

“NIIT Limited’s Q1 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the NIIT Limited's Q1 FY17 Earnings Conference Call. As a remainder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – Managing Director and Vice Chairman of NIIT Limited. Thank you and over to you sir.

Vijay Thadani: Thank you, good afternoon ladies and gentleman. Thank you very much for joining this call. It is busy time for everyone I guess right now with so many conference calls going on simultaneously. So I thank you for choosing your time appropriately to join us for this conference call. We are here to discuss the Q1 results and without further ado, I would hand you over to Rahul Patwardhan the Chief Executive Officer of the company to give us a brief of the results. They have been with you for a while now and also uploaded on the website but we would like him to give you a brief and then open it up for Q&A. So with that Rahul Patwardhan.

Rahul Patwardhan: Thank you Vijay. Thank you ladies and gentleman for joining this call. I hope some of you had the opportunity to view our results announcement on Periscope. We started a little bit of digital communication of our results from the last quarter and we will encourage more of you to participate in that. Let me just start by saying that another quarter going to plan, in fact I would say in some ways going ahead of plan. Thanks to the very hard work put by NIITians across the board and the leadership team who ever worked to a very well defined plan and completely aligned to the goals and directions that we set for the quarter and it has paid the dividends in the results that we expected and in fact a little bit better.

Let me take you through the overall numbers first. Our revenue hit Rs. 260.4 crores up 12% YoY for the quarter. Last year as we recall our YoY growth rate was slowly accelerating from 4% to 5% to 6% to 7% over the 4 quarters and now it is jumped up to 12%. What is also important to keep in mind is that this is the first time we have crossed double digit growth rate on a quarter in the last 16 quarters. What I would also like to add is that, if were to exclude the businesses that we did last year which we had formally agreed that we are not going to carry forward and compare apple-to-apple the businesses that we are currently doing we are actually grown 15% YoY which in some ways should reflect the new normal growth rate of NIIT going forward.

How did we achieve this? CLG did a 19% growth on the top line. But what is very important is SNC which grew (-)3% last year in this quarter went up to 7% growth rate in this quarter. So it is a big swing of 10% growth for the SNC business. So SNC which was just coming back to profit and back to growth last year is now starting to accelerate both on the top line and on the EBITDA. Our EBITDA also improve substantially. We moved to Rs 222 million which is 9% EBITDA, it is up 36% from the same quarter last year, 151 basis point and last year our EBITDA was 7%. So that is a pretty substantial increase in our EBITDA for this quarter.

Again it is on the back of the operating margin improvement, operating leverage improvement of the SNC business and the steady EBITDA of the CLG business. Our profit after tax, on the other hand, went down we did 150 million last year we are down to 74 million this year but largely explained by the fact that we had a substantial reduction in our associate profit, you would have tracked NTL results last week. They had one-time exceptional reporting on lower profit and that has obviously fed into our numbers. In addition, we had slightly raised interest cost and we also had some FOREX losses in this quarter not linked to Brexit and we will talk about that in more detail later. Our DSO days also improved from 86 days to 85 days.

So overall I would say the quarter has gone very much to plan. In fact, I am very pleased with the results on operational performance. The SNC business transformation as delivered the desired acceleration both on top line and on EBITDA and the CLG has continued to deliver rock solid consistent performance, in fact with growth rate of 19% a little bit ahead. CLG, a few other points to highlight, our constant currency growth was 13% YoY.

Our MTS revenue share has moved up to 91% of our total revenue coming from our MTS customers. Our revenue visibility has increased to 208 million US Dollars. We had two new significant contract wins as well as one major contract extension. These are all from existing MTS customers but as you would recall from past calls, every one of our 31 existing customers have very substantial upside potential within the existing accounts and our strategy to start mining our accounts is paying a good dividend with these three wins.

SNC, we moved up 7% on revenue YoY. Our go forward revenue, if we exclude certain revenues from businesses that we decided to exit last year is part of the restructuring but it did deliver a little bit of revenue last year. So if you subtract those and compare YoY we have actually grown 11% which means that the SNC business itself is now on a new normal growth rate trajectory of 11% and obviously we are looking to see how we can accelerate that further. The EBITDA was 0% last year; it is now 4%. So again, you can see that there is a significant contribution of SNC to the overall EBITDA improvement of NIIT. Beyond the IT business, this is a management and banking curriculum and skills that contributed 45% of the total revenue versus 39% last year. The big story for SNC this quarter was the launch of our DigiNxt series. We talked about the fact that we are going to launch it in the last results and today I can report that we have had extremely good uptake of this business. In fact, we are substantially exceeded our internal budgets on what we wanted to achieve in Q1. We launched these programs at the end of April, so limited period of time to actually see substantial results but they were much more than what we had expected. The price point of these courses are substantially higher than our traditional Vanilla IT courses and in addition we got a much better quality of student coming in for these courses from engineering colleges. And finally and most important, we got a lot of interest amongst the top IT services firms and in fact this weekend we have 56 companies all over India waiting to get their first shot view of the first batch of students at the end of the first month itself and our intent is even before they complete the 3 months of their course all of them would actually get placed and there students would be

demonstrating the 1st project that they completed; very exciting project which I have had look at some of them myself.

