

"NIIT Limited Q3 FY2015 Earnings Conference Call" January 16, 2015





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Moderator

Ladies and gentlemen, good day and welcome to the NIIT Limited Q3 FY2015 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – CEO of NIIT Limited. Thank you and over to you sir.

Vijay Thadani

Thank you. Good afternoon, thank you very much for joining this call. I know it is a busy day for everyone but I appreciate the fact that you decided to spend the afternoon with us. I have with me the whole Management Team and most specifically Rahul Patwardhan – the incoming CEO as well as Shivan Bhargava whom we had introduced last time as the Group President of Skills and Careers Group; Sapnesh Lalla; Rajendra Pawar – the Chairman; and P. Rajendran – Executive Director.

So what I would quickly do is to take you through the highlights of the result, they have been on the website for a while as well as the press releases and those of you have not had a chance to access them so far www.niit.com.

So towards the opening statements which I would like to make is, first of all these are results for quarter three October to December which is seasonally a weak quarter for us historically for last 33 years and that's the case this year as well. It is further accentuated by the fact that we have been talking since last quarter results which is since October about the fact that as a business, as an organization we are in transition and we have a major business transformation process going on including rationalization of our subsidiaries and that effort has consumed, has gained a lot of intensity and speed as well as has consumed a lot of energy and the results need to be seen in that context.

I would as usual start with the environment – Increased global economics uncertainty persists, the risk levels and the uncertainty levels at the global scale have only increased if not at best it can be assumed they are stable but they are at the same risk levels and the same uncertainty levels. In corporate training markets in USA and Europe, first of all there is much more activity, lots caused by the economic pressures of the environment and lots also caused by the successful track record of NIIT which makes us experience some of these trends as well as get to participate in many more bids. The third is, while in India the business confidence levels are high, the expectations of improved business performance have increased but the recovery remains fragile on the ground and there is an uncertainty on structural reforms in the short-term and there is a lot of expectation built that in the short to medium-term there will be improvement in the economic conditions and we are also part of that same optimistic crowd.

In India government has also announced plans to come up with a new skills development policy by March 15th and we are eagerly awaiting and many of these initiatives are very-very aligned and very-very much in line with the efforts that we have been making, so we are



eagerly looking forward to that. In IT sector however, while the hiring rates have gone up it is primarily driven by from attrition and therefore a lot of lateral hiring to fill up the place, fresher hiring is just picking up and we do hope by the time this quarter ends the inventory levels would have come down for new people to get into the fray and newer students, newer graduates to get those job. But on the ground the sentiment continues to remain week though we did see some positives in some parts of this business.

So overall I would like to say that business confidence has improved but the environment continues to remain weak. As usual I would give a score on the dash board of our four growth platforms so on individual, on the cloud campus we added 7,886 odd enrollments so that now we have a gross total of nearly hundred thousand, 97,857 enrolments, 265 centers are cloud enabled and 143 courses are on the cloud. It is a business under massive transition and transformation and I will request my colleague Pat to take us through glimpses of that transformation process and that is work in progress and this quarter also would consume a lot of energy in that.

In corporate which is a stable business, growing very well, it has grown better than projections and has grown solidly with a solid order intake and that is now at in MTS manage training services we have 24 global customers, our revenue visibility has improved to \$177 million and the transition to MTS is nearly complete with 87% of our total business coming out of MTS.

In Nguru schools, I think we have had a good quarter this time with the order intake coming in with 41% growth. Our math lab has done particularly well and we will talk about that. Skills, Yuva Jyoti continues to build momentum, it has at least started appearing as full 2% of the business but it is a long haul and I think as a part of the transformation process the new team has plans to integrate this along with the Individual Solutions and Pat will talk more about that. But enough to say that 34,600 enrollments and the reach has expanded to 76 locations.

One of the things which we have been pursuing for the last two or three years is of strengthening our balance sheet and I am pleased to report that on all the three parameters: liquidity, profitability and capital efficiency, we have had significant improvement. Our net debt has come down, our overdue bill receivable days have come down, our profit at least at a certain level are higher but more coming out of below the EBITDA level and that is contributed by lower depreciation, lower interest cost and much better utilization of capital. And we will get into a little bit of that detail as we go forward.

At a high level the highlight of the business is the Corporate Learning Solution performance which is at Rs.1.36 billion is up 28% year-on-year, it is 9% QonQ which is very relevant to mark as well in this particular case. EBITDA margin is at 12%, as we have been mentioning last few quarters we have added substantial new orders and there is a transition period in which you do incur expenses but don't get commensurate revenues and that will to an extent



adversely affect margin right now and this quarter's orders will perhaps contribute a little more to that as we go forward and Sapnesh, my colleague, will talk us through that.

The MTS revenues are up 35% year-on-year and we added three MTS contracts, three new contracts got signed during this 90 day period, we added one new customer and two were extensions of existing contracts which shows the confidence that our current customers have, the new customer has been added again in energy space but in Europe.

