“NIIT Limited Q1 FY16 Investors Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the NIIT Limited Q1 FY-'16 Investors 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 this conference 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: Good Afternoon. Thank you very much for joining us on this call. We are very happy to see such a large number of people on the call and I know it is a busy season so we would like to come straight to the point. This is also the first quarter in which Rahul Patwardhan who took over as CEO that he would be reporting the performance of the company and I have along with Rahul, our colleague Shivan Bhargava who is the Group President of the Skills & Careers Group; Sapnesh Lalla who is the Group President of Corporate Learning Group; Rohit Gupta who is the CFO; Gaurav Relhan who looks after Business Planning; and Kapil Saurabh responsible for Investor Relations, Rajendra Pawar who is the Chairman of the Company and P. Rajendran who is the Joint Managing Director. So all of us will answer the questions. I would first request Rahul or Pat, as we call him, to give a brief to all of us on this quarter results, at the end of which I would also like to give a small update on last year's results and the AGM dates that got finalized today.

Rahul Patwardhan: Good Afternoon, Ladies and Gentlemen. For those of you who I met on the 27th of May, good to meet up with you again virtually and for those of you who I have not met before, Welcome to the NIIT Quarterly Results Conference.

This is my first quarter formally announcing the results for the quarter as the CEO of the company. So, if I am little inexperienced I am sure you will excuse me. This has been a very busy quarter as you know the first quarter of the year for NIIT is when things start picking up substantially but in addition we have been through a major business transformation and completed that at the end of the last quarter with some activities with respect to Training and preparing of the people for the new model going forward also spilling over into this quarter. It is also a very busy period for us in terms of appraisals and setting goals and targets for individuals and I am happy to let you know that 98% of all employees of NIIT within the few weeks after the beginning of the year had their official targets and have completed their appraisals for the last year to drive a consequence management and performance management epic into the organization. We have also done a number of things in terms of the schools de-merger. The finance team has been very busy with the Scheme of Arrangement. The SCG organization has been very focused at getting ready for the season. We have had a very intensive communication program across the company with our annual days in every city. We have also had very detailed and insightful discussions into the future of the organization of the core management team. And apart from that you have seen we have had a rebranding campaign that started off towards the end of June and we have also been pretty active in making our plans and directions and our rebranding in the market much more visible.

So I am going to take you through a few headlines: First, NIIT overall is back to growth and back to profitability in Q1. This is on the back of sustained growth and margins in the Corporate Learning business and a significant turnaround in the Skills and Career business which is a direct outcome of the successful business transformation not just the cost restructuring but also the activities which we have done as part of business transformation to drive revenues. Also, the completion of the subsidiary formation in the Schools business. The new branding campaign NIIT "The Place to go Places" clearly communicating the fact that NIIT is now no more just an IT Training company that is in all different sectors and that is further compounded by our intense engagement with the Skill India Program and the Pradhan Mantri Kaushal Vikas Yojana Program which kicked off in July where we made a commitment to train 10 million people over the next 5-years across 16 industry sectors.

The Corporate Learning business grew 15% year-on-year with a 12% EBITDA, increased its visibility to US$200 million, with increased order intake of $27 million which was up 67% Y-o-Y, five new contracts, one new large pharmaceutical customer. In the Skills and Career business, we halted the de-growth and we have reached breakeven and all this on the successful business transformation, a little bit earlier than expected, so I am hopeful that we shall see a more increased improved results as we go in rest of the year.

Very importantly, Beyond IT grew from 34% in Q4 to 39% in Q1. Our channel did well; there has been a 7% Y-o-Y growth in our channel driven business which is through our business partners in India, and, of course, as I mentioned we successfully engaged and completed the pilot with the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and are ready to tap opportunities that are emerging in that space.

Schools Business: We maintained the EBITDA margin with slight improvement of a few basis points. We added 111 Schools. We completed the subsidiary formation. And we also have initiated the more intensive growth planning to now exploit value from the new subsidiary.

The top level in the numbers: We grew our net revenue by 4% to Rs.233.2 crores, our profit after tax increased from Rs.0.6 crores last year same quarter to Rs.15 crores this quarter and our EBITDA grew from 6% to 7%, an increase of 135 basis points.

If you look at the environment, the global economy continues to remain in transition. We are starting to expect tightening of monetary conditions in the US, geo-political risk and sharp volatility in exchange rates, commodity prices can create both risks and opportunities; however, the Corporate spending on Training in US and Europe remains robust and we are continuing to see increased interests among the large companies to drive efficiency and effectiveness in Training to improve business performance and we are starting to note that in Indian corporates too.

The Skill India Mission has been launched and the PMKVY, a scheme under the Skill India Mission has been launched. All this provides a substantial opportunity going forward.

Apart from that we see continued focus on technology being applied into the Education and Training space and that is something that we are engaged with through our Cloud Campus and our Synchronous Learning Platform.

Just to give you a Summary view: The NSDC had a survey conducted about the demand for new skills in the different industry sectors. The expected amount of new people that need to be trained to enter 32 industry sectors is about 100 million people and another 400 million people need to be reskilled if India is to be able to achieve its potential in terms of two things — be more competitive internationally, to be competitive vis-à-vis multinationals who are going to be much more free to come into the country and most important to bring jobs from aging western economies and developed economies to India. And for that raising the skill levels of the existing work force across all industries to world standard is a very serious imperative. So all good opportunities for NIIT with our scale and our reach to make and deliver services across the whole country.

If you look at our growth platforms, our Corporate business the primary growth platform was MTS or the Managed Training Services. We grew our customer base from 21 customers to 25 customers year-on-year, we added one new customer in this quarter. Our revenue visibility grew from 180 million last year same quarter to 201 million. Our Skills and Careers and our Skills business, we have merged them together into a common group which we are calling Skills and Careers now or SNC is the code that we are using to reflect that business and there are two growth platforms here — one is the whole dimension of expanding the product portfolio to Beyond IT and a lot of initiatives as I mentioned are being taken in that space — the second is the leverage technology through the Cloud Campus. So we have a few new metrics here. We are measuring now the percentage of our revenues that are coming from Beyond IT which has grown from 34% in Q1 last year to 39% in this quarter and in fact it also grew 34% last quarter to 39%, so there has been a 5% improvement in this quarter alone. For our Physical Centers, 58% of our centers in India and China and anywhere else are now Cloud-enabled which means that we can offer Cloud-based services to students in those centers. 75% of our product portfolio is Cloud-enabled and our Indian capacity utilization has grown from 31% in Q4 to 38% in the month of June, this quarter.