If we going into the school business, as was planned rather expected the government schools contract closures contributed to a 5% reduction in the revenue. However, our Go Forward business which is the IP-led private school's business actually grew 6% year on year, and because the government school business share has reduced, therefore the more profitable business has demonstrated its contribution and therefore the EBITDA which was 6% last year moved up to 7% in this quarter. We added 139 schools to our kitty. Going forward we remain focused on our Go Forward business. The CLG business as indicated we continue to hold to a 15% top line growth and 12% EBITDA and as I said last year, we at the end of Q1 we are now even more confident about this guidance for the full year. Obviously we were doing everything possible to see how we can raise the top line growth and the EBITDA but at this point of time 15% (growth) and 12% (margin) is the number that we are looking at for the year. The SNC business at the end of the annual results I had shared a guidance for this business I had said that we would do a high single digit top line growth and improved EBITDA which was running at breakeven EBITDA last year and already we have done 4% for Q1 but keep in mind Q1 and Q2 are the higher performance quarters of the year for this business. But overall, we expect that this business will play a very important part in improving the overall performance of NIIT both on top line as well as on EBITDA.

The school business and I am focusing on the IP-led Private Schools business; we expect to see continued growth rate in the single digits as well as middle digit EBITDA levels as we currently see. So with that I am going to close here and say that we are moving exactly on track. We started a restructuring process in Q4 FY15. We laid out the re-energization program to the four quarters of last year (FY16). We started a renewal phase of SNC business in the last two quarters of last year and everything is moving as we wanted it to move and the acceleration of the SNC business and therefore its impact on the increased speed of movement of the NIIT business is also beginning to start become visible. With that I would stop and take questions.

Moderator: Thank you very much. Ladies & gentlemen we will now begin the question and answer session. The first question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: My first question is on the demand environment in the CLG segment. So post Brexit have we seen any pause or any delay in the decision making, especially among the UK clients?

Rahul Patwardhan: Today Sapnesh is busy enjoying a well-deserved holiday somewhere in Greece, so I will handle a questions on behalf of CLG. First point I would say no, at this point of time there is no indication from any of our customers that there is a likely delay in decision making. We also do not see any direct impact of Brexit in the short run. Having said that as you all know everybody is very unclear about what Brexit might mean for the next few quarters. So I would want us to remain cautious on the overall impact it might have. What is important to understand is that NIIT

CLG business is 60% weighted towards the US dollar, 20% towards the Euro and only 20% towards the Pound.

Number two, most of our exposure in Europe, in UK is with companies like GlaxoSmithKline which are global multinationals rather than companies which are very British in their entire revenue base.

Third, we earn in Pounds and we spend in Pounds which so happens to be the nature of our current contracts in the UK.

Fourth, our funnel is substantially weighted towards the US at this point of time. So overall I would not want to present an over optimism that Brexit will have no impact on us at all because that would be foolish, but we do not see any current concerns at this time point of time.

Abhishek Kumar:

Okay. That is helpful and Rahul, just want to understand last quarter we mentioned about some of the non RSP comprehensive deals that we were pursuing. So how are we shaping up in terms of those deals? Are there any large deals which are in the pipeline now? Or can we expect any closures in the next couple of quarters?

Rahul Patwardhan:

Yes, as I explained last few quarters in fact, large deals have been very rare in the pipeline for this business simply because it is in the nascent stage of outsourcing and the largest deal that was there was about 3.5-4 years back which was the HSBC. In the last couple of quarters, we saw a few deals emerge. These were not RFP's. These were non RFP discussions and I had also caution that these deals have appeared once or twice in the past and then they been broken down into smaller tower based deals rather than the comprehensive. We currently do have some such deals in the pipeline. But I would be cautious about presenting great optimism that deals will close in the near future because comprehensives take time and there is always a possibility that the company may decide to break it down into individual towers. So nothing to report different from what we had said last quarter.

Abhishek Kumar:

Okay and my last question is on the SNC business. I think this quarter at least on a sequential basis we have seen that IT, at least IT share has kind of stabilized at around 55%. So, was it because of StackRoute and DigiNxt kicking in for this quarter and therefore going forward at least on a sequential basis we can expect IT revenues or IT contribution to stabilize?

Rahul Patwardhan:

I think the short answer is yes. We are moving from a phase where a large part of our IT revenue portfolio was a bit more commodity Vanilla IT skills where we were facing commodity competition in the market place and that is one of the reasons why the de-growth has been happening over the years. Our entire focus is moving towards high-end, new technologies where actually the competition at this point of time is extremely sparse. But the pickup of that also at this point of time; the volumes are not yet at the level where we would love them to be but we can see the traction clearly and all of you are watching the IT services industry you know what they are saying. So I do not need to say it again. So both DigiNxt and StackRoute are growth drivers. The other important factor is that our price point for these courses is substantially higher

than the price point for the commodity based courses where we had to compete with a lot of mom & pops around the corner in every city. We do not need to worry about that, and our pricing therefore is much higher. So these two factors are having an impact. Banking business also did very well. Our international business in China also did particularly well in this quarter. So the combination of all these under SNC and including some of the corporate business that we do in India, that is also done very well in this quarter. So many of the pieces have been firing well and that is really what is contributed to the overall acceleration.

Abhishek Kumar: Thank you. So given that good environment, good growth across the SNC segment, is there any case for revisiting the full year guidance for this segment at least? Can we do double digit growth and slightly better margins?

Rahul Patwardhan: That is would I would love to have but at this point of time I must remind you that SNC has a seasonal cycle. Q1 is the time when things start to happen, more June than April and May. July, August, September is the big quarter. So at the end of quarter 2 if we are completely on track, I will be able to say with a lot of confidence how much better we can do or if we can do better than the guidance that are given today.

