenue base and therefore there is a natural tendency for growth to be associated with small changes typically, positive changes in operating margin.

Sapnesh Lalla: And it also gives an opportunity to reinvest the improvements because of that in growth initiatives.

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

Satish Bansal: I just want to seek your understanding on the schools of business that you have and what is visible from the presentation that its contribution has come down from 6% to 7% of the topline to like almost like 1%. I understand that you are ramping down the government business. Can you please shed some light on how exactly you are planning towards reaching out to private schools, what kind of a business size could be expect? And going forward in coming few quarters how much of this revenue could contribute towards the topline?

Sapnesh Lalla: Overall, comparing the Schools business for a quarter is probably, it probably does not give the full information given as I mentioned that most of the decisions, buying decisions in the Schools business take place at Q4. So, while you see in this quarter the overall Private School business to be about 1% of our revenue. We expect that given the seasonality it will become a larger part as we get into Q4. That having been said, we have approximately 1,000 plus school customers today and we continue to lay the ground work in Q3 to improve positive decisions with other private schools as well as renewing our existing private schools customers.

Satish Bansal: So, may I ask like on an average what kind of a deal size you usually get from a school and on an average this particular segment not on per customer basis. But this segment as overall how much of its contribution can it make to be or what would be the margins for this particular segment?

Pradeep Narayanan: Sir, the margins would vary depending on the product but largely if you look at the deal size it will be about a couple of lakhs per school because they are not very big. But within that our margins would be about 15% at the net level.

Satish Bansal: 15% on the level you are saying?

Pradeep Narayanan: That is right.

Satish Bansal: And in addition to make, just one last question that I see that you would have launched mathematics specific product. Any new products that are there in the pipeline that you are currently developing for this segment?

Sapnesh Lalla: So, this is a new product which we have launched for this, which will get onto the schools starting the next academic year. But there are no new products that are going to be launched in this quarter. The balance new plans are being worked on and we will talk about in the couple of months.

Sapnesh Lalla: I think, suffice to say that we do our new product launches in our first 3 quarters. So, that we are able to lay the ground work for decision making in Q4.

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

Sangeeta Purushottam: My questions also related to this school business. Over the last 2-3 quarters we have seen the Corporate Learning business do very well and be on track. We are also seeing progress in terms of the skills and career growth. As far as the schools is concerned, I am actually a little bit concerned about the or I am not able to understand the direction in which we are going because if I look at your costs, you basically are carrying based on current year numbers a cost of roughly 8 crores for quarter in this business, so about 32 odd crores of cost per year. Now how do you plan to and this is really just at the EBITDA levels, so if there would be some depreciation, interest cost associated with it as well. So, we really make to ramp up significantly in this business to be able to breakeven at the EBITDA level and also at the PBT level. Could you just take me through as to how do you plan to do that and what kind of timelines do you see on this? Because the way I see it a lot of the progress which is being made particularly on the corporate learning group a lot of those profits actually get eaten up by this schools group. So, when will that actually stop?

Sapnesh Lalla: I think, you have a good point. However, I would encourage you to look at the Schools business on a 4 quarter basis rather than one quarter basis. As I pointed out earlier the majority or upwards of 70% of the schools decisions and therefore very substantial majority of its revenue expectation is from Q4 and most of the cost that is incurred during the rest of the quarters including Q1, Q2, Q3 are incurred towards ensuring that we lay the ground works, so that in Q4 we achieve positive decisions. These costs include cost with respect to products, product launches as well as market activity in terms of sales and marketing. So, I think from an overall perspective highly seasonal business and the way we look at planning that out is to do substantial amount of activity which results into cost in Q1 through Q3, so that we are able to capitalize on it in Q4.

Sangeeta Purushottam: I am quite happy to look it on an annual basis I do not have a problem with that. So, are we saying that if you look at the cost from an annual basis it is about 32 odd crores roughly, I am just going by the numbers which I heard. Are we saying that in Q4 we will actually get a huge jump up in revenues that is substantial part of these costs really will get covered is that what you are saying? Or whichever way you wanted to frame it, how do we, if we are carrying 32 crores of costs plus depreciation, plus interest per annum in which year can we expect this business to breakeven?

