

“NIIT Limited Q2 FY17 Earning Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the NIIT Limited Q2 FY17 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 and welcome to the conference call to discuss the results of quarter two for FY 17. These are busy days for everyone so thank you very much for making yourself available. Without losing even a minute I would now ask Rahul Patwardhan, Pat, to take us through the results and then we will open it for Q&A. Thank you.

Rahul Patwardhan: Good afternoon. Thank you Vijay and I thank all of you for taking the time to be on this call. It's been yet one more quarter where we have executed to the plan that we laid out for the company about two years back. We have achieved our overall goals that we had planned to achieve for the quarter with some ups and downs on different parts of the business. Very important we hit a milestone of having got to the first quarter after 16 quarters with a double-digit EBITDA and it's also the second quarter after 16 quarters where we have had a double-digit growth, so first-time (+10%) growth and EBITDA.

What I want to emphasize is that this quarter we have also made major progress on our cash and operating cycle and debt management. And as you would have seen from the numbers our net debt has dropped by 30% from about 130 crores to a little bit less than 92 crores so there's been very good trajectory on that aspect too.

If I get into the overall numbers our revenue of 2984 million is up 10%. The major driver behind this was 23% growth in CLG in this quarter and our Go-Forward revenue for NIIT overall, this is when we exclude the assets based School business and certain international geographies that we also exited last year, we have actually had a 12% Y-o-Y growth for the Go-Forward business of NIIT.

Our EBITDA is at 10%, up 13% Y-o-Y and the reason for this EBITDA is CLG continued to deliver a steady 12% that we have been promising and we have been delivering but the SNC business has actually had good profit acceleration in spite of actually doing a little less than what we wanted to do on the topline.

Of our operating PAT, therefore, as a result has gone to 87 million, up 43% from the same quarter last year. However, our PAT after associate profit, because NIIT technologies investment delivered slightly lower performance on its PAT, therefore our PAT increased, but only marginally by 4.02% to 216 billion. On the cash side our DSO days has improved from 85 days to 83 days and as I already mentioned we had a 30% reduction in the net debt.

If we go into the CLG business we had a 23% Y-o-Y increase in revenue, our constant currency growth increased by 28%. Our EBITDA was 12% as I mentioned. Our MTS revenue share grew to 94% as against 91% last year. We had one major contract extension expansion from an existing client. We had 2 new MTS clients which we closed but they happened to get closed and inked just after the quarter got over but we made progress. And order book was up, order intake was up and our revenue visibility also was up, so overall good positive strong growth both in terms of revenue, steady EBITDA and good traction on the acquisition of new business and the growth of the pipeline.

The SNC business at 981 million was down 6% year-on-year. This was something lower than what we had expected at the beginning of the quarter but we did see some movement and we were hoping to make up certain shortfalls in the 5 new DigiNxt that we saw in other areas. While new DigiNxt did actually substantially better than what we had planned for the quarter it could not make up the shortfall in specifically three other areas. As you know and I have been talking about this before we are phasing out our commodity IT business which is the old GNIT and the old IT curriculum and bringing in entirely the new digital curriculum but the old curriculum was sitting on a larger revenue base and that is on the decline while the new DigiNxt curriculum actually this is the first quarter ever that we actually had revenue from new curriculum because as you recall we launched the DigiNxt curriculum towards the end of quarter one. So while we made a very good progress on DigiNxt the reduction in old IT could not be matched by the increase in new IT in the first quarter understandably, that is one reason. In addition, some of our government business or skilled business we have the order book but there has been a policy change to move many contracts control and execution from Central government to state government which resulted in a delay in our ability to execute some of the projects plus because of this policy change our collections to allow us to start the next phase were delayed and we have no intention of starting new pieces of work without collections coming in beforehand. And the third piece, the BFSI business tends to be lumpy, so we had a little less business in this quarter because of the way the demand comes in for specific requirements and that will probably get caught up in the next two quarters.