In Individual Learning Solution, the revenues are down 16% at Rs 769 million, this is the business under transition and transformation, and there are a number of changes taking place but enough to say that we had good traction in our new multi-stream modular Rev GNIIT Program where had 23% growth in enrollment. In fact in our own centers, mostly in metro cities, we had a 50% growth in those enrollments, albeit on a small base given the weak third quarter that it is. And beyond IT products contribute now 33% to the revenue mix, up from 28% year-on-year, so beyond IT range of programs are obviously making up for the kind of a hiring stalled that has happened in IT for freshers.

In School Learning Solution I think the positive is 41% growth year-on-year in order intake, even though we added only 69 schools during the quarter I think the per school order value was higher and that has contributed to us there which shows us that better quality orders that we have got this time. NGS or non-government revenue contributes 61% to the revenue mix.

Overall I think this has been a quarter where we use the seasonal weakness to our advantage by focusing on business transformation initiative. Just to give you an update, we had talked about rationalization of subsidiary company structure, this scheme of arrangement has been approved by the stock exchanges, order has been passed by high court to convene meeting of shareholders and creditors which is scheduled for end of this month. A revitalized organizational structure for the next phase of growth was worked upon by and we have initiated a refresh of product portfolio and capacity consolidation in addition to cost reduction coming out of people initiatives.

Overall at financials level I have already mentioned we had a 6% growth in net revenue, a 6% is a single digit small growth but in comparative terms if you compare the last few quarters in many ways it is first signs of the benefits of business transformation beginning to show up. Our operating expenses were higher for three reasons, number one, business mix which was adverse, as you know the Individual Learning Solution has much lower variable cost. On the other hand the corporate learning solution is traditionally lower margin business. The second was the operating leverage which works adversely in case of a lower size of Individual Learning Solution. And the third of course, the business transformation initiative which also consumed part of the cost structure and on the other hand there were some cost which did not give commensurate revenues.



So that's the story are EBITDA level which was at 2%, much-much lower than what we had same period last year. But if we go below the lines we have had lower depreciation, depreciation was down by 17% on a year-on-year basis, our net income was better. We had recovery of some disputed receivables which we had gone in for an arbitration and we won the arbitration case so that kind of helped us and lower taxation and approximately same level of share of profit from associates and therefore that explains the overall profit after tax of 18 million which numerically is 55% more but it is too small for it to be looked at on a steady state basis, we are used to much higher levels of profit after tax.

I think the important issue is the business transformation, cost structure rationalization which has contributed to a long-term benefit but a short-term negative in terms of higher cost. Our teams have been able to bring down an annualized cost structure by about 10% of the overall skills and career group cost structure which should help us a lot now that we will be staging a recovery from now onwards.

Our business mix has tilted in a large way to the corporate business which is very good because it is annualized, it is predictable, and therefore now we have 55% of the business which has revenue visibility of \$177 million and that is the business which is now on three quarters CYD basis is at 51% of the total. Similar story from EBITDA, on EBITDA where the contribution is primarily coming from the Corporate Learning Solution, it is a steady and improving margin even on quarter-on-quarter basis, though as I mentioned the newer contracts that we have will put some short-term pressure on margin but we are trying to make sure that we are able to maintain the margin despite these short-term pressures. And the good news is that these are large revenue intakes that we have had and those should benefit us going forward.

Going one level lower in Corporate Learning Solution, I think the order intake of \$24.1 million was again a strong indication of the customer acceptance of this business. We got some awards and this time we got a very interesting award for being amongst the top gamification companies. Some of you appreciated the gamification based content development that we showed you through simulations, etc., in our Annual Meet and the fact that it has also been acknowledged by our peer group I think is very-very satisfying. Our pending order book now is at \$64.5 million, 73% executable over the next 12 months and as I mentioned the revenue visibility is at \$177 million with 24 MTS customers.

In Individual Learning Solution, I think the beyond IT products contribution of 33% to revenue mix, the order intake of 621 million and the initiation of an industry sector, demand-led product portfolio expansion which Pat will talk about when he talks about business transformation I think are some of the important areas. We signed an MoU with the Guang, new area China to support the big data industry which is again a very unique and the distinct partnership. And while the important part has been to look at the product portfolio gain, I think there has been an intense on ground capacity rationalization, capacity consolidation and cost reduction exercise which has been underway.



Maybe I will take a pause here and ask Pat to say a little bit more about the business transformation overall and then I will come back and talk about school.

Rahul Patwardhan

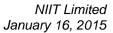
Good afternoon. On the business transformation area we had basically two themes that we focused on, one was to accelerate the corporate sector business, Corporate Learning Solution and the second was to focus on bringing the individual business back to profitability and transform it into a new model as we move forward and also there is an intention to combine the skills business to the individual business as we move into the next financial year.

When we look at the revenues side of the transformation program, in the short run the focus was to accelerate the corporate business and look at all opportunities to extract more revenue from our existing clients which has flown through into the 28% growth that we have seen in this quarter. In the medium to long-term there is focus on strengthening the sales capacity for accelerating the growth as we go into the next financial year.

On the individual side, we are basically focused on the long-term programs around the GNIIT series and we have seen some positive impact, as was mentioned by Vijay at our own centers we have been able to see substantial growth over the same period last year. And even among the top 20 business partner centers we have also seen growth over the previous year same quarter. From a longer-term perspective, we are widening our sector demand led focus product portfolio very similar to what we have already done in the banking sector where our course portfolio is driven by very tight connect to the corporate organizations. We are expanding that across a number of sectors and we expect to see that contribute that through business growth in the next financial year.