Sapnesh Lalla: This business was profitable last year and will be profitable this year as well at EBITDA.

Sangeeta Purushottam: And in terms of PBT when do you see this break in even?

Sapnesh Lalla: If I may intervene, I think our view is also getting a little colored and by the fact that there is a tail of, long tail of our government projects where the revenues have stopped coming. Last revenue stopped coming last 2 or 3 quarters ago but we still have to transfer those projects out collect our money, make sure that the governments take over those projects. That is when we decided, we took a strategic decision that we will get out of the governments Schools business, right. So, that tail is also coloring the expense profile. Having said that the overall capital allocation that we intend to make to the Schools business will be in line with the size of that business. Over a period of time because of the transition that school business has gone through we have it's size in terms of our totality has come down to a single digit, right. And obviously therefore, our capital allocation at one time we had disproportionate capital invested in this business and that is why we continued but the good news is we collected every penny. We collected every penny from the government of course there are still a few left with the government which we will collect. So, the important question is then to look at this business in totality after that will be a wiser idea. So, I recommend that we have this discussion one more time after quarter 4 when we will also know the quarterly results and we know how the business has performed. By that time the tail of the government Schools business will also be gone because that is the last remaining portion. There will still be a small tail because it takes a while to hand it over to the government and then we can get into it. And then we can talk to you about what is our plan how much are we investing and what are we trying to do to make sure that the business remains positive and does not eat out of other businesses gains.

Sangeeta Purushottam: So, in this year, so what you are saying is in the 32 crores of cost there is a significant amount which is related to the government Schools business. If that is the case, is it possible for you to segregate the revenue and the cost that we have a clearer idea is to what are the historical costs? And what will be the costs going forward?

Sapnesh Lalla: Yes, Ma'am much more clarity will emerge at the end of the year. So, let us discuss this again at the end of the year and then we would be able to describe to you in good enough times. It is sufficient to say, at this point of time we expect the business to make profit obviously quarter 4 is wide open and it is still going on. But we also have done 3 weeks of quarter 4 already, right. So, there is an experience which is picking up, right. So, I recommend we go back to this subject at the end of the year, and I also suggest that, we should spend a little more time on the other parts of the business which are 98% of the total.

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

Priyanka Mehta: Sir, India revenue has decreased quarter-on-quarter, yes India revenue.

Sapnesh Lalla: See, I think the India revenue over the last several quarters has gone down to a fair extent because of hiring trends and so on and so forth. However, if you were to look at the negative growth over the last 3 quarters it has continuously reduced from a negative growth perspective. Q3 also tends to be a weak quarter for the India business. But I think, if you were to plot the trajectory you will notice that the negative growth has started reducing. Also, as I pointed out earlier, this was one quarter this Q3 was one quarter where we have bucked the trend and seen sequential growth. So, while traditionally Q3 has been a weak quarter, this year in Q3 we have seen sequential improvement in the Skills and Careers business.

Priyanka Mehta: But even in spite of the loss-making businesses which we have exited what kind of future business growth do we see in the next couple of years?

Sapnesh Lalla: I think our first milestone is to get this business to growth and we think that between Q4 and Q1 we should start seeing growth in our Skills and Careers business and then once that milestone we should get on to a healthier growth sequence.

Priyanka Mehta: My next question is regarding the training.com, what are the current number of registrations we have and what will be the revenue generation to be expect in the next coming 2 years?

Sapnesh Lalla: So, training.com started out as a specific initiative and that is when we shared some of the numbers. It is now part of our main stream business and as we merged in our overall FMC business, suffice it to say that from an overall perspective our enrollment, our order intake as well as our collection in our India business have shown growth this past quarter as well as in Q2 and Q1.

Priyanka Mehta: But how much growth are we looking at, can you quantify?

Sapnesh Lalla: Like I said, we have seen growth in order intake, enrollments and collections. We expect the growth in these front office parameters to result into revenue growth Q4 or Q1 and once we have turned into a growing business, we will start seeing healthier growth parameters.

Priyanka Mehta: Just one last question. Could you give me some details regarding the recent amalgamation of PIPL Management Consultancy and Investment Private Limited and Global Consultancy with NIIT?