Overall the revenue growth was down 6%. EBITDA however was up to 84 million which is 9% of revenue and 198 basis point improvement over last year, a very strong performance there. In terms of highlights we launched the three digital transformation products out of the 16 that we have planned over a period of time. Very important, we launched our NIIT Multi-Media learning platform, training.com and we also did an acquisition of Perceptron which will strengthen our digital transformation agenda going forward both in terms of talent as well as in terms of some platform elements.

If we move on to the Schools business a 216 million, down 7% year-on-year and the 7% is understood because it was a government schools contract that were reducing in revenue. The go forward revenue if you exclude the government school's contracts and the asset based ICR business in the private schools as defined before we have gone up 13% Y-o-Y. Last two quarters were 4% Y-o-Y, 6% Y-o-Y and now 13% Y-o-Y, so it's a good trajectory at this moment

obviously on a small base. EBITDA in spite of the 7% reduction in the revenue we had a 6% EBITDA maintained vis-à-vis the last quarter. We added 103 schools in this quarter which again is significantly higher than what we added in the same quarter last year. And I would like to highlight that we had very strong collections and one of the main reasons for net debt reduction among other reasons was that government schools we were able to collect significant amounts of money in the quarter and I want to add that after the quarter unfortunately we couldn't collect it by 30th September. We got another 14 crores of collections in hand and more to be expected over the next month, so good progress in the government Schools business.

With that I would just like to make a general comment on what we see for the rest of the year. I would like to do something slightly differently from the last call. I would like to have each of the business leaders talk through for 2-3 minutes for their business and then we will take Q&A after that.

So overall guidance we started off the year with a 15% and 12% EBITDA for the CLG business and we had said a high single digit somewhere in the (+7) range for the SNC business and the mid-single digit EBITDA for the SNC business. The net impact of these two guidance on NIIT we continue to maintain and we will deliver the overall NIIT growth and the overall NIIT EBITDA but there will be a slight difference in the contribution of these two businesses with CLG probably growing a few percentage points higher than 15% for the full year while SNC will grow a few percentage points lower than what we had indicated earlier but overall the EBITDA will remain at the same levels for the businesses as well as overall NIIT, so most important, for NIIT overall we will be delivering the guidance that we had indicated at the beginning of the year.

So with that I am now going to ask Sapnesh to talk briefly through the corporate business, company highlights and qualitative statements.

Sapnesh Lalla:

Thanks Pat for your summary of operations. I think from an overall perspective we had a reasonable quarter. We showed reasonable growth both in EBITDA as well as revenue. I think to some extent a little bit of a spike because of an order that we got from one of our customers but I think from an overall perspective of reasonable quarter. We continued to receive good external validation from analysts about the work that we are doing. This quarter we won 8 Brandon Hall awards which are considered Oscars of our business and we are proud of that external validation that's the most that we have one and we hope to continue the streak going forward.

We continue to invest in improving our user experience as well as our service delivery model such that the customers that we have continue to work with us and grow and improve the business impact that they are able to bring to their business, so we continue to invest in digital technologies, to improve our user experience, we continue to use or leverage digital technologies to improve service delivery.

On the front office side I think we are continuing with our momentum to grow our pipeline. As Pat suggested and has actually closed on two opportunities during the first couple of weeks of October. So overall again a reasonable quarter, maybe exemplified by a little bit of a blip with one of our customers but overall a reasonable quarter.

Thanks Pat.

Rahul Patwardhan:

Thank you Supnesh. I would now request Prakash Menon who is responsible for the significant part of the SNC business to take us through a few highlights for the quarter for the SNC business.

Prakash Menon:

Thanks Pat. Our major focus for quarter two was to implement and stabilize DigiNxt products that lend itself to digital transformation. We had launched three products in the quarter, Enterprise Java with DevOps, New Stack, and Big Data and we seem to have at the end of the quarter we have done better than what we expected with the whole bunch of graduate engineers taking up these courses for better employment. We also bagged a large deal under the source train hire model from Capgemini. Two of the top 5 IT majors we work with now. We also closed contracts with Bank of Baroda and UBI in the BFSI sector and an STH from Cognizant for StackRoute. Going forward we continue to focus on the DigiNxt set of products and will launch data appliances, robotics and IoT and we hope to further ensure growth in this product line.