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

Ravi Menon: I just wanted to check skills and careers Q3, do you foresee this margin going down to negative levels or you think that you can still have at least positive margins throughout all the quarters?

Rahul Patwardhan: Good question because traditionally Q3 has been our low quarter in this business. But a lot of changes have happened in this business. The composition of the business itself has undergone change because we have an international piece; we have domestic piece; we have a corporate piece in India; we have a skills piece which is the little largest than it was in the many for the many years and very important in the IT space we have moved from a predominant focus on the long term GNIIT program which was difficult to pick up additional registrations usually in Q3 and Q4 to a lot of accelerated programs both in banking and IT which are short 3-month cycle turn around. Our expectation and our desire is to actually moderate down the seasonality of this business going forward. But this will be the first year so I do not want to give any great expectation that seasonality will be substantially reduced. I think we will be able to keep our head above the numbers for the next two quarters, of the Q3 and Q4 which are the lower EBITDA quarters and overall our numbers will be high single digit revenue and mid-single digit EBITDA for the SNC business and may be at the end of Q2 we might be able to give you a story which is even more interesting.

Ravi Menon: Great! Thank you and secondly on the CLS side, last year we had seen a big pick up in the visibility of the order book. Now you have been stuck in that 200 million kind of range, so two questions on that one, one is what is the fresh order intake for this quarter and did you actually think that you could do whether a little better than or would be seen some lumpiness full year?

Rahul Patwardhan: I think one of the things that I did discuss in the past quarter calls was the nature of our MTS contracts. They are still predominantly master services agreements for 3 to 5 years with the series of short SOWs which keep coming to us on a monthly basis. So therefore this business tends to have a closer correlation between order intake in a quarter and the revenue in the quarter. One of the things that we have been working on very hard, we made some progress but not yet to the level that I would like personally, which is to increase the Book to Bill ratio, so that we are booking substantial forward order books rather than depending only on SOWs or a large part of the revenue for the quarter are coming from SOWs. So our Book to Bill ratio has actually improved. We actually would have done much better in the month of June but there was one large order which slipped into July to substantial increase that would have made a significant contribution to the order intake and therefore the visibility also for what we reported. So that is something that closed subsequently after the quarter was over.

Moderator: Thank you. The next question is from line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: I had a couple of questions related to the edX tie up, so if you could help us explain the dynamics around it and the second question was if you could talk about, do you see some of the MOOCs as a competition for SNC business?

Rahul Patwardhan: edX tie up, we announced about a month and a half back. We are right now in the details of getting it ready for execution. You may have noticed that about a month back NIIT launched its first commercial online course on digital marketing. NIIT.tv we launched in October but we said that will be a free portal and it will always remain free because the intention of NIIT.tv was to build engagement with thousands and millions of learners who we could then convert into commercially paying students on a commercial portal and we talked about a multimode portal which we would be launching this quarter if you recall and this program is the first pilot program to prove and satisfy ourselves that we got the necessary pieces in place before we start launching many more programs, including the edX programs. During this quarter you will see lot of activity around our online commercial multi model portal, including IT programs, management programs, some of them are our own; some of them from third parties and clearly edX will be a very important source of content where we will be building blended programs using edX MOOC content which is free, edX certifications which students pay for but a lot of blended services which will help edX improve their completion rates where students pay for the blended services, well that is the revenue that we get and that will increase the number of people who end up actually giving the certifications exams in the end and therefore edX revenues will improve. So as a partnership we will be starting with set of pilot courses in this quarter, and once we are satisfied that we have mechanics in place and the first 15, 20 courses are doing well, then the scale up will start happening from Q3 and Q4. We start watching the space, the online business NIIT will really start happening from this quarter onwards.

Manik Taneja: Okay and do you see any threat from some of the global, so you have seen some of the peers of edX since we launched in a big away advertise in India recently, does that come as a threat to you?

Rahul Patwardhan: I have advertisement on my wall on my softboard to remind me that they exist. But yes, I think, we have to look at all competition because of the competition can come at you from every direction and these are much more so in this space. Having said that the fact that the company like edX sees a clear and strategic need to work with somebody like NIIT tells you something very important. But the MOOC industry is struggling to find the way to actually make revenues. They get a lot of people coming online, registering for courses only 2% complete the course and give the exam. They only make money when they give the exam. So partnering with somebody who can offer a blended set of services whether it is real interaction with the human beings, is something that the investor profile of these companies actually does not allow them to do themselves. We will see them as possible partners, more important they will spend all the money marketing and creating the EduTech demand in the market which we can then capitalize on because our brand is already very well-known and we do not have to spend as much as they do and we obviously do not have the ability to spend as much as them. So I think it will benefit us because as incumbent in the market covering the management training space, the banking training space, the IT training space and being online any additional marketing dollar that happens in the online space should lift our ship too.

Manik Taneja: Sure and the last question was for Rohit. If you could help us understand how is the net debt numbers actually moved and how is the discussion with regards to government receivables progressing?

Rohit Gupta: For this quarter our net debt has actually gone up. We had a net debt of 1001 last quarter and this quarter we are at 1304. So this is largely due to 1) the lower government collection that we saw this quarter but more to do with the quarter end timing mismatch between collection and payment. So I expect that net debt should start trending down significantly in Q2 and we also working hard to really focus on the government collection in Q2. So there are payments which we should start seeing coming in from next week onwards which will help the net debt to come down.

Manik Taneja: Sure. If you could help us understand the total debtor position and how much of it essentially will be government?