Vijay Thadani: Let me take this question. So, as was declared in the scheme of arrangement and this is as per the scheme of arrangement which was presented to NCLT and this to plan for the founders family succession plans were a trust based structure was proposed and to implement that trust base structure this scheme of arrangement was created. It went through, it has been through the stock exchanges, SEBI, Reserve Bank of India as well as NCLT the final clearance came in the month of December and this is a very regular thing done for family succession plan and that is the merger of those 2 companies whose sole investment was in NIIT Limited and those are the ones which have got merged with NIIT limited and therefore now the trust which are the owners of those companies are the holders of those shares. So, it is just to transfer it to a trust based structure for family succession. There is no other implication of this merger, either in revenue or in cost. All costs have been borne by the founders.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: So, on the CLG segment, wanted to check if the order intake was primarily due to just that large contract that you mentioned where you won a 3-year renewal with one of your technology clients. Because it seems like the improvement in order visibility if we take that change and strip out this quarter's revenue. It seems to be roughly about 50 million in order intake.

Sapnesh Lalla: Let me correct you there, that is not the case. So, first we are talking about visibility. Our visibility improves from 226 million to 255 million. Now, I would agree that a large contributor to that visibility improvement was the large contract that we renewed for 3 years. However, that was approximately 80%-82% of the total improvement in visibility. The other contracts that I mentioned where responsible for the rest of the improvement.

Vijay Thadani: Ravi, just to explain the word visibility is used in the context of MTS deals which are done by Corporate Learning Group and which is global and the India based business does not use visibility there it is an order intake and enrolments which is what really contribute to that. The large contract that you are talking of which contributed to a part of the revenue which Sapnesh refer to in India from a large bank that would have come in the India past of the revenues and that is not built into the visibility. On the other hand, the large renewal deal which he referred to which is the global deal one of the 42 customers that is the one which has contributed $52 million.

Moderator: Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: My question pertaining to the school business. Is there is any one-off that we have seen this quarter apart from the transfer of this business to government. Is there is one-off attached to the loss that we had this quarter?

Sapnesh Lalla: No, not really.

Sanjeev Hota: So this 50 million EBITDA losses, there is no one-off attached to that?

Sapnesh Lalla: There is no, other than the transition and sales and marketing.

Sanjeev Hota: So, what would be the excluding the transfer related cost, what would be the margins apple to apple excluding the transfer related cost, what should be the margins of the School Learning Business?

Sapnesh Lalla: On an annual basis this business contributes between 15% to 18% margins. But in a particular quarter to take a stock of the situation is not a good idea. Very much like in the middle of the month if you manage to measure the margin of any activity then it will not reflect the true character of that activity. On an annual basis but it is a seasonal basis, therefore comparing in any one quarter is not a very good idea. You should compare it over a 12 months period. So we could even do the trailing 12 months and you would see something there.

Sanjeev Hota: So, school business margins if we are going to have a major transfer happening in Q4 that will be the last of the major transfer to the government. So, what kind of margins can we expect in FY20 and 21? So it will be normalized margin going forward within 20%, 15%-18% is what you would say?

Sapnesh Lalla: Yes, between 15% to 18% is what I venture.

Sanjeev Hota: So, it is the 15% to 18% margin FY20 probably?

Sapnesh Lalla: Yes.

Sanjeev Hota: And my second question is on the CLG part. Last quarter we have mentioned that some transition happening in the 3 contracts have impacted some cost last quarter. So, this quarter what will be the that cost or that is happened on last quarter only. This quarter we have seen that kind of cost in the CLG business?

Sapnesh Lalla: So, like you pointed out there were 3 contracts in transition last quarter. Out of those 2 contracts have completed that transitions and are going to be in steady state starting some time in Q4. One of the contracts the real estate corporation of Ontario, that transition will to a fair extent complete as of first of July when it will go into generating revenue. A part of the transition will continue and the full transition will complete towards the end of September. Now, what I should also say is that in Q3 we acquired 2 new customers, those 2 customers will go into transition in Q4 as well as we expect to close a large opportunity in early Q4 which will also go into transition in Q4.