China continues to grow and do well in the NIIT inside model where we work with multiple universities where we have made a model in the Bachelor Degree programs and we signed up three universities in this quarter and I think this trend will continue in China.

Over to you Pat.

Rahul Patwardhan:

Thanks Prakash. Now I request Gavin Dabreo to take us through highlights of the School business.

Gavin Dabreo:

Thanks Pat. On the School business like Pat said earlier we have shown a growth trajectory in the go forward business and we have hit 13% in Q2. We have added 103 schools like he said and in fact in each one it has gone up to 242 schools totally versus 176 that we did in H1 last year. What worked for us was the drive to push the non-seasonal products like Math Lab, the digital content and the training services. We did look at improving internal efficiencies with customers thereby trying to improve the impact of our products with them. As we speak we are running a 90-school pilot on improving impact of our products in the schools. As we go ahead I think we will be entering Q3 which is the lowest quarter for the education industry in the Schools segment but we are trying to look at that and built a large funnel so that the big purchase season of Q4 is actually tapped into. So clearly as we get into Q3 the focus is on to build the funnel and to spread awareness of our new product portfolio with the School segment that we are targeting.

Thanks Pat.

Rahul Patwardhan: Thanks Gavin. And since we are working on a number of digital transformation initiatives I would like Uday Singh who heads our new business initiatives to talk us through the progress that we are making on our different digital initiatives, Uday, over to you.

Uday Singh: Thanks Pat. We are committed to being a catalyst and a preferred industry partner for talent development to support digital transformation initiatives for our customers and to this effect we have started a two-pronged strategy. First an internal initiative addressing the digital transformation of NIIT's entire business model. We have seen some of those initiatives resulting in positive direction and movement this year and we expect to accelerate that as we get into our next planning cycle, second, an external initiative focusing on training and consulting with corporate customers to enable them to succeed and to help them start out their digital transformation strategy. And to help us with this we have appointed Barry Libert, CEO of Open Matters who have developed the unique expertise in business model science and Barry is the senior fellow at the SEI Center in Morton School as the Digital Advisor to the NIIT Board. And separately we also have an agreement with him to develop unique training products which will be used to complete our offerings for organizations. So in the past we developed products for the digital innovators through our stack route offering and then for the digital developer community through DigiNxt and now with our relationship with Barry Libert we will be able to complement that with offerings for the top management and the middle management of organizations.

As far as StackRoute is concerned we continue to engage with two of the top five IT services companies and in fact one of them Wipro Digital, we have just completed one year of our engagement with them and we continue to receive very positive feedback and along with them we are co-creating some additional products which will help us scale the StackRoute offering within Wipro itself but more importantly for other customers too.

In this quarter we converted the experience that we have gained through the NIIT.tv engagement platform that we had launched last year at which completed one year on the 6th October but more importantly we have now launched our multi model learning platform training.com and we have also worked with some of our existing alliance partners as well as forge a new alliance with edX so that we can start populating courses on training.com. We already have 10 of them and what is unique is that will also be able to offer management programs from IIM Calcutta delivered live but direct to home.

So these are some of the initiatives overall from a digital transformation point of view and we hope to accelerate the pace going forward.

Rahul Patwardhan: Thanks Uday. And Rohit is very keen to talk about the cash management and operating cycle management, debt improvement that we have done but I think we will pick it up during the Q&A. So I just want to emphasize that this has been another quarter where most important we had a plan, we executed that plan and it has delivered overall results, there has been a little bit of up and down in the different businesses but that is not the long-term phenomenon. What's also important is that the team is completely aligned. At this point of time we are in the process of our annual interactions with our employee base and we have just gone through most of our staff

in most of our locations, left next week. The excitement and energy in the organization is extremely high at this point of time.