Rohit Gupta: Our total debtors are at 2407 million and out of that the government is 899 million right now. Most of the debtors relate to the corporate learning group and so they are more in the range of 0-90 days.

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

Dipen Shah: I had may be some requirements of more understanding in the DigiNxt and StackRoute kind of programs, you said for DigiNxt there are about 56 companies lining up to get students. So just wanted to understand for DigiNxt particularly and also for some of the new age programs, what are the types of companies which are coming to NIIT because the larger companies are all saying that they have got their in-house training departments where they train people. So may be just if you can give some ideas as to what is the customer effect and what kind of IT companies are coming to you for these programs?

Dipen Shah: Thank you. I will just give a couple of comments and then I will ask Prakash Menon who heads our Retail business globally to add his comments on that. First at the overall level two of the top 5 Indian IT services firms are now our serious strategic customers for StackRoute and DigiNxt that should give you a very important message about the fact that the product that we rolled out hit bang on, on the current transformational trend that is happening in the IT services industry. But Prakash maybe you would like to add a little bit more.

Prakash Menon: Good afternoon. We launched DigiNxt on April 25 and the first course that we launched was on Enterprise Java with Dev Ops. The students go through a 3-month program and the end of the 6th or 7th week they complete their 1st project and the 1st project has to do with the making of an ecommerce site. A very interestingly we have invited Indian IT companies to come and be part of the project presentation and look at booking of students before they complete the programs. Now there are 3 different types of companies that have approached us and participated, one of course would be bigger companies, the IT majors of India and as Rahul just told you couple of companies that are tied up with us are pretty much part of this. We have a big chunk that we notice are the startups that are there in the South, that are participating and then we have the mid-tier companies as well. So it is a kind of mix of all that is taking place right now and we are waiting for this week to get over to see what happens at the end of it but has been extremely encouraging to note how industry is coming for to look at DigiNxt and the kind of products that we have just announced.

Dipen Shah: Thank you for that. May be just stretching it a bit further, for the overall SNC business for the IT training what proportion of the employees would be getting placed or what proportion of students are getting placed at IT companies and non IT companies, may be just a broad picture?

Rahul Patwardhan: Again I will give an overall comment. DigiNxt programs are entirely placement focused. If you recall NIIT for many years had a program called GNIIT which was a staple flagship program where most of the revenues came from there. The average student who did the GNIIT program fell in at least two categories, may be more. They were all doing a Bachelor's Degree in some subject or the other and in parallel doing the GNIIT. Some of them are doing it because they wanted to get IT skills as an additional set of skills on top of whatever they were studying at the university. Some of them were treating it as an option just in case their university degree did not get them a job and some of them actually were saying I need the University degree because nobody gives you a job without a Bachelor's Degree certificate but

I actually want to be an IT professional. So those were the 3 categories. DigiNxt is entirely focused at only 2 segments. One is fresh STEM graduates, STEM means science, technology, engineering and mathematics graduates who want to make sure that they are skilled in the current and contemporary technologies of the industry which is digital and looking for a job straight away after that. But a job, not just a job, but a job at a premium. So the typical entry level salaries of engineering college students who go into IT is about 2.5 lakhs to 3 lakhs. Jobs with DigiNxt will typically be in the 3.5 lakhs to 4 lakhs or higher range and we are already seeing evidence of that. In fact, when we train our own people in these skills we do see some of them end up going and getting jobs that is double the salaries that we have. So that is a clear trend and very visible. Did I answer the question fully?

Dipen Shah:

Yes. That should be sufficient, not a problem and just wanted to understand, you have just given some color on the online business where you say we should expect probably a stronger growth from 2 quarter but in terms of revenues do we also expect some sizeable amount of revenues to come in the second half or we should expect more revenues only in the next year?

Rahul Patwardhan:

The revenues will still be small; in the overall scheme of things the revenues would be small but they could add a couple of percentage points to the growth rate of total NIIT. So at this point of time I do not want to give any indicator. I think what we are really looking at is to establish a successful platform and this is not just an online platform. I want to reemphasize that. It is a multi-model platform as you see in the Retail sector where you are now starting to see unified platforms where you can go, place an order and then you go to the store and collect your product or vice versa. This is a unified multi model portal where you can buy all kinds of services from NIIT including the brick services as well as the services online. So it is much more than any of the online portal that you see in the market today. So we want to establish that. We want to establish a very high quality differentiated learning experience. We want to link these courses with placement wherever the programs are placement linked which you currently do not have in the market in India. None of the online programs are actually offering you the placement service which NIIT has the capability to offer country wide. Once you have proven that we would be able to scale up the number of programs and then the revenues will start kicking in. So at this point of time no guidance on the revenue but you will see a lot of action in the space and may be at the end of Q2 I might be ready to start talking about numbers for the rest of the year.

Dipen Shah:

Fair enough and just lastly on the financial side we just heard we have a net debt of about 130 odd crores. May be considering a sharp reduction in the debt over the next year say by FY18 we should be substantially do overcome that?

Rahul Patwardhan:

Two comments. One was as Rohit mentioned we did have a quarter end mismatch in creditors and receivables and that is one of the reasons why the net debt is little bit higher than I would have liked it to be. But actually it is pretty close to what we had budgeted internally I want to emphasize that for this quarter. It will go down for two reasons. One is that mismatch will get addressed. Second, Q2 is a very big quarter. Third, is EBITDA is increasing of the company

going forward. So that will also contribute. Fourth, which Rohit did not mention, the one state which has the largest receivables has started paying money. So in Q1 we received after a long time some collections from Assam government and we can see visibility now or improved visibility of starting to receive those payments. So all signs are in the right direction for net debt to start moving down as long as we can keep on trajectory on all these items that I talked about.