Sanjeev Hota: So, what kind of margin expectation when we have going into FY20 given that the major transition will be over and the major this large contract that the transition will be over in by Q4. So, how can the margins going to pan out in FY20?

Sapnesh Lalla: So, as we have pointed out our consistent margin over the last year has been in the 15% range. We expect the margin in FY20 to be better than 15%.

Sanjeev Hota: But any numbers to it**,** 100 bps, 200 bps anything above?

Sapnesh Lalla: Typically, we invested the improvement in growing our sales and marketing efforts as I have pointed out earlier on this call we see substantial head room in this business and therefore continue to reinvest improvements in our sales and marketing and product development efforts to continue to improve our growth trajectory. However, having said all of that we will see some improvement in margins.

Sanjeev Hota: And based on the current currency that we are having or what kind of currency we are targeting at?

Sapnesh Lalla: I think you are probably better at forecasting currency than I am, it is been kind of volatile over the last couple of quarters.

Vijay Thadani: Obviously, in our calculations we always assume constant currency. They were easy to take. We cannot forecast the foreign exchange movements.

Sanjeev Hota: So, the current statement is on the constant currency basis. And last question is on the DSO part. We have a very good improvement this quarter. So, how it is going to fare in the coming quarters because the government project is going to get over, so how it is going to pan out going forward and free cash flow is going to improve?

Sapnesh Lalla: Though we continue to improve our efforts on collections, as we pointed out part of the government team is focused on collecting government receivables and we are also making improvements in our ability to collect enterprise receivables. So, we do expect marginal improvements in our DSO and therefore improvements in our free cash flow as well.

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

Rahul Jain: My question is what is the organic constant currency kind of a growth if we have to look at from 9-month basis of the trailing 12 months in the CLS business?

Sapnesh Lalla: The constant currency growth is approximately 18% in the first 9 months. It was 14% in Q3 and 18% if you put past 9 months together.

Rahul Jain: So, I was asking organic constant currency number.

Sapnesh Lalla: I think overall the Corporate Learning Group has an integrated growth and we do not break out divisions of that group.

Rahul Jain: So, I mean just to exclude the Eagle number I think this number would not be as high as the reporting right now. So, the point here is what drives the growth going forward? One big deal that you said is obviously the RECO deal but is there anything beyond that which we see is a significant near-term factor that should drive this number up?

Sapnesh Lalla: Like I pointed out we are in the throes of closing a large contract and we have closed 2 mid-size contracts in Q3. So, the drivers for growth on an incremental basis tend to be closures of new contracts and we continue to close an average of 2 to 3 contracts every quarter. Those contracts contribute to incremental growth. Every once in a while, we close the large deal which results into step function growth and I have mentioned, we are working on one right now and then as well as the fact that the real estate corporation deal will start producing revenues as we go into July. So, we expect a couple of steps, step jumps in our growth and those steps will be predominantly because of large deals. While incremental growth will continue with the 2 or 3 medium size or small size deals that we get each quarter. That having been said last quarter and the quarter before that we talked about a couple of contracts where customers are in M&A situations and have put a pause on the volume of work that they do with us as well as the fact that the large deal that we are closing took a little bit longer and that resulted into some lower than expected growth numbers. Of course, if those 2 contracts had not got into paused state and we had closed the large deal we would have seen better numbers.

Rahul Jain: And what is the ideal industry growth rate that you would bench mark to this business and what do you think is the ideal growth rate one can aspire for not necessarily your near-term outlook but in general, what kind of a sense you get from the opportunity point of view?

Sapnesh Lalla: When we look at our key competitors, we see them grow at single digit growth rates. So, we are at this point in time doing substantially better than several of our key competitors which include large learning, outsourcing, divisions of large outsources that having been said I think we will continue to be in the mid-teens, as we have pointed out earlier.

Vijay Thadani: Remember, our size in competitive terms of global players is so small. So, for us there is plenty of headroom to remain in mid-teens, at the teens level of growth. It may vary a little bit up or little bit down depending on how contracts coming over a period of time. But if you plot it over a 4-quarter period, you would see a consistent growth which will emerge. And I think the expectations from us, for us is like Sapnesh pointed out in the foreseeable future next 2-3 years we do see this kind of run rate and run rate of growth being there. Of course, the step jumps will put us in a different trajectory each time that step jump comes in.