Second area we have been working on is in terms of organization structure alignment, we have done a number of alignment changes and a few more which would be completed by the end of the quarter. The essential objective here is both on the one hand to streamline the cost structure but more importantly to realign the entire talent based organization to the priority market demand areas. And on the cost side we have done a number of initiatives, on the one hand we have done some consolidation of capacity at our individual learning centers, this has had very marginal impact on revenue but more importance has given us a lot of focus and cost savings which will see the benefit in the next financial year, a little bit of benefit in quarter four. Second is the entire organization of the Individual Learning Business has been streamlined and brought together under a single umbrella so the number of cost benefits that we will see as we move into the next financial year. We have also been very-very sharp focus on the existing cost management programs that are already in place and the benefits of that will start flowing in from quarter four.

Finally on the organizational side, there is a program of action looking at shared services or some other functions that support all the different businesses, we have initiated the program, we hope to see benefit sometime during the next financial year.





It has just been 100 days, I joined on the 5th of October but we kicked up most of these programs within about 45 days around middle of last quarter, so I want to emphasize that there has been extreme focus on speed and intensity of the transformation impact so that we can get the full benefit of these two quarters which tend to be traditionally low on volumes of business so that we are all set for the new financial year and the season as it picks up for the Individual Learning Business.

Back to you Vijay.

Vijay Thadani

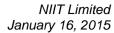
Thanks Pat. So Pat already talked about the fact that skills will be a part of the Individual Solutions so I will not cover it in any case. It had a very good quarter though with very substantial growth to Rs.39 million, however that is too small in the overall scheme of things. On School Learning Solution I already covered but I will just reemphasize that we had a very good quarter in terms of order intake, 130 million of order intake which was 41% growth over the same period last year and the fact that NGSA revenue now is at 61% of the total.

Just a couple of minutes on the balance sheet and then we will open it up for questions. At the balance sheet level I think our balance sheet is stronger than what it was last quarter, we have had better collections so our overdue DSO days are down to 65 and they have been steadily coming down as we have this task force which is focusing its synergies on making sure that past year receivables especially from government linked undertaking both in India and overseas are looked with high degree of earnest. Many of these we have been able to convert into cash and we are putting a still higher intensity this quarter and bring them to some kind of a logical conclusion. The net debt is down by 25 million to 507 million, as you know our net debt has also been slowly coming down as we have better receivables and the utilization of cash is being conserved for the business transformation initiative.

I must point out that every business added net cash during the quarter despite the fact that Individual Learning Solution did not have a very positive but even then they added cash as well during the quarter through collection of past dues as well as improvement in other capital efficiency areas. Overall, the net fixed assets are down at 1,715 million, that's lower by 70 million on QoQ basis.

So I will pause here, other than the fact that I need to give you the headcount status. We have added seven net headcount during the quarter and therefore our headcount stands at 3,028 at the end of quarter three. So that's the last statistics. On the shareholding pattern FIIs have improved by 1% to that extent the Indian financial institutions and mutual funds have reduced by about 150 to 200 basis points, other than that the shareholding pattern is approximately the same.

I will now pause here and open this for questions and all my colleagues will be very happy to join in answering them.





Moderator Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer

session. Our first question is from Chetan Vadia of JHP Securities. Please go ahead.

Chetan Vadia Sir my first question is on the CLS part, what kind of contract inflow can we see in the quarter

four?

Vijay Thadani Okay. What kind of contract inflow do we see in quarter four? Swapnesh, would you like to

answer?

Sapnesh Lalla We have been on a run rate of between one and three contracts every quarter so I see that run

rate staying steady or marginally improving.

Chetan Vadia And in terms of the value size of the contract?

Sapnesh Lalla They tend to be between \$1 million and \$5 million in range per year.

Vijay Thadani Multiplied by three to five year.

Sapnesh Lalla About to three to five year average contract duration.

Chetan Vadia Okay. Second question is on in terms of school learning solution, what kind of private school

addition can we see in quarter four?

Vijay Thadani Well, I will ask Mr. Rajendran to comment but till he comes what I just want to say is that

next season. Our math lab study which was just released by Deloitte has actually come out very strongly in favor of installing these math labs, by the way CBSE has been saying for a while. Because we did an impact study and the impact is two folds, one, those who know math their performance has improved dramatically and the second which is even more interesting, those

typically quarter four is the best quarter of the year because the schools are getting ready for the

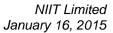
who fear math are now wanting to learn math and therefore we have a thumbs up from all three sections of the society which is school administrators, teachers and parents, of course not to say students. So we do believe that our product portfolio is very unique. Raju, would you like to

add to that please?