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

Chetan Wadia: Can you break up (-9.3) crores net as an income. Out of that the FOREX loss is only 3.3 crores. What is the remaining?

Rohit Gupta: The (-93) million of net other income is actually two components – The first one is interest cost. So our interest cost for the quarter is 64.6 million and that is actually in line with what we say last quarter and the quarter before that. The second component is FOREX loss of 32.7 million. This FOREX loss relates to the revaluation of cash and our intercompany receivables from our international subsidiaries as we have seen INR strengthen against these currencies.

Chetan Wadia: Sir for the CLG business, in the opening remark you also mentioned that all the 31 clients has a huge potential in terms of the kind of revenue that you can generate out of them and also NIIT's intent is to get into the training part itself to get the higher share of the training wallet of all these companies. So what kind of initiatives are you talking in that?

Rahul Patwardhan: Well, all usual initiatives that you take in high quality professional key account management. So there is lot of focus on mapping the account, understanding the key stakeholders, making sure we understand where the money is being spent in these companies on training, looking at who are all the influencers to determine how it is spend, looking at the levers which we can engage with based on the understanding of the business that they are currently in so that we can go in with propositions where we can say you are spending \$10 million per year on this activity. We have saved 5 other customers, \$2 million per year on that activity. Here is an example; here is a proof of evidence; why do not you hand that over it to us and we will manage it for you and by the by we have already been saving you in the last 5 years so much money on all the other services that we are doing. So there is not really a reason for you to be concerned about our ability to do so.

Chetan Wadia: Okay, I will take that. Sir for the SNC business, in the last announcement of FY15 we have identified certain industries to expand the product portfolio. So in the last one-year what kind of initiatives have been taken to increase the NIIT capability to offer the courses in the newer industries?

Rahul Patwardhan: Last August we launched StackRoute. StackRoute is a very high-end immersive program focused on the new digital technologies. It takes people with a basic computer programming background but with a special aptitude and converts them into IT creators in the new digital

skill sets. We have now had, may be Uday can talk a little bit more about StackRoute. The second is DigiNxt series. DigiNxt series focuses on the Retail space which is what we are offering to our university students in the STEM backgrounds which I talked about before. In the last 2 months we have launched programs across 2 different topics and subject areas but we have plans over the next 2 quarters launched programs on many other areas like Robotics, Artificial Intelligence, Cyber Security and so on. So I am going to ask Uday and Prakash to talk a little bit about each of these two in more details.

Udai Singh:

Good afternoon. This is Udai. So just a quick update on StackRoute. The basic premise of the program was that we want the participants to undergo a very rapid and intense transformation in a short period of time. In fact, we do not even consider it to be a training program but it is an immersive learning environment in which the students actually build products. We have staffed with very senior professionals. It is organized like a software development environment, that is the CPO. There are project managers and architects and over a 3-month period the students build the product, release it and there are waves of students who are coming in and going out at different stages. So every month some new students join and a few of them are graduating. What we looked at specifically are the technologies related to digital transformation which includes the main Stack which our technologies such as MongoDB, Express and other open source technologies. There are elements of the data sciences, stack which we have rolled in over there and of course we will do something very specific on cloud mobile application development, IoT. Each of these are also getting inputs from the industry. So as Rahul mentioned, 2 of the top 5 IT services companies are working with us and we are co-developing some of the products in consultation with their experts and the kind of projects that they see coming from their customers. So it is a very intense experience and the feedback that we have is very positive and we expect to increase the portfolio of programs. The second part is that the StackRoute team is also involved in conceptualizing the larger set of products that we want to take through our B2C business to our Retail centers and Prakash will update you on that.

Prakash Menon:

DigiNxt series that we launched in April this year conceptualized looking at 16 different technology domains. To give you some examples, Data Sciences, Big Data, Robotics, Artificial Intelligence, etc. We have launched just two products so far and we will be launching many more as we go along. The very fundamental difference between what we used to do earlier where we used to train people in software engineering to now, it is not just about software engineering but it is to be able to help Indian IT companies create intellectual property which means it is very focused on product engineering as well in addition to what we used to do. That is a big difference that we see happening in DigiNxt and these are technologies where every Indian IT companies looking forward to. We have a huge shortage in skills. We do believe that some of the plans that we have for the DigiNxt programs we will see through, will see through in Q2, Q3 and Q4.

Moderator:

Thank you. We have the next question from the line of Ganesh Shetty who is an Individual Investor. Please go ahead.

Ganesh Shetty: We have seen steady growth in CLG for many years now and we are guiding to a 15% growth going forward. As business matures do you see any margins to increase substantially over a period of time and also I wish to know whether you are looking for any potential acquisition to complement our openings?

Rahul Patwardhan: As you know the 3 main planks of the CLG overall strategy is how can we raise the growth rate by doing big ticket annuity deals? How can we improve the EBITDA by productivity but also by product mix change and by increasing higher value-added services and the third plank is can we grow even faster by driving some strategic acquisitions. So we remain focused on this strategic agenda. So having said that on our understanding of what our outlook looks today, on our looking at our funnel today, on looking at acquisition opportunities available in the market today, what we can say with confidence is that our top line will grow (+15%) and our EBITDA will be (+12%). Obviously our intent is to try to raise it higher. I mentioned in the last quarter that we actually had a slightly improved EBITDA but it was funneled back, the savings were funneled back into strengthening some of our capabilities like advisory services and we will continue to do that because we are trying to drive our growth continuously upwards. So overall at this point of time I do not want to give any different view on the outlook on top line or on EBITDA. But all I can say is that we are more confident about the outlook that we gave 3 months ago today.