In the Schools business N-Guru being the platform, we signed 111 schools and raised the number of schools that we have addressed to 2738 (cumulatively) and our focus business going forward when we exclude the Government business that we have already decided many quarters back that we are exiting, if we leave that aside, our focused IP-led Private Schools business contributes 30% of our revenue today.

I would like to highlight when you look at the overall NIIT results that our operational PAT if we exclude the profit that comes from our partner from our investment in NTL has come back to black after 10-quarters. Our EBITDA in the SNC business is the best Q1 in the last 4-years.

If you look at the business mix Q1 last year our Corporate business was 49% of our revenue and now it is 55%, our Skills and Career business was 33% has come down to 31%, the Schools business was 18% has come down to 14%. If you look at EBITDA, the Corporate business was predominantly the one that was delivering the EBITDA at 101% and schools were delivering 17% but the Skills and Career business was eating up of the margin by 18% last year same quarter. This year basically the Corporate business and the Schools business are delivering the EBITDA with the Skills and Career business is essentially flat.

If you recall for those of you at the Investor Meet in Mumbai on 27th May we had indicated our plans for the year going forward, we said that our Corporate business will grow at 15% over the year and at 12% EBITDA, and as you have seen for this quarter we have delivered on that. For our Skills and Careers business, we said that we will be back to growth and back to profitability over the year and we have been essentially able to get to that at the end of the Q1 and obviously we now see improvement as we go forward. In the Go Forward business or our Focus business in the Schools sector which is essentially the IP-led Private Schools business, we said that we will grow 10% in the top line and 10% EBITDA. We have been very focused over the last 2-3-months at the subsidiary formation and putting together the plans for how we want to grow this business. So we will start seeing those numbers coming through over the rest of the year. Obviously, the large amount of work ahead of us, we have just taken the first step, we had a very clear plan on business transformation that we wanted to execute, we had a clear view of what that business transformation would translate to in our Q1 numbers and I am pleased that we have been able to get to where we wanted to get at the end of this quarter, but obviously a lot of work ahead to make sure that we continue to deliver on this trajectory over the years.

A couple of comments on our balance sheet: Our net debt has risen from 678 million to 1053 million primarily on account of seasonality because we have substantial billing that happened towards the end of the quarter, but, more importantly, there were some government schools contracts where payments have taken a little longer and slipped over into this quarter. In addition to that we had planned CAPEX investments which are to do with expanding the capacity of our Corporate Learning Group since its growing 15% per year, we have to build capacity and more important, we also have a once in 3-year investment that we have to make in software licenses which happened in this quarter. Our (operational) ROCE is now reflecting 5% for the quarter.

If we go to people, our head count today stands at 2,695 at the end of Q1, down from 2,786 at the end of Q4. We have been very-very tight in managing all additions to our work force and very-very focused on our people productivity and I think we can see the results have come through. The decreases in head net count have primarily been in the SNC or Skills and Career business and a little bit in the Schools business.

Shareholding Pattern: My last comment. We have seen a noticeable increase in the FII investment which grew from 10% of holding to 13% of holding over the quarter.

For the future direction, I would like to restate again. We continue to hold to what we said in May, our Corporate business will grow on top line by 15% over the year and EBITDA margin at 12% over the year. Our Skills and Career business will be back to growth and back to profit and our Go forward or Focus Private Sector School business will have a top line growth of 10% and our EBITDA of 10%. And with that I would like to stop and take questions. Thank you.

Vijay Thadani: I just wanted to give an update along with this quarter's results. Today, the board also had a discussion on updating the results which we had announced on 27th of May. Just to give a background, we had undertaken as you know a composite Scheme of Arrangement for rationalization of subsidiary company structure as a part of our business transformation initiative, this included amalgamation of three wholly-owned subsidiaries, all of you would remember Scantech, NIIT Online and Evolv Services. And while finalizing the accounts on May 27th the board wanted to record the assets and liabilities of these amalgamating companies on fair value basis; however, given the specific nature of the amalgamation and the technicality of the matter, it was felt that an opinion we sought from Expert Advisory Council of the Institute of Chartered Accountants of India; however, given the mandatory timeline that we have for announcement of results based on our expert advice it was decided the pending receipt of opinion from the Expert Advisory Council, the assets and liabilities of the amalgamating companies will be recorded at respective book values and that was to be on a more conservative basis, and necessary adjustments if any will be made after the opinion is received. I am pleased to inform you that the EAC has now clarified that the recording of assets and liabilities of amalgamating companies at respective fair value is compliant with the accounting standard and Indian GAAP and therefore the financial statements in today's board meeting the board has approved the financial statements to be updated accordingly. The impact of this transaction is that, there are some changes in the balance sheet, there is absolutely no impact on the profit & loss accounts, the nature of changes in balance sheet is the creation of a capital reserve on amalgamation line item and that line item will appear both in the standalone as well as the consolidated balance sheet. It strengthens the balance sheet and reflects the true value of assets and yet while calculation of return on capital employed on the consolidated companies, the capital reserve as per the Institute and Company Law guidelines is not to be considered. So to that extent it would be very beneficial to the strengthening of balance sheet program of the company. I thought I will give this update, though it has all been provided to the Stock Exchange even today as well as on 7th of July when the board meeting was announced, and also a detail of all this will be available in the MD&A which will be circulated along with the Annual Report.

Based on this and the finalization of Annual Report, the AGM of the company has now been fixed for 8th of September at New Delhi, and we would very much like all of you to join us at the AGM as well. So I will stop here and now the floor is open for questions and all my colleagues will join in answering these questions.