P. Rajendran So as far as schools is concerned you know that right now we are talking about the non-

government schools. We had taken a view that we are going to stay extremely focused on the three product that we have and which are doing well, along with that we got two three other products which places us in a unique position with respect to pursued competitors. For example, our three flagship products are math labs which Vijay mentioned, then the school management solution which is the education resource planning, the product name is Quick School and the third one is the IT Wizard which is to deal with the IT curriculum right from the elementary schools till the 10th standard. Now we are just focusing only on these three

products and they are saying that in these three areas we want to be and we want to continue to





be leaders. We do have the content, digital content, it has been there, today we don't get into the hardware part since last eight-10 months and we give it on a one time license. We also are engaged in the teacher training and the leadership training and we are empanelled, our names are there in the CBSE website and that gives us a unique positioning because we are training principals of schools on how to reset their systems, get the school certified for accreditation etc. As far as the orders which you mentioned Vijay mentioned to you how this quarter is our strong quarter and we definitely are expecting, we have a much better funnel than ever before and we are expecting good amount of this to get converted, unfortunately I can't give you any numbers right now.

Chetan Vadia

Sir, I will ask one more question before I join back the queue. In case of government contracts which are, right now you are struggling just to complete them and fulfill our contractual obligation, do we have the option in them to kind of exit the contract before time and kind of write off something because having a government non-government contract I think it is not showing right performance of the non-government contract in the book.

Vijay Thadani

That is very true and unfortunately that option does not exist to short close the contract and therefore we have to go through the routine, the only thing which we can do is keep giving the breakup so that everybody understands. So in fact if you take these businesses that we have decided to exit, if you keep them aside our growth this quarter actually has been 10% but it has got marred by the fact that business that we are exiting are making the growth appear slower. So that is indeed the case but I guess the only way we know of handling this is to be transparent about what is happening in each one of these so that discerning I can see where the improvement is actually happening.

Chetan Vadia

Okay. Sir and last point, sir is it possible to divide the school learning financials into government contracts and non-government contracts?

Vijay Thadani

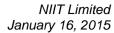
Going forward that might be possible, at this point of time as once we do the subsidiary reorganization we would be able to give a clearer picture as we go forward. This year it will be like this but maybe next year onwards at least you would know what is the tailing part of the government business and how is that fading out and how is this fading in

Moderator

Thank you. Our next is from Ganesh Shetty, he is an individual investor.

Ganesh Shetty

Sir, we are coming out of government school business at this point of time but government is showing enough enthusiasm towards skill building and education as such. In such circumstances if we get revised financial arrangement from the government are we ready to reenter the government school business sir? Just a question for, we are coming out and government is also showing a very great enthusiasm, in that respect I am just putting this question sir.





P Rajendran

Let me take that to start with. So like we said right now we have got three government contracts and that allows us even to focus on our existing government contracts and try to get what should I say a better margin out of this because of our clear focus and cost and maintenance and all that. As we go forward we have had informal chats on what are the other possibilities, we don't want to get into a asset heavy connection with the government, A. B, the real problem in all these projects have been that you have to keep slogging and doing a great job but you don't get paid for it. And after that when the payment comes, after maybe six months to two years and then the government rakes up audits and things like that so everything gets delayed. Fundamental to this is, some of us have proposed to the government mechanisms of let's say Escrow and such other possibilities for payments but none of them has moved forward, for your information couple of tenders of last year and I quoted that last quarter I think, a couple of tenders of 5,000 schools etc. which came from two three state governments never went forward because A, NIIT did not quote; B, in the second and third tenders I think some of the names who were used to quoting they also did not quote. So some of their own projects have got delayed, at least 10,000 schools what I know have got delayed by one year, even placement of orders. So you are right, in the new regime it may be possible to take this up in line with skill development so it will not be just, IT it may also be vocational training into schools and if such an opportunity comes which is good for the company, which is not locking us into the old types of bad payment terms and hassles I don't see any reason why we should not take it up.

Ganesh Shetty

Sir, we have introduced digital marketing and like ethical hacking like such new age IT training programs and how do you see the market shaping up in India and the margins going forward sir? Whether we are getting enough customers and whether the customer intensity is increasing or any like the way forward?

Vijav Thadani

I will ask Mr. Shivan Bhargav to answer this question; he is the person who is driving this.

Shivan Bhargava

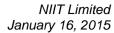
Good afternoon. So on ethical hacking let me tell you the market is really very-very large, we have just started the first batch, in fact the first batch is already in progress as we speak right now. The initial feedback from the students has been very nice so the opportunity which it presents out there in the marketplace is extremely huge and this is one area that we are going to be focusing extremely hard and these areas that will also give us dividends in revenues in the future as well.

Ganesh Shetty

Yes. Sir my last question is regarding fund raising – we have shown an interest in raising of capital for the future and I wish to know where we can put this money and whether we are going for any acquisition or new e-learning platform, any plan like that sir, can you please explain?

Vijay Thadani

Yes, I think you are referring to the postal ballots, I will just have to explain to you that the postal ballot is not caused by an event of any kind, it is an enabling provision which has got





caused because of the change in Company Law where earlier it was required for onetime approval and we had taken a onetime approval in 1996 which is what was going on so far. And this year the new Company Law which is effective 2013 is one which mandates that once in a year we have to take the shareholders approval for the limits that we are taking. So it is an enabling provision, it is the same number which we had taken in 1996 that we are continuing with just to make sure that we are on the right side of law. There is no specific event. If and when there is a specific event obviously as a shareholder you would get to know about it as is mandated to us.

Moderator

Our next question is from Sufyan Lakdawala of Lalkar Securities. Please go ahead.