Ganesh Shetty: And sir our potential acquisition into complements our offerings, is there any initiative has been taken or is there any movement on that regard?

Rahul Patwardhan: Sorry. I missed that out. I wanted to talk about it. We have gone through a very wide range of companies and as I did mention in previous calls. One of the problems in this sector is that the companies tend to be extremely small. So when we look at companies of minimum size that make sense to do an acquisition especially because in this industry you are essentially buying a pool of people with some unique capability and may be some IP in a particular vertical. So the numbers that are available as candidates for an acquisition itself are small. So we are in discussion with few companies but nothing material to report beyond where we were last quarter.

Ganesh Shetty: Sir my next question is regarding our new delivery centers at Ireland and Norway to service our European client. How the operations things are there looking up or how we have managed to further improve our service offerings to clients over there and is there any progress on that part, just to reaffirm?

Rahul Patwardhan: I will first take Norway. Norway as you know is actually a pretty high cost country. So the reason we have development or a facility in Norway is because we have a significant Norwegian customer whose staff we took over and they did not want us to operate from within their own premises because of their strict regulations and compliance requirement. So that required us to have an office of our own to service them and it is completely covered under the P&L of that particular contract. We do not really have a plan to grow the Norwegian operations because in the Scandinavian countries the Norwegian cost base is the highest so that

does not make much sense to grow that. But if there are more Norwegian customers who want onshore base services or requires some kind of blended service with onshore plus offshore then this will come in handy. Ireland on the other hand is a very strategic initiative because we want multilingual skills to support the continental market and Ireland happens to be one of the countries where they have been able to get a lot of people with multiple European language skills because it has been the call center base of the European market for many years. Second, Ireland is also probably the most skilled country in Europe in terms of the whole E-learning space that we are operating in. Third the Irish government gives subsidies and tax benefits to companies like us. We have not yet availed all those benefits but as we grow the operations we may start seeing a possibility to get some of those benefits for us where we are building R&D and IP we may be able to get some of the subsidies by the Irish government. Fourth, Ireland the average salaries are lower than most of the mainland Western European markets. So we have seen traction. We have migrated some of the work of some of our European customers which we used to be doing in the US at higher cost, it's too being done out of Ireland while the rest of the work gets done offshore. So it is starting to take traction. We are quite satisfied with the current progress on the Irish offshore capability.

Ganesh Shetty:

My last question is regarding our SNC business. Whether there is any update on strategic investor or strategic partners for this partner of our business?

Rahul Patwardhan:

What I can say is that we have been developing the strategy and vision of this business which we want to take to the strategic investors substantially over the last 3 months. We have clarified in much more detail exactly what the new business ideas that we want to launch on top of the current business that we have. We had discussions with some investors and some investor bankers but beyond that nothing more to report at this stage.

Moderator:

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

HR Gala:

Just wanted to understand that during our earlier interactions we have indicated that as you keep launching the newer platforms, etc., you will be required to spend some money upfront. So the broad guidance that you are given for the EBITDA margin 12% for the CLG and mid-single digit for other businesses, will that take care of the increased spending that we may have for launching the platforms?

Rahul Patwardhan:

The answer is yes. We are giving this guidance after taking into account whatever we intent to do in our program of investment and development for the year.

HR Gala:

Okay. So that is heartening and any major capital expenditure will be there, in this year?

Rahul Patwardhan:

There are two kinds of capital expenditure that we have generally. One is building and facilities which is mainly for the CLG business as we keep adding heads it we need to have more seats for them and for that we need to build up space. We do have our own building or building that we are in the progress of purchasing as you know. So we are trying to increase

the number of seats in the building rather than having to go anywhere else because that cost money. The second major investment in capital is really about building platforms and IP. So that is the two spaces. So I would say that the total CAPEX investments for this year are not going to be materially different from what they were last year?

- HR Gala:** How much it will be roughly?
- Rohit Gupta:** Our normal CAPEX will be total around 50 crores and as Pat mentioned towards CLG capacity expansion there would be another 20 crores maximum on that.
- HR Gala:** Around 70 crores.
- Moderator:** Thank you. We have the next question from the line of Sourabh Shah from AUM Advisors. Please go ahead.
- Sourabh Shah:** First question was regarding the employee counts. I think you have 2500 employees. Could you tell us division wise, three businesses wise how are they kind of broken now?
- Rahul Patwardhan:** Well, the largest is the CLG business obviously. I think I do not have the exact numbers offline. But ballpark about 1000 employees in the CLG business. About (+650) in the SNC business, all the pieces including international 900 and the school business is roughly about 200 or so.
- Sourabh Shah:** And you added about 94 people in this quarter? Is that in the SNC business?
- Rahul Patwardhan:** Yes, they are two parts. There is a CLG piece because we had number of contracts that we had to staff up for. Number one, transition and second is in the SNC business. We are adopting a new go-to-market approach. Earlier we used to depend only on advertising and digital marketing and people walk in to our centers and then we convert them. Now we have created a direct marketing sales force that goes into colleges. So these were about 30-35 people of that 45 of that people and rest is CLG additions.
- Sourabh Shah:** Any attrition at all because 94 I am assuming is a net number, right?
- Rahul Patwardhan:** Yes, attrition is there. We probably be somewhere similar to the NASSCOM industry attrition level. We are slightly below 20% at this point of time.
- Sourabh Shah:** 20% on the Q1 FY16 number, right?
- Rahul Patwardhan:** Annualized NASSCOM figure.
- Sourabh Shah:** Fair enough. The second question was on school learning group. What is the strategy there? You mentioned you have an IP led asset heavy model. So just tell us how the model is like please?