So with that I'll hand you back to the operator for taking up the questions and answers.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: This question was with regards to the skills and careers group. While you did allude to the fact that there is some pressure on the traditional IT trading business side and because of which you are changing your overall outlook for this particular segment. You have spoken in the past that some of these newer courses that we are launching essentially we should be essentially be looking at better margins over here, so if you could help us understand when should we expect some of the headwinds from this pressure in traditional business to wean away and secondly, any outlook on the margins over here.

Rahul Patwardhan: Good question. I think what we need to understand here is that when you have an old service line which is in a declining growth rate but it is on a large base and you have a new service line which is growing very rapidly but on a very small base and in fact the very first quarter there is a period of time when the two lines are not yet intersecting with each other. When that intersection point gets crossed is when the acceleration starts. But before that acceleration growth will start. But before that intersection point is hit because the two businesses have a different margin profile you have a different point at which the margins start going up and that we have already seen in this quarter itself because we have had an improvement in margins by about almost 200 basis points vis-à-vis last year same quarter. So we believe that for the year the margins in spite of a slightly lower uptick on the topline the margins will remain what we had indicated for our guidance for the full year but as we go into next year the margins will go up as the revenue growth rate will also go up.

Manik Taneja: The second question was on the corporate learning side. You have done very well in terms of growth in first half of this year. If you could help us understand what are you hearing from your clients, some initial indications as to the next year as well as any of the larger deals that you might pursue over there?

Rahul Patwardhan: I will ask Satnesh to answer this since he is in interaction with all the clients.

Sapnesh Lalla: As you are probably aware we have small set of customers, 31 as of end of last quarter. I meet with all of them almost each quarter and I have just completed meeting with all of them. Notwithstanding the market scenario in their respective businesses their expectation from us and our ability to help them continue to grow, I think all our relationships are strong and improving on a quarter-on-quarter basis. So from an overall perspective the current customer base I would say is happy. They are seeking more value, they are seeking more services and I think we will step up to ensure that we are able to deliver those. In terms of new customers and prospects we

continue to engage with a fairly robust set of prospects and we are expecting our convergent rates to improve such that we are able to deliver straight-line growth in the coming years.

Moderator: We take the next question from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: First question is on SEGs. Pat, in SEG you mentioned three different reasons why this quarter there was a slight deceleration in this business. I just wanted to understand, first, which of these three or how many of these reasons you think are just transitory and will go away in the next few quarters and specifically on the phasing out of GNIIT curriculum how long do you think it could take before that inflection point that you talked about happens?

Rahul Patwardhan: Good question. I think an overall statement would be that all these three are transitory because old IT versus new IT, I have already explained it's a transitory phenomenon and I think the slope of the two curves is what determines where the inflection point hits. We believe that given the size of the old IT, it's obviously not going to come down to zero in one or two quarters but there will be a continuous decline. And the base of the new IT is only the first quarter so we should see some impact over the next 2 or 3 quarters but it will start improving. But remember also that Q2 is the largest quarter for IT overall and also for old IT, so we will see an improvement anyway in Q3, Q4 for the overall SNC. On the other two, these are actually order book that we had in hand. These are the books that we had with corporate banking customers and order book that we had from government customers and it was a timing issue. Most of that revenue should come through but it's a phase lag pushed forward by one quarter which means that we might not be able to catch up that revenue in this year; one quarter gets pushed into next year. If you look at our SNC numbers roughly about 100 crores for the quarter and if we had another 7 crores more we would have had the same seven percent increase that we had last quarter which is actually what we were hoping to achieve. And it's the combination of about 2-3 crores from each of these that have actually contributed to that, so it's not that is one big factor which has made all the results happen.

Abhishek Kumar: One more question on this segment, you said you launched training.com and if my understanding is right this is the platform where you monetize NIIT.tv which you had launched earlier. So any initial sense that you are getting in terms of people's proclivity at least to pay for online training?