Sufyan Lakdawala

Sir my question was, what is your focus on new programming on China, can you elaborate on that thing?

Vijay Thadani

I will ask my colleague, Mr. Patwardhan, to talk about it, he has just come back from China so.

Rahul Patwardhan

In China, currently the focus is on transformation similar to what we are doing in the domestic business in India for the individual sector. China as you know has a more evolved market in terms of internet penetration and in terms of the SMAC technologies. So as you may have noticed we have recently signed an MoU with one of the local governments in the South of China called Guang Province. The Central Government is investing substantially in developing a very large big data industry in this province and we have been invited to contribute to building the workforce to service this industry. This is a relatively backward part of China so it is a very important strategic investment that the Central Government is making. The availability of talent is not that high and therefore I think we have a significant opportunity to contribute substantially to helping them build this big data industry which is a very important part of their overall plan.

In terms of expansion in China – we have consciously decided to focus internationally in individual business only on China. We are actually refocusing on some of our other activities in the individual business in other territories apart from what we are already doing which we shall keep growing. So the focus on China is going to increase in the coming year and I think we will be able to talk more about it when we firm up our plans and are able to share them with you next quarter.

Moderator

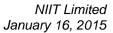
Thank you. Our next question is a follow-up from Chetan Vadia of JHP Securities. Please go ahead.

Chetan Vadia

Are you in a position to give some kind of outlook for what kind of revenue for you will have to end the year FY15 with and for FY16?

Vijay Thadani

Okay. I think given the amount of business uncertainty in the environment I think the certain parts of the business are corporate learning business which is ahead of its projections and will





finish ahead of its projection. So you could assume that we had guided for 20% growth and we are already beyond 20% growth but we will finish beyond 20% growth, in one quarter a little bit here or there can happen but it will definitely be of the similar level that we are talking about. In Individual Learning Business we are recovering and going through the business transformation process so I think the results are not likely to improve in the next quarter but definitely from first quarter or middle of first quarter onwards we should start seeing positive results.

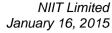
In School Learning Solution we have the private schools business where we said it is going to be a strong quarter in quarter four and that's coming from the historic point of view. We do believe that the Union Budget will bring some cheer which will add some momentum to the positive consumer sentiment. We believe that the hiring in the domestic industry will improve, in Banking and Financial Services where we have a very strong position and a big stake, we believe that the hiring in that sector should improve and if all those are pointing in the right direction then with our business transformation initiative I think we should finish the year or finish next quarter slightly better than this quarter but I think next year is a year when the real benefits of transformation will come through. That's all I would like to say.

Chetan Vadia

Okay, I take that. And my second question is on the School Learning Solution, I mean what kind of product we package when we approach a private school that will sell at this point in time because I believe we have certain niche product for schools in terms of ERPs, in terms of evaluation and all that apart from the course content which should digitize for the students. So are we seeing a trend where the schools are adopting more than one product from NIIT?

P. Rajendran

Yes, so it is very difficult to say when NIIT goes to school what are they most excited about, it tends to differ from different reactions from different parts of the country. But one thing which is found largely when it takes feedback from our sales team, when we approach them and when we talk to them about if it is IT who else can teach you IT better than NIIT who has been pioneers in last 33 years or whatever, we very easily get that entry. It does not mean that we will sell IT, it is just possible that it is just an entry but then they get excited. We then move to technology-based teachers and students and then position math, now math is very important because almost everybody in this country thinks that going to engineering is the best thing to do. So math always gets the imagination both of the principles as well as the management and they believe that if the math performance improves inside the classroom, so for example in one of the places where we had a Math Lab, we went and talked to the head of the department of maths and I asked her a simple question, "Why did you invest in this, why did you buy this from NIIT?". She said, "I am very clear that if I continue to focus on getting more and more children in the class get 100% marks in 10th grade then the overall performance of the class completely moves up, one. And second it, like Vijay and I mentioned earlier, removing the fear of minds." So this is a unique product for us, it is doing well, the Impact Study which was done by Deloitte has shown very clearly that it's an excellent product. Then the other one which I mentioned was the School Education Resource Planning, product that is continuously





improving. Now we have the new version where from any Android or handheld device a parent can check the progress of the child, teacher can check the schedules. So it is going to the next generation as far as the product is concerned. So these three are our focus products and we intent to remain focused on these three product.

Chetan Vadia

And my last question on the School Learning Solution again is that in the last con-call it was mentioned that we may kind of put it this entire as a separate company or a separate division and invite some strategic investor, any headwind there?

Vijay Thadani

Yes, so I just mentioned to you about the scheme of arrangement, that's under process by the Court and has convened a special EGM which will be end of this month all investors or all shareholders have been invited for that. So at the end of that it will still take another 1.5 to 2 months for the formalities to be completed after which schools will become part of an independent subsidiary at which time all these possibilities that we talked about of strategic partnerships, etc., to gain momentum in this space and take advantage of the strong background and heritage that we have, that is the time when all these things will come alive.

Moderator

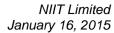
Our next question is from P Sachdev of P&Y Advisors. Please go ahead.

P Sachdev

You mentioned fiscal 2016 being transformational year for the ILS segment, I just want to know is it the external environment, a pickup in demand that gives you the confidence or it is the internal restructuring and transformation?