Rahul Patwardhan:

Asset light actually, not asset heavy. In the past we currently basically have a B2B business with private schools where we offer them content around subjects like IT and mathematics and sciences. The models are essentially based around providing courseware and equipping them with lab which contain content IP on systems as well as manipulators in the case of maths. We also provide as part of this contract some time faculty for example in the IT space along with the content come the faculty who actually conduct the courses for 5 years. But we are trying to get away from that. We are trying to move entirely towards an IP based and remote services based model. In the past we have some contracts still hanging over where we used to offer the hardware as part of the deal even in the private sector but that we exited may be 3 years ago. But there are some contracts still running. But as we move may be in the next couple of years there will be no contracts where hardware is being delivered is part of the deal. So that is the current business. What are we doing going forward? We are trying to increase the portfolio offerings, for example, last year we added English lab as a new offering. We did not build it ourselves. We found third parties because we have now access to a large number of schools. We are already suppliers to huge number of schools. We have a wide big sales force who can carry a few more services in their portfolio to the same school when they visit them. So we try to complete our portfolio so that when we meet the school and talk to them about their needs, may be the need that they have is one of our current products but it is another one which we might as well have that in our portfolio. So that is one strategy. The second is can we start offering out of school services in extension to the in school services to the children directly. First to begin with as part of the project that we deliver to the schools, can there be an outer school add on and second can we go directly to these school students which is a B2C business but that is part of our new strategy that has been worked out and this is where we are looking for the strategic investment. Third area where we are getting the number of schools are talking to us about can you actually manage the academic delivery end to end while we manage the business of finance and administration and running this school as a trust. But we would like somebody with caliber and capability of NIIT to run the academics of the school. So that is the new area that is also part of one of the areas we were looking at for which we were looking to strategic investments. So this is something that we are in the process of starting to roll out and over the next couple of quarters you will see some concrete news, announcements, and traction.

Sourabh Shah:

Okay. So what it sounds like School Learning is going to get done in the future that is the plan with a strategic partner. Is that a fair comment?

Rahul Patwardhan:

Yes because this is our third business. Roughly about 10% of our revenue, we are clearly focusing on making investment in CLG and SNC first and therefore whatever we are trying to do in this business which requires fund we want to get the strategic investor to help fund that investment rather than diverse valuable funds that we have from CLG and SNC.

Moderator:

Thank you. We have the next question from the line of P Sachdev from P&Y. Please go ahead.

- P Sachdev:** Could you revalidate the argument that for the CLG business during the uncertain times and cost cutting it goes to more opportunity for you guys?
- Rahul Patwardhan:** I know there is lot of noise in the newspapers from the IT services industry side and I have been in that industry and I understand that is definitely having a huge impact on that sector. But you must keep in mind realities. We are a \$100 million CLG business roughly order of magnitude. Those companies are \$4 billion to \$10 billion in size and the size of the deals and engagements with their customers are \$10-\$20-\$30-\$40-\$100 million a year. So comparing the two totally I think it is inappropriate even begin to compare the two, that is one. In our space the pipeline is strong. The upside in our existing accounts is huge because they hardly got started in terms of the share of their wallet that we are current getting. Companies are increasing their need to save money and get better ROI on their training spend, so that is a good traction. The competition while we are doing that is lower than in the IT services sector. When the pressure on cost is higher more outsourcing happens. This is the last bastion of outsourcing which has not really been tapped into, so it will get pushed harder. So overall I would say while there might be some kneejerk reaction in one customer and another, which we do not see by the way at this point of time in our customer portfolio but in a long term trend for this business is positive.
- P Sachdev:** That is helpful. Secondly could you throw some light on the dividend policy going forward since you are generating recent amount of cash flows and of course they are only going to increase going forward?
- Rahul Patwardhan:** This is a board decision. So I will not comment on it. But you know our decision for this year No comment beyond the fact that we have not announced dividend for this year. Vijay would you like to add anything?
- Vijay Thadani:** I think the same approach which we had mentioned last time at this point of time we would like to use the capital for turn around and transformation of the company. Last year we got the shareholders' approval that it is a good idea and you can see that move has paid its return and more and I think this year we would like to continue with that because I think for the transformation story to come about the company does require some more capital and at this point of time given the slow receivables coming from government it would be more prudent for us to conserve cash for growth and that is the reason we decided to skip the dividend this year.
- Moderator:** Thank you. We will take our last question from the line of Sourabh Shah from AUM Advisors. Please go ahead.
- Sourabh Shah:** On the skills and career group you mentioned that these DigiNxt platform is providing much more expensive course. Could you give us a perspective from the student's side how it looks? What is the cost of some of these courses and what is the kind of strategies you would make? What is the kind of payback? Are these paid by the students or do any of these IT services may just sponsor these guys? Could you give us some color on that please?