Rahul Jain: And just one more question if I may. From a school business perspective since we have exited a significant part of the government business almost all part of it. What is the new capital employed and how much capital employed you might have freed up from this business? And what are the incremental views in terms of the allocation of this kind of thing into future?

Sapnesh Lalla: The capital employed in the school's business now is in line with the revenue that it generates. Like I have pointed out earlier not withstanding some of the payments that are still left most of the rest of the payments have been collected. So, majority of the capital employed really is in other payments that we are to collect other than that the capital employed is in line with the annual revenue that we expect from that business.

Moderator: Thank you. The next question is from the line of Abhijit Mukherjee from Lucky Investment Managers. Please go ahead.

Ashish Kacholia This is Ashish Kacholia here. You had indicated that the market for our Corporate Learning Group is about 35 deals annually and the value of these deals tends to be in the $200 million kind of a range. In your interactions with customers are you seeing any change in this order of magnitude of business available for bidding?

Sapnesh Lalla: See, like I pointed out earlier today we participate in 35 to 45 opportunities each year. Each year or sometimes once in 2 years we get into large opportunities and we won a couple of large opportunities in the last year it looks like we are or we are negotiation for one this year. So, I think what you said is right we continue to experience 35 to 45 opportunities each year with our goal to win between 10 and 15 new contracts each year.

Ashish Kacholia: And you had indicated that there were 2 deals which you would be bidding on in Q3 and Q4. So, you indicated one deal. So, I mean is that my understanding of 2 deals wrong which were up for bidding discussion?

Sapnesh Lalla: Your understanding is right. What I said and I will say it again we are in the contracting phase of one of the deals we have bid on 2 large opportunities. We have received letter if intent from one and we are in the throes of closing that negotiation.

Ashish Kacholia: The other one is still in the negotiation?

Sapnesh Lalla: It is still in the bid stage, evaluation stage.

Ashish Kacholia: And if I may ask about the, there was some accumulated loss that was transferred into this company from NIIT Antilles. Could you tell me the value of that accumulated capital loss?

Vijay Thadani: Are you saying that when we did the restructuring of subsidiaries at that time there was a loss transferred into NIIT Limited which means that it carried forward quantum of that loss sir. We may have to get back to you separately on this because we do not have that number, right away. But we will be happy to share that with you and everybody else also. That is not an issue.

Sapnesh Lalla: I think Kapil will be able to come back to you.

Vijay Thadani: Yes, I think finance will have to pull out the data.

Moderator: Thank you. The next question is from the line of Siddharth Vora from Reliance Life Insurance. Please go ahead.

Siddharth Vora: Sir, can you give more details on this other income line item which seems to be ballooning every quarter. The 9-month number is almost as big as FY17 and 2018 number, so it is an expense and it is increasing.

Amit Roy: That number is basically from interests and FOREX.

Siddharth Vora: If you could split that for the quarter?

Amit Roy: 52 million of FOREX and net 50 of interest.

Siddharth Vora: 52 of FOREX is also a loss, right?

Amit Roy: Yes, because this is on account of, this is basically FOREX loss majorly constitute restatement of unrealized part.

Sapnesh Lalla: So, as you saw substantial amount of Dollars, GBP, volatility between the second month of the quarter and the third month. So, between November and December in fact even October to November and then November to December you saw volatility in currencies. So, what we build in say November got restated from a value perspective value of BR perspective in December and that is really, it is a notional entry.

Amit Roy: Unrealized part, when it gets corrected then what price, what Dollar rate we get at that point of time we will account for. This is an unrealized part.

Siddharth Vora: And the interest component you said negative 50, right?

Amit Roy: Yes, and it is not that all of it is cash outflow because after IndAS there are certain items like 3 years lease part. You have to also lease obligation to be considered as interest which are all notional interest. So, this includes around 1 million of that interest.

Vijay Thadani: I think you are talking of deferred payments not lease.

Amit Roy: No, lease obligation, so that is deferred payment. So, deferred payment it creates a portion of principle and a portion of interest. That interest part is notional. So, therefore the cash outflow is not to the extent of 50 million is much lesser which is lesser.