Rahul Patwardhan

Well, the short answer first is that it is both, obviously the transformation is focused not just on cost restructuring but more importantly on aligning ourselves to the growth opportunities and segments of the market for Individual Learning. So let me first talk about the revenue side of things, we have done with intensive scan of the total demand potential for the entire skill spectrum beyond IT and as you know from all the media coverage that you get on the whole skill sector there is a huge demand in a number of area beyond IT, the size of that demand is far in excess of the total demand for IT training per se. So as we have been talking about in the last few years that we are moving beyond IT, that intensity is going to increase substantially. So our focus in that direction is to look at how we can bring in a much larger range of offerings covering a wider range of sectors very quickly and capture many of the hot growth demand areas in the skill sector. The cost restructuring side, of course is a more short-term focus to quickly align our cost structure through the current revenue line so that we can very confidently look forward to the individual business becoming profitable as early as possible and that's something we are focusing on very-very intensely this quarter and much of the current quarter is also being focused on that. As you know the Individual Learning Business quarter three, four, and one tend to be the lower quarters in terms of the revenue line basically linked in some way to the academic season in the universities and schools. So quarter two really is, should I say, the asset test of our transformation plan delivering the results substantially going forward. But I think the whole thing is predicated around the fact that there





is immense demand when we go beyond IT, we have demonstrated success in increasing our portfolio of beyond IT programs so today it is about 33% of our portfolio. What we are really going to do is to accelerate that much-much faster so that we are not dependent on IT as a primary plank, it is of course a plank which is very important, but it will become a smaller proportion of the total portfolio going forward.

P Sachdev

You mentioned about the market size of non-IT wing far more than IT, could you throw some number or in terms of the organized market size for that?

Rahul Patwardhan

Well, I think it depends on the sector because if we look at any one of the service industry sectors whether they be Telecom, or Retail or Banking or generic skills like management, soft skills; for example if you look at our own Imperia product range, we are seeing impressive growth year-on-year or quarter-on-quarter and in fact we have hardly touched the total demand potential in the market with a limited range of offerings that we have. Similarly in the Banking sector, while we have seen a little bit of a dip in banking enrolments this quarter, but if you look carefully at our portfolio of customers they have been growing and we are confident that this business is going to keep picking up. Healthcare is another big sector, the numbers we are talking about are large, I can't give you any numbers off hand right now but every one of these sectors in the services area, the demand is accelerating and it is not really addressed very well by any of the major players. So there is good potential out there to be got if we move quickly.

P Sachdev

Okay, so please correct me if I am wrong, the percentage of non-IT, the earlier guidance you had given as a percentage, can I safely assume that the contribution is much faster or the transformation is much faster?

Vijay Thadani

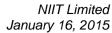
Yes, it is faster for two reasons, because beyond IT has grown and IT unfortunately has degrown. But if IT was growing at the same pace or was flat or was growing slower but not degrowing then it would have taken us another one year to reach this place where we are today. The only thing you must remember is, right now since IT is recognized as a skill which you have to get from an institution such as NIIT whereas in Banking it took us two or three years before people could understand but now it is established that you want to learn Banking and Financial Services if you want to get into that industry that NIIT is the market leader and is market leader by huge margin. So in each sector that supremacy needs to be established and to that extent I think the beyond IT sectors growth will to that extent be affected by that.

Rahul Patwardhan

One point I would like to add is that, in the past our offering beyond IT were limited to a few of our own centers and a few of the business partner network. Starting this quarter every product of NIIT whether it is Banking or Management or Soft Skills or IT is available for purchase by the retail community and every location of NIIT country wide. So that's an important directional change and we expect that in itself to add incremental revenue to our growth.

Moderator

Thank you. Our next question is from Aseem Gupta of CIMB. Please go ahead.



NIIT

Aseem Gupta

I wanted a couple of follow-up questions. Sir Pat just mentioned that the courses are being offered in all the centers now, so that's starting Q4 FY15?

Rahul Patwardhan

Yes, as a network policy it has already been rolled out and offered to every single business partner who is operational today. How long it will take for each of the partners to get organized, to be able to actually register students will depend of course on their getting some of the necessary resources in place like faculty and so on. But we will probably see some little bit of impact in this quarter but I think the benefits will really start flowing in from quarter one next year.

Aseem Gupta

Okay. Just to understand, is it not possible to offer the courses via VSAT, this was the part of the reorganization strategy as I understand, right?

Rahul Patwardhan

Yes, today as you already know our Imperia offerings are available through VSAT, a part of our IT curriculum are also available through the VSAT platform. So when we talk about the expansion of the curriculum that I mentioned earlier, a part of the strategy behind that is to offer many more things through this model and we are also examining taking that further. Very early days to talk about it but whether there is possibilities of going direct-to-home but that's something which we do not have any offerings yet given the unreliability of the last mile to provide the kind of quality of line to ensure reliable learning.

Aseem Gupta

Yes, you are right. On the cost containment in ILS, is it fair to say that the cost containment exercise is now over?