Moderator: Thank you, sir. We will now begin the Question-and-Answer Session. The first question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: This is more of a medium to longer term view. Historically, in the past we used to make close to (+15%) margins on the Training business before we saw the headwinds and there used to be a breakeven factor in terms of capacity utilization, just to be something like mid-60 kind of a level. Given the change in the business mix and we have broken even at about 35% capacity utilization currently, could you give us some sense on when do you expect to get to that kind of capacity utilization, and what kind of margin levels should we look at more from a 3-5-years perspective in the side of the business?

Rahul Patwardhan: It is a good question. This business is a highly leveraged business but I would heighten to say that it was much more highly leveraged earlier when we had substantial own capacity in the business. Today, we have a mix of businesses because we do a lot of B2G business with government for skilling, we also do business with the Corporate sector in India and we have our own centers and we have the business partners and we have some international geographies. So there is the mix as you rightly put it has changed. Having said that the whole purpose of the consolidation that we did in Q4 was to look at the capacity very carefully and bring it to a level which gave us confidence, comfort that we will be able to bring very quickly the business to breakeven first and then to profit. So I think everything is dependent on now the success that we are able to achieve in growing the Beyond IT portfolio of business and capitalizing on the opportunity in the market. At this point of time, we are not prepared to give any specific forecast on revenue growth of this business and EBITDA of this business, I would reserve my comments as we start demonstrating results in this area quarter-to-quarter.

Manik Taneja: But, you would have looked at competition, the space, what kind of stable margins that people can make in this part of the business, if you could give us some sense or say is there a possibility that we can also move to the margins we have had historically maybe over a 3-5-year timeframe?

Rahul Patwardhan: I think the issue is unlike other industries we do not really have a bunch of competitors who can really benchmark yourself against. There is a whole wide range of margin levels in this industry depending on the size of companies and there really is not anybody else of our size to compare ourselves with. But, in a theoretical way, I would say that if we can achieve capacity utilizations which are 50-60%, then obviously, our margins are going to be substantially better. At this point of time that is all I am willing to say.

Manik Taneja: You talked about consolidating your capacity across different dimensions. So if you could talk about what steps you have taken with regards to the business that you do through your partners on the Skills and Career?

Rahul Patwardhan: A good question. In the last quarter, as I had mentioned, as was designed at the Investor Meet in May we discussed the various consolidating activities we did, we reduced the capacity of our own centers, we also took a hard look at our business partner network and looked at partners who were not performing and not doing very well or some of them were not actually operational. So there also we have taken some cuts. Third we did a restructuring of our head count in this business and de-layering of the business. And fourth, we have also exited certain international geographies. All this was completed in Q4 itself. So nothing carried forward into this quarter. In addition, if you look at our product portfolio, we reduce the product portfolio from almost 200 courses down to little less than 100 to make sure that we are focusing on products which we have greater confidence will deliver revenue growth and margin. On the other side, we look to the channel and we basically focused at converting all our channel partners progressively from what was initially single brand outlets essentially offering only IT Training to making them all into Multi-Skilling Centers where every center will progressively offer entire curriculum of NIIT across all subject domains. In this quarter, we made substantial progress in this area specifically around our Banking range of curriculum and our Management curriculum, and as I mentioned before, a percentage of Beyond IT has now grown from 34% to 39%... one statistic which I did not highlight was that our business from our channel has grown 7% year-on-year which is a very important indicator because it tells us that our distribution channel is now starting to grow.

Manik Taneja: So, while you did allude to the progress on capacity utilization, we as external stakeholders should be looking to you albeit the progress of this side of the business, what metrics would you advise us to track to understand if things are progressing in the right direction?

Rahul Patwardhan: The metrics that I shared with you are the ones that I would like you to track. What percentage of our revenue is continuing to grow from the other domains because as I mentioned, the total demand in the market for skills, IT is actually a very small component in the total demand, and the more we can start tapping into other sectors obviously, we will be able to increase the potential for growth. So that is one metric. Second is that we are making sure that we enable all our physical centers with access to technology so that we can have Cloud-based delivery that makes it easier for us to get a wider range of courses to every outlet. Remember, good faculties are difficult to get across the whole country. So the more we are able to deliver using technology we can reach much larger numbers even by having faculty and experts from central locations. Third is our product portfolio itself needs to be technology-enabled because it is not enough to have the technology for delivery, but the products must be technology-enabled and therefore the metric of over a period of time is every course of NIIT Cloud-enabled which means that it can also be delivered through technology. That is one more metric. And of course, the most important metric for the physical capacity investment that we have is the capacity utilization going up. You must remember that owned center revenue is a part of our total revenue. So you should not draw conclusions on the overall business success only on the basis of center capacity utilization because it is a product mix based business. So portfolio management is going to be very important for us in making sure that while one part may go down little bit or not grow that much in a particular quarter, other parts will make up for it.

Manik Taneja: But, where are we currently on each of these parameters if you could give us some sense in terms of what is the mix of owned center revenues within this group, similarly, how many Courses are tech-enabled and…?

Rahul Patwardhan: I just mentioned it in the beginning, I will repeat it again. Beyond IT grew from 34% in Q4 to 39% in Q1. The percentage of our physical outlets which are Cloud-enabled this is not just our outlets, but our outlets and our business partner outlets; 58% of our physical centers are now Cloud-enabled, 75% of our Courses are Cloud-enabled and our capacity utilization has gone up from 31% in Q4 to 38% in June this quarter. And I do not mean the quarter by end of March it was 31% and end of June it is 38%, so it is a point in time number.

Manik Taneja: Capacity utilization is only for own centers or this includes both the channel partners?

Rahul Patwardhan: These are only own centers because this is where our own assets are invested so we are tracking this metric because this has direct impact on the profitability of NIIT's business.

Manik Taneja: What is the mix of your own center revenues within the SCG Group?

Rahul Patwardhan: I do not have the number right now but we do not report it also separately because as I said we are doing a product portfolio-based business at SCG.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, my question is again revolving on the utilization levels. Sir, this improvement from 31% to 38%, is this because you have closed down the facilities or is this the absolute increase?

Rahul Patwardhan: A good question. Obviously, it has impact of both. When we did the business transformation, as I shared with you in May, we took decisions consciously to make sure that the result of our action will guarantee that we will be back to profit in this year irrespective of the range of possible revenue that we might achieve because there is always some range. I think we have been able to deliver on that. But what I important is that as I mentioned channel revenues have grown year-on-year, we have seen improvements in fresh registrations at own centers. So we are seeing various green shoots in terms of growth. So overall we can see that we will be back to growth as far as the top line is concerned for the year.