Rahul Patwardhan: I will ask Uday to add a few words to this. Our focus is a little bit different from some of the other online learning platforms. Number one, our platform is intended to be multi-model. It is not yet multi-model because right now we have launched only online programs but these are all online synchronous programs, there is a live instructor faculty, number one. So that itself makes it different from most other online platforms. Second, we are not going for a mass commodity-based online business, definitely not at this stage of the evolution of the platform. We are actually looking at a premium pricing for a premium product. For example, the diploma from IIM Calcutta is a very expensive product but it also gets an alumni status at IIM Calcutta which is the first time ever an extension program that's not delivered at the institute gets an alumni status and we are already traction. Of course this program will actually have started in December because there is an application process and a selection process it's not automatic entry but we are already

seeing good initial interest. We just launched the marketing for the program a couple of weeks ago. We did a diploma in digital marketing soft launch before the actual training.com portal was launched in the beginning of the quarter. We did well in that first launch and we have now had a second launch and right now registrations are going on for that and it's already started now and now we have about 10 products available on the platform and we will be adding many more over the next two quarters. So right now very early to say but we believe that we have an offering which is different where the cost of acquisition for registration is roughly the same irrespective of what online course we are offering but because our products are going to be priced higher and deliver more value, our ability to generate revenue faster than also generate a gross margin faster, we believe will be better than many of the other players in the market. But too early to say. I think you should watch this space for the next two quarters.

Abhishek Kumar: My next question is on the Corporate Learning Group. Satnesh you mentioned the spike in this quarter was because of one order. So is this because the scope of one particular order increase and therefore we should expect the higher level of revenues going forward also or was there some one-time short-term project that led to the spike and therefore it will tail off in the next two quarters?

Sapnesh Lalla: Think of it as Christmas came early for one of the customers, the year remains the same.

Abhishek Kumar: In terms of overall demand environment given what is happening in UK and as well as some of the concerns that other IT companies are raising in US, have you seen any sort of apprehension on the client side to at least delay some of the training spend that they had?

Management: I won't say we have seen apprehension though we have had the impact of GBP-INR conversion over this quarter and I think that impact will be more severe next quarter from a topline perspective. I think from an overall expense perspective given that our expenses are naturally hedged we might not see as severe an impact from a bottom-line perspective but we will see an impact from a topline perspective.

Abhishek Kumar: But in constant currency the scenario remains the same?

Rahul Patwardhan: Depending on what you consider as constant currency, if you convert it into Dollars then you see the impact, if you keep it as GBP you don't.

Abhishek Kumar: One last question in this there was a spike despite that the EBITDA margin actually did not increase, so just wanted to understand how much is the variable cost in our cost structure and how much of it is fixed because if it is not flowing into EBITDA margins at all.... just wanted to understand that.

Rahul Patwardhan: I don't think the right answer is not going into EBITDA margin at all, I think the right answer is that to service a spike you have to incur various substantial variable costs that comes at a higher average cost and that sort of takes away from being accretive from an EBITDA perspective. So given that it was a spike we chose not to add substantial fixed cost to take care of the spike and

as I pointed out it was a one-off. Of course if these spikes become a habit then we might increase our fixed cost.

Moderator: We take the next question from the line of Bharat Bhagnani from Tasha Investment Advisors. Please go ahead.

Bharat Bhagnani: My first question is regards to training.com. In the last 1.5 months, we have seen that incrementally we have added more and more courses and now we have a total of 10 courses as on date. What is the plan for training.com? How fast can we see the number of courses increasing? And also since we have launched the website how many enrolments have we seen if you can share that number?

Management: As far as the first question is concerned the plan is to both have courses that we are curating and developing but more importantly to start leveraging our partnerships to add more courses. NIIT already works with many of the technology companies and increasingly that will be one of the strategies for ramping up the portfolio. But we wanted to make sure that we have a stable platform as well as the supporting processes and therefore really we took one of our existing courses which earlier used to be in a brick format, the Digital Marketing Diploma and offered that online and that's just about to complete and that has given us the confidence that we can deliver live online and sustain the quality of service and once we have that foundation in place then we can more aggressively go after ramping up the course portfolio.

Bharat Bhagnani: So when do you think we would reach, we would have that kind of confidence?