Rahul Patwardhan

It is not completely over because a number of smaller strands of activity that we are working on which we shall work through during this quarter but our firm intent is that we complete all elements of the cost rationalization in ILS by the end of this quarter and thereafter the focus is entirely going to be only on revenue growth.

Aseem Gupta

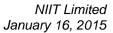
Okay. And the new industry focus areas, the courses in the new industries, by when do we expect them to get launched?

Shivan Bhargava

See, some of the courses we have already launched but there are new courses which we are in the process of launching, we have launched beyond IT courses, digital marketing is already there, ethical hacking as I mentioned to previous question we have already run the first batch, the first batch is already running, we are already in line for running a second batch on ethical hacking then there is user experience we will be launching in this quarter as well. So we are bringing in a lot of portfolio within IT, this is beyond IT kind of portfolio, on Banking also we are looking at PO product getting launched within the next two to three months' time.

Rahul Patwardhan

In the skills area we are focused predominantly so far on certain territories in India where we have been offering programs, preparing people for the retail sector and the telecom sector. With our new model where we are offering all products to the entire network, these programs





will certainly be available to a much larger pool of students around the country. So I think our Reach Strategy is also going to be very important in driving up the revenues.

Aseem Gupta

Yes, for sure. China would we continue to offer only IT courses or will that also include beyond IT?

Rahul Patwardhan

Good question, I think the answer is in your question which is whatever we are doing in India is also going to be done in China. However, in China we will be a bit more focused in the expansion beyond the IT curriculum simply because we don't have the same reach that we have in India plus many other elements. So we will be extending beyond IT but in a very carefully calibrated fashion, but the IT curriculum itself is going to be expanding in China from what we currently have. And as I mentioned before the big data is one big theme, important focus of the Chinese government, the fact that they have invited us to contribute to that is a very positive signal.

Aseem Gupta

Yes, no doubt about that. Just on CLS, in an earlier question it was mentioned that we will continue to get, one to three new contracts every quarter and these contract size is \$1 million to \$5 million.

Vijay Thadani

\$1 million to \$5 million a year, it is typically a three to five year contract.

Aseem Gupta

Right. Now the issue is that I think we are already at a run rate of almost \$20 million a quarter?

Vijay Thadani

Yes.

Aseem Gupta

So actually even to replace our existing revenue is that like we are being conservative in what we are seeing in terms of incremental order addition?

Vijay Thadani

No, I don't think so. I think the \$20 million revenue which we have has another three or four years to go, if you divide 177 million by on an average four years, that's \$45 million of revenue already in pocket for every year and then you have the non-run rate customers plus growth in these customers, all those are there. So I think about two contracts a quarter on an average should continuous on a 20% odd growth rate, would that be right Sapnesh? Sapnesh is here, let him answer the question.

Sapnesh Lalla

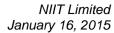
Yes that and renewals of existing contracts should keep us in good place.

Aseem Gupta

Right. So these are new contracts, but this would include renewals right?

Vijay Thadani

No, we would want renewals separately, these are extensions, extensions means earlier we were handling one part of the organization and now we are handling a larger part of the organization.





Rahul Patwardhan

But you have a point however that as we go beyond next financial year and thereafter we are focused at driving up the size of the ticket size of the relationships as well as the looking at methods to capture more of the visibility into concrete order book through a higher annuity component, that's part of the longer-term strategy of evolving our offers to customers so that we can make that happen, so that we continue the pace of growth beyond one year, two year, and three year.

Aseem Gupta

Right sir. And just some guidance on the margins in CLS going forward?

Rahul Patwardhan

I think we will continue at the same increment, given that as we add more contracts or expand the share of the wallet we also have transition cost to deal with, so I would say we will stay at the same pace of increment of margins.

Moderator

Thank you. Our next question is from Vinod Malviya of Florintree Advisors. Please go ahead.

Vinod Malviya

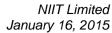
I would just like to understand the operating leverage in the Individual Learning Business. Now obviously at 77 crores revenue you have come out with a 10 crores of negative EBITDA while just in Q1 you were at 73 crores of revenue and 0.1 crores of EBITDA, so basically there has been something like 10 crores to 11 crores hit you have taken this quarter compared to Q1 on a higher revenue which says that this is not purely operating leverage, it is because of the restructuring efforts that you have taken. Now I have heard the restructuring efforts which is basically expanding the amount of courses that you are offering and so on. What I want to understand is how much of this cost is one-off and is it really one-off or is it likely to continue in the next quarter? And secondly, is it the new cost base because you are offering larger courses now, is this going to be the new cost base going forward?

Vijay Thadani

Okay. I think you asked many questions in one, but I would give a larger response. One is that between quarter one and quarter three we have had one staff cost increase because of increments and higher wages, the annual increments, that's one. And the second of course is the fact that the business transformation cost do put a double pressure and I think Pat will explain that to you that when you decide that you will combine two center you sacrifice some revenue in addition to reducing your cost so you get a double whammy on that. So in many ways during the transformation exercise you will notice that these changes are bound to happen. The actual comparison, if you really want to see a comparison is with quarter two because with quarter two the leverage works out exactly the same way because we were in approximately the same condition. But next year our fixed cost structure would have come down dramatically because of the business transformation exercise and therefore you should be able to see a much more benefit of having variablized the cost. That's my answer but let Pat add his bit.