Ritesh Poladia: I believe you will not comment what kind of capacity utilization you would be looking at end of the year?

Rahul Patwardhan: You are right.

Ritesh Poladia: On the Beyond IT side of business, if I see on an absolute basis, the growth is about 10-11%. Are you satisfied with these numbers or can this go up?

Rahul Patwardhan: It is 12% to be exact, but you are right, the potential is enormous but you must remember that we also have to gear up and get many things in place to be able to capitalize on that potential. There are also many constraints because we are talking about the demand is scattered across the whole country, not necessarily in the towns and cities where we have our own centers. So we have to progressively build up the distribution channel to be able to reach the demand in terms of the students who need to be trained on the one hand, second, if you look at the Skill India Program a large percentage of the training is going to have to be funded through government spending and that has its own cycle time in terms of how it picks up. But you are right over time this number and that is why Beyond IT revenues should grow and should be substantially higher as a percentage than it is today over the next few years.

Ritesh Poladia: On the New Digital India, specific to Skills, you have taken a target of about a crore people to be trained over the next 5-years. Sir, is there any investments firmed up for this venture?

Rahul Patwardhan: First, I would like to clarify that it is not for Digital India but Skill India. Digital India is the technology infrastructure that we will be able to leverage because it will provide broadband connections into towns and villages and mobile access all over the country and all that will be bandwidth and technology which we can use to rapidly scale up the skilling activity under Skill India. So that is the context important. In terms of investments, I think the model that NIIT is following is going to be asset-light and technology-intensive. Today, we have a large network of business partners. We are continuing to grow the network of business partners through a hub-and-spoke model because we have business partners in B and C class cities but we do not have business partners in smaller towns beyond that. So we will have a spoke centers which are essentially partners who provide facilities, infrastructure and the acquisition of students. So whole model is going to be partner-based on the one hand and the other hand is technology-based where we will deliver things using technology more and more. So investments are not substantial because there is no brick-and-mortar investment that we are envisaging in this business.

Ritesh Poladia: I believe there would be an element of subsidiary in this business. Who would bear the subsidiary?

Rahul Patwardhan: The models are different in how the Skill India activity is happening. There are certain components where students actually paying. So we have B2C component. There are certain components where it is a part student pay, part government pay, there are certain models where the government is paying for everything but based on results. But what is important is that we are very carefully looking at all the models and employer also pays in some cases. So there are different models available. We are very carefully scrutinizing the entire range of contracts that are being put out in the market and we are being very selective because as you know we have had collection issues with the Government Schools business so we have no desire to get back into that state we are only engaging with contracts where there is a positive cash flow structured in the overall contract cycles format, and, in fact, we turned down many opportunities strictly on that basis, which in turn by the way will have its constraint on how much we could actually grow and therefore the growth may not be as huge as it might appear because we would be selective about the business we will go after.

Ritesh Poladia: Coming to Schools business, is there any difference between IP-led Private School business and Private School or it is one and the same?

Rahul Patwardhan: A good question. After the Government Schools business that we have started many years back we had also adopted a similar model (in part) in the Private Schools to begin with, where we used to provide all the hardware and a complete turnkey solution into the schools. So that was an asset-heavy Schools business. Some time back we took a decision that we are not going to go into further contracts with the Government Schools model and we also took a decision that we will not do any more asset-heavy Schools business where we provide lots of computers and infrastructure. So our focus is we want to add value in Schools and it's going to be based on providing IP which is course where content, teaching systems, and people-based services.

Ritesh Poladia: So right now your focus is on this 30% of the revenue and not on the 70% of the revenue?

Rahul Patwardhan: Yes because that 70% we have already stated quarter-after-quarter that we are in the process of exiting it and we have a few contracts left which will carry forward and 2-years from now we should have exited all these contracts.

Ritesh Poladia: Right now, what you have added is 111-Schools, all the Schools are on IP-led?

Rahul Patwardhan: Absolutely, we do not do any more asset-led contracts.

Ritesh Poladia: Board has also issued 1.5 million ESOPs. To whom these ESOPs have been issued?

Rahul Patwardhan: This is a select group of management in the company and to align them to the results and success of the business going forward.

Ritesh Poladia: Still we are reporting official result on a standalone basis. Do we have plans to report on the consol?

Management: We are reporting on standalone basis. The reason being there is a trade-off between reporting them early versus having them audited and then reporting them after a long time. So quarterly results we will continue to give on an unaudited basis. Just to let you know the company is accountable for the unaudited results as much as it is accountable for the audited results, because at the end of year if there are massive differences or major differences between unaudited and audited results then those are not permitted. We want to make sure that we are able to report our results on time so that our investors get an update on the company as fast as possible.

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

Ganesh Shetty: As a part of transformation journey, we have completed our first phase of restructuring in the Q4 and we are into the operational excellence in the first quarter of this year. Can I know how much we have progressed in that particular phase?

Rahul Patwardhan: Operational excellence is all about breathing growth and energy into the system that has many dimensions — one is the people dimension itself. We have engaged in very-very extensive communication across the whole organization. All the senior management have been traveling around engaging with every NIIT-ian telling the same story, the same message, the same direction so that they can galvanize the full energy of the entire NIIT population, very important. You cannot measure the results and what might come out of this but as you can understand this is really important to set the whole organization in the same direction. The second thing that we have done is especially in the SCG business because there has been a huge restructuring in that business. We focused very heavily on making sure that what was the restructuring we had many-many different branded channels. So we had a banking training center, we had a management training center, we had IT training centers. So, all the staffs were in the little silos in the past. Now, we have only multi-skilling training centers where everybody who works in those centers wears one hat which is the SCG hat, not a management hat or a banking hat or an IT hat, apart from of course the expert faculty who will come from the relative disciplines. But the sales force who work in the field, the counselors in the front office, and everybody else, has to now be adept at offering and managing across all the businesses. So, the intensive training that has happened in the month of April, in fact that has had a little bit of impact in the results results would have been better if people had been completely ready but they had to be ready sometimes so the training happened in April. Thirdly, it is the energizing of the channels because that is a very-very important asset for us, especially now introduced asset-light and technology-intensive. The physical distribution channel of our business partners becomes more and more important. And we spend a lot of time making available the whole range of products. Earlier, we used to have a policy that every single new product the business partner offered, they had to go through a legal agreement and sign up and there is an upfront payment. So basically we are making it very difficult and it took a long time for a partner who wanted a new product to sign up for a new product. We took a policy decision that all products are available to all partners. Basically, we made it much simpler for them to sign up, and we have seen substantial in terms of very large number of business partners have signed up for more than just the IT curriculum, and the net result you have seen is a 7% growth in revenues from the channel in Q1 over the same period last year. So many-many dimensions. We have been working very hard in all the businesses in all the dimensions.