Vijay Thadani: I think one more dimension of that perhaps in deferred payment. For example, for Eagle we our payment for Eagle was to be made over a 5-year period. That is a negotiated deal but as far as IndAS accounting is concerned there we have to consider out of the deal what is the notional interest and that interest also gets added. As you likely pointed out that is not being actually going out …

Amit Roy: But partly it is because of notional interest on deferred payment.

Siddharth Vora: If you could just tell me your current cash balance debt balance levels, so what comes to the net debt and what is the expected interest which you will be paying on an annual basis?

Amit Roy: So, if you see the gross debt is around 190 crores-200 crores. So, our average rate of interest in the current quarter is 9. So, which is 45 million this quarter and we pay interest which is 180 million. So, if you see the numbers you will see the number shows 240 million. So, therefore the balance is because of the notional interest which has come because of the deferred payment and leased obligations.

Siddharth Vora: And what will be your earn outs for this Eagle transaction which you have done will be, maybe phased over the next 3 years which will come in this interest line item?

Vijay Thadani: So, Eagle transaction is a straight deferred payment. There are no earn outs attached to it. It is not attached to any performance it is just a simple deferred payment. So, it is over a 60 months period. We have now completed, I think 12 months now.

Amit Roy: 1 year.

Vijay Thadani: Yes, 11 months we have completed, 12 months.

Siddharth Vora: So, another 4 years would we see an outflow of how much if you will have that number roughly and handy?

Kapil Saurabh: Upfront payment was about 30% of the value that we had needed to pay. Then annual payment to over the next 2 years the payments are 24% (each) and then the next two years is 17% (10% & 7%) and balance in 5^{th} year is 5%. of 8.1?

Siddharth Vora: Yes. Just a request if you could just split this line item further and going forward in the quarters it will be better. It bunches up a lot of things together the other end of the line item.

Vijay Thadani: I think very good suggestion. We will separate them out going forward. Very good suggestion that we can put it online.

Siddharth Vora: What would have been your FCF for this 9-month from your 70 around the EBITDA to FCF conversion?

Sapnesh Lalla: We do not have that specific number with us right now. But I am requesting Kapil to come back to you with that number and of course share it with everyone else as well.

Moderator: Thank you. The next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.

Nikhil Vaishnav: In Corporate Learning business how many customers have contract period pending more or 3 years above as on 31st December 2018?

Sapnesh Lalla: I will not have that exact number what I can say is that we have 42 customers and all of them will have pending contract durations of between 1 year and 5 years. I would say on an average it will be little bit above 2 years.

Vijay Thadani: Value it may be higher, newer contracts we have just started.

Sapnesh Lalla: Yes, so but we will try to get that analysis to you.

Nikhil Vaishnav: And in Skill and Career business in China part, what type programs we have launched and what is the revenue contribution? Can you share these number quarter-on-quarter basis and what is our further outlook?

Sapnesh Lalla: In China, we predominantly work with universities. We work with some of the top universities in China where they outsourced IT education to us. We do not break out specific China numbers amongst our SNC numbers.

Moderator: Thank you. We will move to the next question from the line of Harshil Gandhi from JHP Securities. Please go ahead.

Harshil Gandhi: Sir, is it at all possible to move the needle for Skills and Career Group?

Sapnesh Lalla: Indeed, and that has been the effort. As you may have seen over the last 3 quarters the quantum of negative growth has reduced and we expect that trajectory to continue the improvements to continue. Like I pointed out the leading indicators are moving in the right direction. Our collections have improved. Our order intake has improved. Our enrollments have improved and then this year we bucked the trend of Q3 being typically a low quarter. This year we have seen sequential growth in revenue in our Skills and Careers business. So, all of this to say that we are doing better both in our retail business as well as our enterprise business and we expect that these improvements will result into revenue growth over the next couple of quarters.

Moderator: Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda Capital Markets. Please go ahead.

Ruchi Burde: My question was regarding the temporary volume decline that you mentioned. Do you see that this volume decline which you indicated could be there in the March quarter but can it spill over into the next financial year as well?