Rahul Patwardhan: I will give a little bit of context and I will ask Prakash to give more details. In the past our 3 stable products were the GNIIT program, which was a 3-year program running in parallel to Bachelor's Degree, and the price of that program was around 1.5 lakhs and paid however in installments over a period of time. The second product which is a flagship in the banking sector is the PGDBO which prepares the people for branch officer role in the private sector banks and the price of that course is a 3-month program, fulltime Rs. 85,000 and we used to have a 3-month equivalent in IT space which is called PGP program which was only priced at about Rs. 45,000. Now the programs in DigiNxt are priced much higher but I will ask Prakash to give specific details and where we are headed with this and how it is looking like to the students, how are they responding and what kind of salaries they are expecting in ROI, they are expecting to get from their investment?

Prakash Menon: So let me keep this short. The courses on the DigiNxt which go on for 3-months would cost INR80,000. These are all programs which are oriented towards supplying high-end technology and talent to the Indian IT industry. If you went to Naukri.com, payscale.com and places like these you will see that core technology courses such as these typical salaries are 4.5 lakhs onwards to about 8-9 lakhs depending on who you are and how well you do that course. So there is a dramatic shift when students look at this whole proposition from a return on investment story. However, days are too early, we are just about to launch the program in this quarter. Probably by the end of next quarter we will tell you what exact difference to our student is. Right now essentially the student pays for the program. He could pay it in a lump sum or he could pay it in installment but the whole thing is for a 3-months period. So unlike the GNIIT where you can keep paying across 2 years that does not work here. It is a short term course. It is a tough course but students are enjoying it because a lot of pressure to complete work and it follows the agile and scrum methodology which means you need to complete things every week and therefore we hope to build the right kind of skill sets for each students so that our companies absorb them even before the course is over. Over to Rahul.

Rahul Patwardhan: So few comments. Student pay for these courses themselves. But it is quite conceivable that the companies who do not have enough students to send for a batch with NIIT directly may send some of their employees for this program, quite feasible. Second as Prakash mentioned unlike GNIIT we get a much larger percentage of the fee upfront. So this is a much more cash positive business. Third, higher quality students. So I think in many ways this improves the financial profile of this business.

Sourabh Shah: And delivery and margins, is it similar to last year or do you have higher online component and less classroom time or any other way you are modeling the economics differently from the past?

Rahul Patwardhan: Yes, absolutely very important. The typical programs in the past were delivered largely at the centers themselves with some components being delivered centrally both online as well as virtual. The design over here is different. Take for example the 3rd batch that got launched had more than 250 students registered for this program nationally across huge number of centers.

So you are talking about one intake being delivered by one expert faculty from a studio somewhere in India targeting more than 250 students paying about 80,000 bucks per registration. So the economics of this model apart from the price being higher is also weighted to a much better operating margin and we do not need to fill a batch in any one center because it is sold by the seat rather than by the batch. So for example Dindigul there is a classroom where one seat got sold. We have not launched the remaining 20 seats because the next batch of the next course could pick up the student in the seat next to the person who registered for the previous course. It is not conducted as a classroom session in each center. So the constraints of physical batches at a center have been removed which will improve our ability to raise the capacity utilization as we go forward.

Sourabh Shah: Should not the margins look slightly better than what you are educating, I mean assuming you are able to roll this out in a scalable fashion in maybe 12-15 months.

Rahul Patwardhan: You are absolutely right. Once the volumes pick up and the per national batch intake goes up. If you can maintain a steady (+250) for every batch and we have 50-60 batches over the next year, then the picture will change. But keep in mind we have just launched. We put out our first advertisement only at the end of April early May and the first two batches have actually started the third one is about to start. So we are talking about very early days. So it is a little bit early for me to start giving indications or things that we obviously are working towards but may be after a couple of quarters the numbers will start speaking for themselves.

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

Rahul Patwardhan: I will just make a very short closing comment since we have already past the one hour. Back to the beginning we are on track to the transformation program that we laid out way back in the beginning of last year. We are delivering exactly to the trajectory that we have laid out for ourselves. The big movement that we have expected in the SNC business is starting to happen. We did back to growth, back to profit in the last financial year. Then we said we will start accelerating the profit and revenue this year and this is beginning to happen. The online business will start delivering its results and NIIT.tv was the foundation to start doing engagement but also for us to build a lot of experience in what it means to deliver online training without having to worry about the commercial side of things. Now we are ready to start moving on the online space. In the CLG business apart from the three strategic elements that I talked about there has been a whole series of initiatives around the digital transformation of the way we deliver things in CLG and there are some new platforms that we have rolled out for training analytics and for strategic sourcing. These are picking up very good traction with the customers. So what we are working on is 2 major initiatives at NIIT level, one is the Digital transformation of NIIT itself through moving SNC to online using platforms and digital in the CLG business and using the platforms in the Schools business and the second is coming out with the whole series of programs that will assist Indian corporate, Indian IT services

industry as well as individuals to transform themselves and be prepared for the digital world of the future. So two transformations in one, interesting journey, very exciting for all NIITians and we expect to be playing a central part in the Digital transformation of the Indian industry. Over to you Vijay.

Vijay Thadani:

Thank you very much Rahul. Thank you very much for joining us on this call, I think we had a very good discussion and I am sure there would may be some other questions which you would like to get answered. All of us are available for those answers Kapil Saurabh is the point person as the in charge of Investor Relations and myself, Rahul Patwardhan, Rohit Gupta, Rajendra Pawar, P. Rajendran, Prakash Menon, Uday Singh and all other colleges are available to you for any discussions or any other information that you may want. So thank you once gain for joining us on this call and we look forward to having and getting a chance to meeting you folks again as well.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of NIIT limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.