Management: My sense is that over the next 90 to 120 days we should have the processes working smoothly and literally when we look at Q4 and beyond we should be ramping up.

Bharat Bhagnani: Some of the courses are really great like the IIM-C tie-up which Mr. Patwardhan was mentioning, have we seen any big enrolments in this because I see that we have launched 2-3 batches, some batches extend even up to February which would ideally mean that the current batches are probably filled up or maybe you are offering options to students.

Management: Some of those programs are going to be offered once or twice a year but we wanted to give people early visibility so that they would have adequate time to plan their schedule because these are very intense programs and one of the lessons that we have learnt about the online business is that people start with enthusiasm but they don't take it all the way through to the end and that's part of the counselling process to make sure that they factor it into their schedule. And it did take a considerable effort to convince IIM Calcutta to go beyond initially outside their campus which is what we did with them over the last 10 years and now take it to the logical next step which is direct to home or direct to the desktop.

Bharat Bhagnani: What about the enrolments?

- Rahul Patwardhan:** We are doing enrolments per course but right now the revenue line that we are expecting to get per course is to our satisfaction. But keep in mind that only two courses have actually started, one was the Diploma in Digital Marketing which we did and completed and the second one has already started off. All the others are in the marketing phase so it's a little early to talk about enrolments. The IIM program as I mentioned earlier people have to apply and it has to be cleared by IIM and there will be a rejection rate which will be substantial and the course actually starts in February, it's quite some time still. This quarter and next quarter we will build up the number of courses to I think about 30 or so is our plan but we may move faster as we had discovered in NIIT.tv, we now have 5500 courses on that platform, it's a different objective. But most important is to perfect the learning experience One of the things that we have seen most of the online learning platforms they fail on the real thing that matters which is to keep the learner engaged and complete the program. We are trying to focus very heavily on that before we start having too many products on the platform because once you got that right and once you got the digital marketing of each title right then we have a replicable scalable model which can then be moved very fast.
- Bharat Bhagnani:** So the courses are great, the website is also good but how will you actually convey it to the students without actually launching a big marketing program where people actually know that I have another option to become an IIM Kolkata student apart from physically going to IIM Kolkata, how do you raise the awareness about this website?
- Management:** So given the portfolio courses that we had just now we have taken a much more focused and targeted approach, particularly as far as the management programs are concerned. One of the eligibility criteria is a CAT score, so we are doing some very focused and targeted database marketing. We are also using some of the IIM Kolkata connects to reach out to the alumni base and the students who've earlier done programs with Imperia. We really didn't want to go ahead and right now do a big bang external marketing initiative.
- Bharat Bhagnani:** But we can expect that sometime when there is a website I think the certain mass both in terms of courses and students.
- Management:** That's right so that's when it becomes a destination and training.com itself then we would like to spend..
- Rahul Patwardhan:** One important thing to realize is that unlike pure play online sites we also have a very deep engagement with a very large number of top end corporate customers in India who we are training in our brick and mortar model or on the premises for last many years. This is something that we can just take to every one of those companies and therefore the cost of additional student or learner acquisition for us will always be lower than a pure startup and that's in our advantage.
- Moderator:** We take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