Ganesh Shetty: Year-on-year, quarter-on-quarter, Corporate business is a bread-and-butter I think, this time also it has performed excellently. Is there any possibility of inorganic growth in this Corporate business, can you throw some light, over the period of 2-3 years, whether we are looking for any inorganic growth in this particular sector?

Rahul Patwardhan: Good question. In this industry there is only one pure play company who only does corporate learning or managed training services internationally, all other companies who we compete with actually have much bigger other businesses. So, our focus is to see how can we on the success track that we have had so far, accelerate a bit faster so that we can catch up with that player who happens to be completely US-based and therefore, historically, the size is larger than us, and therefore, we are looking at all avenues, we are trying to see how we can drive up our organic growth higher by focusing on larger ticket deals, longer annuity deals which I talked about also in May. We are also exploring possibilities. Wherever any possibility comes up, we will explore it seriously for inorganic acquisitions, but there is no specific plan that we have a mandate to do an acquisition by a particular date. Things do not work that way in this industry. Also, important to note that there are not many companies in the world acquiring in this space. So one has to be extremely careful to look at acquisitions in this sector.

Moderator: Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: I had a couple of questions on the Skills business. Firstly, you have elaborated quite a bit on the steps which you have taken to improve the profitability. If you can just throw some more light on how the fixed cost base on a quarterly basis or an annual basis for this business, how much was it in the previous quarter and whether there is any further scope for reduction in the fixed cost base for this business?

Rahul Patwardhan: While I cannot give you the absolute number the off-hand, we did share in May that the restructuring efforts would lead to a saving on annual basis of Rs.25 crores over the next four quarters which is Q1 to Q4 of this year and thereafter steady state. I am happy to say that we have been able to get the results that we wanted to achieve through the restructuring in this quarter which is roughly one-fourth of that.

Dipen Shah: So, should we understand that debt part of the restructuring is over and further improvement in margins can come only from the top line growth?

Rahul Patwardhan: It depends on the business. So the Skills and Career business that would be largely true because operating leverage and the Schools business also, and seasonality is also there in the Skills and Career business, but in the Corporate business, we are focused on improving productivity…I would like Sapnesh to talk about what we are trying to do to drive up margins over time in the Corporate business. Sapnesh?

Sapnesh Lalla: As you know, productivity has many dimensions; one of the dimensions is how can we do more work with the same resources or a fewer resources, how can you improve your offshore-onshore ratio, how can you improve the pricing of what you get or is the yield of what you get paid for. And we are working on all three of these dimensions. We have a number of projects on and we are starting to see initial success. These changes take time to take route. My expectation is that these changes will start taking route and we will start showing up in our numbers over the next 2-3 quarters.

Dipen Shah: More on the Skills and Career business: I heard in the opening remarks that the benefits which have come in have been slightly front-ended and they have come in probably earlier than expected. So, on the top line front, I would just want to understand in the last year we had degrowth of 16% to 20% on a YoY basis in all the four quarters. This quarter we are almost at flat. So any major trends which you have seen as to how this sudden improvement has come about from (-15%) to (-20%) to a flattish growth and whether this is something we should take it as a base and move ahead?

Rahul Patwardhan: A good question. This is obviously, one of the most important things that we are engaged with in turning around the business, because cost restructuring is all very well but unless the revenue line starts moving up, cost restructuring cannot be the solution. So, what we have seen here a few important things – one is there is a difference in the product mix. That is up something to be kept in mind. We have IT Training, Banking Training, Management Training, Skill Training, and the work we do for corporate customers in India, and there is also work that we do in the international geographies. The only thing that has actually been steadily degrowing in the last few years was the IT piece. Second is channel versus own. So that is the other perspective of managing the channel versus managing our own distribution network. What we have seen is a few important things – One is the product mix in all the other sectors apart from IT has obviously grown, which is why beyond IT share has increased from 34% to 39% — Second, the channel has done better, because it has grown YoY by 7% rejuvenation and it is directly as a result of the fact that we started converting them into multi-skilling centers. Banking Curriculum, for example, has done much better this year and largely due to the fact that many more business partner centers are offering the Banking Curriculum than they were doing last year. So, there are overall product mix issues. So we are now managing this business as a portfolio of curriculum offered, a portfolio of products offered through single distribution channel. So, think of it like a retail business which has many-many products sold through the same store and it is our job to manage the mix of those products to deliver the maximum revenue and margins from each store.

Dipen Shah: If I actually split the business into the IT and Beyond IT, Beyond IT has grown by 20% as compared to the previous quarter, and the IT business has also remained flat. So, anything more to read in the IT business, whether it has also recovered or it is only the Beyond IT which has actually started changing the scenario?