Sapnesh Lalla: We are expecting it to stabilize in our Q4. So, we expect that Q4 will probably be the last quarter but it is hard to tell it might spill over into Q1. However, I do expect the new business that we have signed in Q3 as well as what we are likely to sign in Q4 to start compensating for it.

Ruchi Burde: The second question I had was regarding the delay in the closure of large deal that you mentioned. Was this one incidence that you had or you are experiencing such kind of delay across the board in our client conversations?

Sapnesh Lalla: No, I mean like I mentioned every year we close between 10 and 15 opportunities. This being a large opportunity and this being a global multinational organization, it is taking a little bit longer than we expected to ensure that all geographies are aligned in the decision-making process. So, I would not see a systemic delay in signing. However, this one deal has taken longer to close.

Ruchi Burde: I have a last question. In our Skills and Career business, if you look at over last 6 years or 5 years these revenue decline and the only year, we had growth was not also a very big growth number. We have been hearing a transformative initiative all the way along. But do you see opportunities for NIIT to move into adjacencies? I am coming from the point of view or the offering that you guys started recently the TPaaS. Do you seek and that evolve into something like a staffing business where the industries growth rates are high and maybe we can evolve or move away from our current revenue declining profile to a much more stronger growth profile?

Sapnesh Lalla: So, all the initiatives that we have on are to achieve the objective of improving growth rates and achieving profitability. So, on that you are absolutely right. We are doing many things to achieve that. We are and we have been and we are staying true to our training and education routes and we will continue to do that. Our talent pipeline as an initiative is an innovative business model where we are able to provide the right education to fresh engineers so that they are able to become productive from day one. And that is starting to resonate with several of our customers impact, I pointed out earlier that 2 additional customers have given us mandates, fresh mandate for this. I would also like to note that StackRoute, our deep skilling initiative, StackRoute has shown 50% year-on-year growth. While on a low base but it is accelerating quite rapidly and attracting attention from large IT services companies and system integrators. So, overall like I said the leading indicators are moving in the right direction and again to reiterate we have seen improvement in order intake. We have seen improvement in collections, seen improvement in enrollments. So, all of those are pointing in the right direction again the sequential improvement from a quarter-on-quarter perspective. So, all of these are pointing in the right direction. There is significant effort on and many initiatives on we expect to be able to convert these initiatives into revenue growth over the next couple of quarters.

Moderator: Thank you. The next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.

Nikhil Vaishnav: Just could you please give breakup of business from US and Europe individually and rest of world?

Sapnesh Lalla: You can take the 60-40 in approximate terms. 60% US and 40% Europe.

Nikhil Vaishnav: Can you bifurcate like in which country we are present and how much it is contributing to our revenue?

Sapnesh Lalla: That would take a while Europe unfortunately is built up of many countries. But I think we consider Europe as one European Union and that is the way we look at numbers internally.

Nikhil Vaishnav: No, I am talking about rest of world. So, in rest of world …

Sapnesh Lalla: Very little CLG business in the rest of the worlds. So, CLG is a split in the 60-40 range between US and Europe.

Moderator: Thank you. We will take the last question from the line of Ruchi Burde from Bank of Baroda Capital Markets. Please go ahead.

Ruchi Burde: I just want a clarification on Corporate Learning Solution. You mention that moving into the next quarter we would sustain the growth momentum. Is it fair to assume that moving into next quarter we will not have Y-o-Y benefits from the Eagle Consolidation. There would be still some low volume because of the M&A related clients specific challenge despite that we expect the Y-o-Y constant currency growth momentum to sustain. Is that a right understanding?

Sapnesh Lalla: I think it is partly right. So, you are right in assuming that the fact that we acquired Eagle in January and therefore that delta would not be part of growth. I think, you are also right in assuming that the slow down because of the 2 customers that we talked about as well as the fact that we have not been able to sign the large opportunity in Q3. So, these 2 things will have an adverse impact in CLG and therefore the growth in CLG will be muted in Q4 compared to the first 3 quarters.

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

Sapnesh Lalla: Thanks, Margaret and thank you everyone for attending this conference call. I know it is a busy season for you. Your questions as always are insightful and push us into thinking outside the box. We welcome your questions and look forward to talking to you when we meet with you either individually or at our next conference call towards the end of Q4. 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.