Rahul Patwardhan

Yes, I think I would not repeat what Vijay has already said but our focus on the cost restructuring is with a view to bringing the cost structure in quarter one of next year to a level where we take a pessimistic revenue line for quarter one which we of course will do better than





that. But even if that happens our cost structure bring us back to profitability for the individual business, that is the intent behind the intensity and the debt of the cost restructuring effort. And as I said before the actions have been taken very-very quickly, we have got very little benefit of that in this quarter because we have also spent money to do this effort. We will start seeing some of the benefit in quarter four because we have noticed periods, leases and so on, three months typically. But from quarter one onwards most of the benefits would have been baked in and we will be seeing that for the whole of next year.

Vinod Malviya

Yes, understand. So I know that you don't necessarily give a guidance, but just on this point alone is it fair to assume that quarter four you are also likely to see some reasonable amount of cost hit because of the restructuring and the benefits are not flowing through fully?

Rahul Patwardhan

I would say yes.

Vijay Thadani

Yes, that's right.

Vinod Malviya

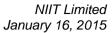
Okay. And secondly, you have been reporting the number of cloud-enabled courses and number of cloud-enabled enrollments and so on, so when I look at it in Q4 FY13 you had 27,000 enrollments and today you have 100,000 enrollments. I am wondering like what is the real benefit that, I would have thought the benefit was to come out of operating leverage or a reduction in the actual operating cost. So what is the benefit here because we don't see any benefit out of that and that's still one of the metric that you keep tracking and reporting regularly.

Vijay Thadani

Yes, I think we report those because one of the requirements in one of the feedbacks that we received is that if you take an initiative then take it to its logical conclusion of where it stabilizes. The other thing which has happened in the meanwhile is that the overall market size tapped and therefore the benefits of cloud campus are not visible. Just to give you one simple benefit which cloud campus gave straight away was movement from paper based course to digital course which straight away added 400 basis points to the margin. However, that margin benefit disappeared because right now we are operating at such a low capacity that the impact of operating leverage just clouds the whole issue of benefits which we got out of cloud campus. Second, in the early part of like any other technological investment you work with the manual as well as the technology-based solution in a parallel period and we served a part of that period and I think now we are in a much more stable form. So when we come out of this exercise perhaps we will begin to see some larger benefit.

Rahul Patwardhan

One more thing I would add to that is that it is a directional strategy to move from being asset heavy and technology intensive light to a model where we are technology intensive and asset light and that is in line with both what we are doing on moving most of our student base gradually on to the cloud platform and producing the number of physical brick and mortar centers that we own. This is something which is part of a much bigger vision of where we want to head and we are discussing this at the Board level in fact for the first time tomorrow but I





think we will be able to share more with you on some of the directional and changes that we are making in terms of moving towards a platform based business in the Individual Learning sector across all segments not just IT in the next couple of years.

Vijay Thadani

We will be sharing that with you in the Annual Investor Meet when we have in May, we should be able to showcase some of those things to you.

Vinod Malviya

Great, appreciate that. Just one more question on the Corporate Learning Solution, could you just talk briefly about the kind of contracts you would have lost possibly just for us to understand as to what is the potential out there and what are the reasons why you are using and why you would be able to make up and sort of grow faster there?

Vijay Thadani

Yes, Sapnesh will answer, he is the guy who faces the bullets.

Sapnesh Lalla

So just like Vijay pointed out I face the bullets, the bullets typically come from the likes of IBM, Accenture, ACS, Xerox and Raytheon and General Physics, so we are in a highly competitive marketplace. Some of the contracts that we lose are contracts which are part of an HR outsourcing initiative where training given that it falls under the HR umbrella, several times pure play outsourcing companies provide a better or a large play to organizations and therefore it might make sense for them to include training as part of an HR outsourcing initiative. Though, over the last six quarters or so we are starting to see cooperation's discern between HR outsourcing and training and they are starting to see that training is a distinctive activity and HR outsourcing journalists have a hard time delivering on those outsourcing contracts. So sometimes like is said we lose to large outsourcers when training is bundled under an HRO contract but we are starting to see that change to some extent now.

Rahul Patwardhan

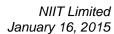
Couple of points that I will add to that, Sapnesh and team have been working very hard on improving the qualification and conversion ratios and we have seen some improvement over the last two or three quarters. The other thing that we have also noticed that there is increased pull from the market not just in terms of our own push driven sales activity but we are starting to get these customers contacting us of their own accord asking us to participate in RFPs and RFIs.

Moderator

Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to Mr. Vijay Thadani for closing comments.

Vijay Thadani

Thank you very much once again I think for a fairly intense discussion and as I always mention many of your questions make us think again and strengthen our belief in what we are doing and to that extent I am very-very thankful to you. If there were any unanswered questions or you have any follow-up questions, please don't hesitate to contact Kapil Saurabh in Investor Relations and he will ensure that whoever you would like to talk to is made available to you. We are as-always always available for any further discussions, suggestions,





advice, guidance, and of course we are perpetually thankful to you for your cooperation and support so far. With that I thank you for being on the call.

Moderator

Thank you members of the management. Ladies and Gentlemen, on behalf of NIIT Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.