Rahul Patwardhan: The primary growth has been Beyond IT. In the IT sector, we are seeing changes in the marketplace. I see two significant change levers as a person who has worked in IT sector for the last 10-years and managing a very large business in software services. One is the whole digital phenomenon, which is leading to most of the new development work happening in the IT Services companies is around a whole bunch of new technologies which is creating major challenges in most of the IT services companies because the existing workforce is not equipped to handle the new technology range that is required which is why for example you see a news article from TCS saying, they want to train 100,000 people on new technologies and Infosys says, they want to train everybody on design thinking. But, those are very different courses, new curriculum, and many-many specialized areas. So we are seeing this industry will move into a wider portfolio of products, smaller volumes for each product, higher price tag, and shorter durations. That is one. Second is the whole issue of automation, that is entering the IT Services industry which would mean that there is a large work force of people who are, should I say like pawns in a chess game, who had basic skills which was okay in an environment where when you are working in 500 man teams each person can do a specific task. Automation will happen at the lower end of the spectrum and therefore the roles that are required will be at higher level and much more versatile. And we also have the start-up industry where we have many-many companies that are requiring IT people but these people are not the same kind of people that were required by Infosys, TCS, Wipro in large numbers, these are more all round, full stack, versatile, skill people. So, we are actually working on a product curriculum to cater to this new demand. We have already launched a number of courses in this area, for example, Security, or Business Analytics or Digital Marketing and so on and we will continue to do that. So, there is going to be a transformation in what we are doing in this space which I hope that as we go forward we will start seeing the results of that.

Dipen Shah: Lastly, on the Skills business, the government Skill India Initiative, you have indicated you will be covering about 16 different sectors in which you would provide training. Could you just give us some color on some of the probable sectors which you would like to target?

Rahul Patwardhan: We are in IT, we are in BFSI, we are in Retail, we are in Telecom, Healthcare is one, because a lot of technical professionals required in the Healthcare sector, Travel and Tourism. Our focus is going to be on the service-based sectors to begin with because that is the sweet spot which does not require substantial capital investment by us or by the business partners. But, as we go forward, we may enter other sectors too. So, this statement of 10-million people to be trained across 5-years in 16-sectors, is a 5-year program, not a 1-year program. So, currently, we will focus largely on the sectors that we are already engaged with, for example, the demand for Retail over the next 5-years or 10-years is many times larger than the demand for people in the IT sector or BFSI sector put together. So, there is a lot of headroom in many of the sectors that we just entered in a small way. So initially, we will be focusing largely on those.

Dipen Shah: Any probable timeline which you can give us when we will actually start seeing the Skills India Training actually impacting the revenue in a more significant way?

Rahul Patwardhan: One statistic that I can give you is that our overall SNC business degrew (-3%) but if you leave aside the international geographies that we exited and decided to exit in Q3, Q4, and you do an apple-to-apple comparison of Q1 to Q1, then actually we degrew only 1%. So, we are already there; we are back to flat and the trajectory now should only move upwards. As you know, Q2 is normally the best quarter for the Skills business.

Moderator: Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Sir, how much is the net debt as of now?

Rahul Patwardhan: We ended last quarter at Rs. 678 million and now 1053 million. There are key two components which contributed to that – one was the slightly delayed Government Schools collection; second was planned investments in capacity building for the Corporate business and Microsoft licenses which we buy once in 3-years.

HR Gala: How is now our overall receivables position?

Management: Our overall receivables are to the tune of 2458 million this quarter as of 30th June. So there is a little increase from the last quarter which is reflected on the seasonality that we see during the

Q1. And as also Pat mentioned earlier, because of the billing which happens in Q1, the collections that we have not received from the Government Schools has resulted in receivables.

HR Gala: In terms of DSO, how much it is?

Management: 93-days.

HR Gala: By end of the year what will be your plan like?

Management: Our plan is to bring the DSO days down and we have been able to bring the DSO days from 119-days last year to 83-days last quarter. It has moved up slightly this quarter because of large billing and as we get the Government collections in place, you will see a significant improvement in the DSO days.

Management: I must also mention that the overdue DSO days are only 51. It is because as Pat rightly pointed out because of the nature of the billing which takes place in the last week of June are DSO days will be higher.

HR Gala: Another question will be that you are laying a lot of emphasis on this Skill India and other things and you rightly said that you will be very careful in selecting the model so that not to get back to the type of situation which was arisen in the Government Schools business. Will this all be sponsored programs or can there be the individuals coming on their own to take up the core and then go to the different kind of job opportunities that might arise either under Digital India or Skill India and different programs?

Rahul Patwardhan: I think the reality is that you will have both. As I mentioned, there are completely different models and we are engaged in many different models at the same time. There is one model where industry says, “We want people. We will pay for them. Can you NIIT go and find them, train them and supply them to us?” Which is completely nothing to do with the government at all, it is completely industry-funded. The second model where the industry says, “Can the students pay but we will lend our name and we will give some kind of indication that we will recruit these people if they meet up to the certain standards?” So we then market those courses around the country, students pay, join the courses, and then there might be reimbursement for the course after they join the company. So that is a second kind of model. There is a third model where the student pays partly and the company refunds partly or pays upfront to us partly. Then there are government-related programs, some central government programs, the entire program is funded by the government; we get a tender, we bid for the tender, we win the tender, they pay us in advance, we mobilize students, we train them, we get them certified and at each milestone of that process, we get paid and the whole contract is structured in a way which is cash flow positive. So as long as we deliver on those milestones we are protected. There are other programs where we get the contract, we have to train and when the result is the student has passed the course, gets a placement and he then produces his skills voucher to the government, the government pays him and automatically the money gets transferred to us. This is one where there can be a delayed cash flow to us. So, we are very careful about this kind of program. We would rather focus on the earlier one, there is enough demand in the earlier categories to give us reasonable growth.

HR Gala: So then you will be very careful in selecting amongst different things?

Rahul Patwardhan: Absolutely.

HR Gala: As far as Corporate Learning is concerned, where we say that we will be able to maintain around 15% type of revenue growth. Now, this Corporate Training, is it mainly IT or is it also Beyond IT?

Rahul Patwardhan: It has got IT as incidental, so to give you an example, if you take the recent contract that we won with one of the largest pharma companies in the world in the month of April, …I cannot name the company since we are not allowed to…

HR Gala: Is it US-based?

Rahul Patwardhan: It is a global company. This company has contracted NIIT to be the strategic sourcing partner for all training that is spent external to the company, which means any money that they spend on training which goes outside the company's own training centers and training academy, is routed through NIIT and our job is to manage all training partners globally in every country that they operate in and make sure they get the results that they want out of the training, and we have therefore a complete insight into the entire training spend of this company and we can then offer to replace partners with our courses on any subject or build content on any subject so that they do not have to keep paying for the training again and again, when they get a one-time course which is built by us online. So, it has got nothing to do with IT. There are also customers who are in the IT sector, but that is just because they happen to be in the IT sector. So, our main focus in the industry is by the way are Oil & Gas Energy sector and BFSI sector and now the Pharmaceutical and Life Sciences sector. These are the three industries that we are focusing on a lot and we have some customers in the Technology and Telecom sector.