- Saurabh Shah:** Question on sustainable margins especially of skill and careers group as you have more contribution from DigiNxt etc. for FY18 in a steady-state where do you expect margins to go up to?
- Rahul Patwardhan:** We aren't giving out guidance for next year but all I can say is that they will move upwards.
- Saurabh Shah:** From business standpoint where do you see these kind of businesses eventually going in terms of profit, we are not saying how much he would achieve or your target for that year but these businesses as you're growing this part is not what you are actually said.
- Rahul Patwardhan:** There are different components to this business. As you know our SNC business has a retail business which itself is broken into retail and India and retail outside India, of course outside part is small but it's not all that small. It's almost 8% of NIIT's overall revenue. And then within the retail business in India you have a business that comes from our own centers, business that comes from our business partner or franchise centers which have a different profile of operating leverage. Then we have some corporate business in India which is also under SNC and we have the little bit of skill business in India with the government which I mentioned earlier. So it's our portfolio of businesses not one single unit.
- Saurabh Shah:** So rationalizing a large portion from what I remember last time right?
- Rahul Patwardhan:** Yes. Our focus therefore is to really drive the parts of the business which have got high profit margins and potential for high profit margin and bring down the components which have a high risk as well as high fixed cost. So the government business and the own center business is where we are focusing on reducing our exposure while on the business partner business, the NIIT inside University business, the online business and the corporate business in India and now extending it outside India to China an emerging market, those businesses will get a lot more traction. So if you look at it a franchising business can be viewed 25% to 30% margin that we are running really well, corporate business you could get 12% to 15% margin if you can improve it above the 12% that we are currently at. Our own center business if you bring down the capacity that we have put in place and we have a high price product that we are able to deliver much better capacity utilization then the margins can be much higher. So that's the direction we are going in but in the process of calibrating up and down the different parts of the portfolio. So far all the improvements that we have made in the EBITDA of NIIT have come because we have been able to swing the EBITDA of the SNC business last year and again for the six months this year and that will continue.
- Saurabh Shah:** So from a blended perspective for all the pieces that you have mentioned would something like I am not talking about your actual guidance but just these businesses potential of about 14%-15% sounds unreasonable?
- Rahul Patwardhan:** It is feasible. Whether it is going to happen next year or maybe a little bit beyond that I'm not going to give an indication. But that number is definitely feasible for this profile or portfolio of ours.

- Saurabh Shah:** In this international School business etc. is expected to continue that because it sounds like a relatively small piece so it requires a large amount of people to be dedicated and therefore maybe sub-scale?
- Rahul Patwardhan:** You're talking about our international retail business?
- Saurabh Shah:** Yes.
- Rahul Patwardhan:** Actually our international retail business last year or year before in Quarter 4 we removed all the parts of the business that were losing money and there we had bills receivable Last year in fact for FY 16 this business was profitable in fact very profitable and was also having a good growth rate; China in particular had a good growth rate. And that is continuing this year again in terms of profit but we are being very careful. The entire business is being run on a cash and carry model especially the emerging market business and we are also operating predominantly on billing in the US dollar so that we are not exposed to undesirable exchange risk so we did have a small hit last quarter because of our Nigeria exposure which we are now connected. So we don't have any headcount out there in the market except in China. So China we have 250 people and we have the business which is about 6% to 7% of NIIT's revenues so it is not an insignificant part of NIIT's revenue. It's doing well. But you must also remember the entire DigiNxt curriculum was actually piloted in China and the success in China is what made us so confident to roll it out into India so there is a strategic role also the China is playing because it's slightly ahead of India on this whole digital front.
- Moderator:** We will take the next question from the line of HR Gala from Pranav Advisors. Please go ahead.
- HR Gala:** Congratulations for staying on the core though quite a number of headwinds we see playing across the IT field. Just 2-3 things from my side, one can you repeat the guidance if you don't mind?
- Rahul Patwardhan:** What we had said at the beginning of the year was that the corporate business will grow 15% and 12% on EBITDA.
- HR Gala:** 12% is the margin you're talking about?
- Rahul Patwardhan:** Yes, this is what we said in the beginning of the year and the SNC business would grow in the single-digit around (+7) and mid-single digit EBITDA. If you take the composite of these two guidances and were to compute the overall NIIT growth rate and the overall NIIT EBITDA we hold to that same number for the overall NIIT position.
- HR Gala:** And what about the School Learning?
- Rahul Patwardhan:** School Learning, there is a de-growth because of the government School business and that we continue to hold to that level. We also are holding to a 5% to 6% EBITDA for this business for the full-year. Important point is the overall revenue number and the overall EBITDA number for

the company we are holding too. But there is a slight increase in the CLG top-line and the slight decrease in the SNC top-line.

HR Gala: So for overall NIIT we will have to take the weighted average sort of thing?

Rahul Patwardhan: Absolutely so if we were to use our original guidance and if you have done that then we will be roughly on that guidance assuming you have done your calculations based on the correct guidance.