HR Gala: Just one book-keeping question, in this current year we said that one-fourth of Rs.25 crores has already accrued. So that would have been shown under different heads of cost I believe?

Management: It was a cost saving which we did by reducing the cost structure. So what Pat is trying to say is that the cost structure had reduced by Rs.25 crores and this quarter also we have seen the benefit of that, which is about 25% of that. So, it would not be under any different head, just reduced spending.

HR Gala: It would be reflected in other different cost heads?

Rahul Patwardhan: Predominantly, the people cost and premises related cost. That is the two main areas where the saving has happened because those are fixed costs that we had in our internal capacity.

HR Gala: Is there any one-off item in any of these costs like we had a huge restructuring cost booked in the fourth quarter?

Management: All the business transformation costs were taken in the last quarter, in this quarter we have not reported any exceptional items separately.

HR Gala: Do you expect anything remaining to come like say write-off or provisions or things like that?

Rahul Patwardhan: We have been extra-prudent in our Q4 analysis of our operations and that is the whole exercise of business transformation. If you look at every single risk in the system and look at every business and every asset that we had, whether it has a role in the business going forward and we have taken all the necessary impairments to the best of our ability of course to assess it in Q4 itself. I am sure that all routine businesses have a little bit of such activity going forward, but nothing material will be there, at least to our knowledge today.

Moderator: Thank you. The next question is from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia: Until now NIIT was reporting the enrolment numbers also in the Individual Learning Solutions, so, for this quarter I do not see the numbers. What is the total Enrolment so far in the IT, Beyond IT and the Skill Development Courses, what has been the Enrolment in Q1and what are your expectations for FY16?

Rahul Patwardhan: Given the fact that we now have a very wide portfolio of courses which are two-days courses for Corporates, three-year GNIIT Course, and the mix is actually extremely wide. So we have identified that the Enrolment metric does not tell us anything at all. So, we do not wish to confuse investors with an Enrolment metric. Our focus is really on order intake and on revenue.

Chetan Wadia: In that case for the Skill Development Courses we have with the Government, how many people you are planning to train in FY16?

Rahul Patwardhan: We are not giving a stated number for future numbers that we are planning to train?

Chetan Wadia: For the Corporate Learning Group, how many more clients can get added in FY16?

Rahul Patwardhan: You have seen the trajectory, we had 21-customers in Q1 last year, and we have 25-customers today. I leave you to make your own projections.

Chetan Wadia: For the Private Schools business, the number of schools that we have added in this quarter what has been the average realization per student?

Rahul Patwardhan: This is an IP-based business. I think you are trying to compare us with some other companies I suspect. Our model is different; it is a school-by-school deal. Again, we have a portfolio of products here. There are some products which are sold as IP one-time and then there is a support and service revenue that comes afterwards. There are other products which are courseware-based. So again, trying to get one metric will give you completely the wrong picture because you have a portfolio of businesses.

Moderator: Thank you. The next question is from the line of Ritesh Vora from Incedo. Please go ahead.

Ritesh Vora: My question here is about NSDC Program. You have mentioned that you plan to train 1 crore people over next 5-years. Even If I take Rs.5,000 as a minimum course fee whoever pays, whether government pays or the student pays, it amounts to Rs.5,000 crores over 5-years. So am I reading something wrong in this calculation or what is your comment on that?

Rahul Patwardhan: A good question. There is also something called "Technology Delivered Education." As we said, our focus is to move towards intensive use of technology and particularly in this space, since the numbers have to be really large and the ability to pay is really low, the use of technology is going to become extremely important, if we are to achieve the numbers, and contribute to achievement of the goals of the government and therefore the price points can go down substantially. And that will be required in this sector. I think what we are really saying is that NIIT is going to be using technology as a platform for delivering education very heavily going forward especially in this sector.

Ritesh Vora: Even if you train for 2-3 days, Rs.5,000 looks like a very minimum number, is it not?

Rahul Patwardhan: You have product companies like Coursera which have free courses, because once you have the IP available on the technology platform, then the price point really is immaterial because you do not have a person sitting in front of a student, conducting a class to a batch of 20-students. So the entire pricing model can be completely different.

Ritesh Vora: But sir, if I read the same statement that you are planning a Nursing Course or a Catering Course or something like that, what kind of teaching it would be, is Re.1 crore number you have given, is this a realistic number or is it just like a MoU signed with government or something?

Rahul Patwardhan: Let me just say at personal level, this is one of the reasons why I chose to come back and join NIIT because I personally want to make an impact in this area. So this number is extremely real to me. Of course, we have to find the answers of how to make it possible. And keep in mind 10 million people compared to the 500 million that need to be trained in that period is very-very low and we have trained as a company 35 million people over the last 34-years. So it is a company which can make a substantial contribution, it has to be us.

Ritesh Vora: But sir, we are a 120 crore people, you mean to say 50 crores people out of the population need to be trained, is this a realistic number or?

Rahul Patwardhan: It is realistic in the sense that, what India is trying to do: India is growing very fast in terms of economy. Therefore, there is more talent required simply to staff up and service the domestic growth of industry. Additionally, because of investment regulations and constraints being removed, multinationals in every sector will be there and the competition becomes intense in every sector. Therefore, the standards of work forces in existing companies will be forced to be raised simply to compete in the domestic market itself. Indian companies are now international. If they really want to play in the international stage, and be successful, and compete shoulder-to-shoulder with their competitors worldwide, again, quality standards of the workforce have to be raised substantially. But, last but not the least important, the demographic dividend, India can become the white collar and blue collar production base of the world, simply because of the aging phenomenon that is happening in the west… and I have lived in the west and I have seen that most people on the road have gray hairs. So, I think all the jobs could come to India but they will not come if we do not retrain the workforce that already exists. You are right, that "Every single one of those 500 million will they get retrained, will somebody pay for that retraining?" Probably not.

Management: I want to make one more statement which is while we discuss this as an opportunity I think at NIIT we see it as a responsibility on this.

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

Ruchi Borde: I had two very quick questions; First, was regarding, you alluded that NIIT has begun to rebranding exercise. For this exercise, do we have some budget in mind and how long this exercise would persist or last?

Rahul Patwardhan: A good question. So the rebranding is focused on repositioning NIIT in the eyes of the consumer and the general public in India has much more than IT Training organization. This challenge is predominantly in India because in India for 35-years we have been known as an IT Training organization and the brand is extremely strong. But it has its own impact on our ability to offer other products which are not IT-related. Therefore, it has become extremely important for us to reposition the brand to mean much more than IT Training. Therefore, we are positioning ourselves now as a global skill and talent development corporation which covers the entire ambit of corporate to government to individual and it also covers entire curriculum from Subject-A to Subject-B to Subject-C. So, we are basically saying we are in the Skilling business and not in the IT Training business. This quarter and this season which is basically Q1 and Q2 we have set aside a specific budget as part of our marketing budget to focus on brand building and that will continue into Q2. Over time, we would obviously continue to spend some more on the branding. But, all this is part of the absorbed costs, we have not amortized any of these costs, they are part of the OPEX.

Ruchi Burde: When we say that for Skills and Career business, we want to see this business and black in this financial year, we are taking cognizance of this marketing or rebranding head of expense?

Rahul Patwardhan: Yes.

Ruchi Borde: In our earlier conversation, one of the participants asked regarding the IP-led Private Schools business. In that conversation, you happen to mention that we also have asset-heavy business in the Private Schools. So, we investors are more aware of your execution in Government Schools business where company want to exit that business because that is an asset-heavy business, what will be the future of this asset-heavy Private Schools business going forward?

Rahul Patwardhan: Same as the Government Schools business.

Management: We shared this about 5-quarters ago that given the high intensity of the Schools business both Private and Public capital-intensive business will be discontinued, we have not been taking new orders in that and this is what is also known as in some of the competitors terms the "Subscription Model". We do not believe it is a viable model and fortunately our exposure in that business was slow and we are of course discontinuing that but we are executing all the current contracts to the extent that they are valid.

Rahul Patwardhan: But one difference is that we will continue to service Schools in that space for the IP component of all those contracts because Schools also are increasingly looking at possibility of acquiring the assets on their own and acquiring IP and people-based services in that same space that we used to offer the entire package. So it does mean that we will exit that area completely, we may only have part of the business which is IP-led.

Ruchi Borde: So, are our chances of converting that asset-heavy business into a subscription model where we want to have more share of business, will that be a higher chance rather than completely exiting those private asset-heavy schools?

Rahul Patwardhan: I think every Private School it is our desire to remain in that school offering services but they have to be IP-led. So, that is a constant effort that goes on all the time. If we have been doing good services in a school, the chances of being able to renew and offer other products that we have in the School sector are obviously higher. And that is the focus that we have.

Moderator: Thank you. Sir, we have the last question from the line of K Poddar from KB Capital Markets Pvt. Ltd. Please go ahead.

K Poddar: What is the philosophy behind the subsidiarization of your Schools business – do you want to get in a partner there?

Rahul Patwardhan: A good question. Schools business as you know is our third business… smaller of our three businesses. And with exiting from the Government sector, the business that is left is also smaller. At the same time, there is a big opportunity in that space. We have built reputation, we have built a brand, we are respected in the School sector, and there is an opportunity for continuing to grow the B2B Private Schools business around IP and people-based services but there is also an opportunity to extend that into the B2C space on the back of more than million students that we currently train in all the schools that we service. So, we want to make sure that we unlock the value of the brand and image and reputation that we have created over the years in this business. And for that by creating a separate subsidiary, we will be able to bring in the necessary investment and strategic investors who can help us together invest and grow that business. And that is really the focus of setting up a separate subsidiary.

K Poddar: As far as the Skill India is concerned, you are talking of Re.1 crore over 5-years which is around Rs.20 lakhs per year. How do you service that huge volume of people? Obviously, your centers will not be sufficient to service such volume of people. So does that mean many of them will be serviced on the net only?

Rahul Patwardhan: Technology will obviously have to be very-very substantial part of the solution, but also the distribution of the network. As I said, we are expanding our distribution network substantially beyond the current business partners who offer all courses, but it is a different kind of network, it will be execution delivery network rather than a complete business partner model that we have today. We need reach, we need presence in all the little towns and cities and we will tie up with local agencies who will provide us the infrastructure classrooms, maybe some computers if it is required depending on the kind of course and more important they have access to the local student target population and they are much better equipped to bring them into the class rooms and our role is to provide the standards, the courseware, the faculty and the technology.

K Poddar: What I understand is that infrastructure acquisition will be need-based, for a particular course, you require something you will have the infrastructure for that course, right?

Rahul Patwardhan: Absolutely. If you take the Uber model or you take the Airbnb model, classrooms are available in plenty all over India, you do not need to build new class rooms.

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

Rahul Patwardhan: Thank you, Ladies and Gentlemen for your time. I hope that in my first investor presentation at the end of the first quarter of my responsibility as CEO I have handled the presentation well and I have answered your questions well. I am sure I will improve as I go through each of these quarters. My team has worked extremely hard over the last two quarters with the business transformation and then with the reenergizing that we have done in this quarter. What is important is that we had very clear plans, very precise and detail plans and we have executed to those plans and therefore, we have been able to see the results that we wanted to achieve for this quarter. There is a lot of work ahead. The 10 million people that we have defined as a goal for ourselves and I want to emphasize it is a goal. We intend to do everything possible to get there but that is not something that you may need to factor into your forecast going forward for the next few quarters, because we do here now business over the next few quarters. I look forward to interacting with you further and to continue to keep answering your questions through our Investor Relationship Manager – Kapil. Vijay, over to you.

Vijay Thadani: Thank you very much for joining us on the call. As usual, we will be available to you after the call one-on-one basis, Kapil Saurabh is the contact person. Your questions as usual have opened many more doors in our minds and I am sure the team would rise to the occasion in meeting your expectations. Look forward to speak with you or meet with you in person. All the best.

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