HR Gala: I just wanted one accounting clarification. We have this net other income expense which was 93 million in 1st Quarter and 47 million in 2nd Quarter so it adds up to around 140 million. Can you tell us what are the major components of that?

Rahul Patwardhan: Yes, I will ask Rohit, our CFO to take you through that.

Rohit Gupta: There are three components in this net other income first is the interest component so the risk order of interest component is about 62 million and then the second component is the FOREX loss. So FOREX loss this quarter is about 4 million and the third component is the provisions these were the provisions which we have taken earlier we have actually returned them back on account of some of the moneys that we have received this quarter. So overall 18 million is that amount so if you net it off so 62 is the interest, 4 is the FOREX loss and 18 million is the overall reversals which comes to about 47

HR Gala: Can you guide me for H1 how much it was that total comes to about 140 million?

Rohit Gupta: The interest expense in last quarter was about 64 million however we had a higher FOREX loss which was roughly around 33 million. So the provision returned back was a positive of 4 million.

HR Gala: My third question is, Rahul you spoke about one company which acquired, are you talking about Perceptron?

Rahul Patwardhan: Yes.

HR Gala: What are we looking forward to in this acquisition, how will it help in our skill business?

Rahul Patwardhan: We got in contact with this company in July-August last year based on having a look at their platform. We were very interested in their platform but it was in the early stage of development. But in the process we got to really like the key people in this company and in fact the key person heading this company became our full-time consultant for the design of his StackRoute program. So the entire StackRoute program has been built with full involvement of the leadership of Perceptron so the marriage actually started a year back. We have been really talking about them coming on board full time since then. Having said that it is good we had this journey because we got to know each other really well. So three things that we are getting from this company; number one; some really good digital talent was specialized in the ed-tech platform development

area, so that is both the domain as well as the technology. Second is that they have built in their Ilimi platform some very unique feature which is not just general software functionality but some very deep learning facilities like Semantic Analysis and Learning Analytics which were things that we had identified that we needed to build in the roadmap where we had put in place for our learning platform evolution. What we realized was that if we bring this platform on board not necessarily the overall platform but those specific components into our roadmap we could save a substantial development time on our side. And there was a value and cost attached to that in terms of the money involved to have built it ourselves but more important the time because building a platform will spend another 6 to 9 months building our features that would have taken us much slower into the market.

HR Gala:

At what price have we acquired this company have we shared that?

Rahul Patwardhan:

Yes we have. It is about 2.4 crores of which we have paid little bit more than a crore and the rest is linked to certain milestones. One of the things that this company also brings to us is a contract with Ekstep which is a venture set up by Nandan Nilekani focused on the school sector. It's a social organization and the Ilimi platform has been deployed there and it is actually already being used to deliver learning through hundreds and thousands of young school children so it's already benefiting a large number of customers. Most of the team of Ilimi actually covered by revenue that we have already locked in for the next couple of years with this customer. We are not creating an additional cost based, we are creating actually a revenue stream QIP coming in and some really good talent coming in so it's a very good deal for us and a good deal for them because the talent that they have to work on the much larger set of problems in NIIT than they could ever do in their organization.

HR Gala:

Just read a few items which came in the newspaper last few days. One is the Ronnie Screwvala UpGrad this pupil, they are trying to get into the corporate learning solution and another is for Sera. So how do you see the competition heating up in this particular space?

Rahul Patwardhan:

The fact is that online learning the main market in the past was the US. Most of the online players in the US have discovered that without actually having spent much marketing effort the second largest user base is in India and now they are all coming to India as the market that they would like to capture because the other market that is available or it would be China where it is very difficult to operate especially given that business because of various regulations in the China market. So we will see all the major players operating here. Having said that what is also visible is that while they have a large number of registered users the completion rates and actual learning success is extremely low and we understand that a brand is respected, we believe that the cost of customer acquisition for us will be much lower than them. Our ability to deliver a model they deliver affective learning which at the end of the day's outcomes of what people want in India we will do better than them. But yes it's going to be a retail market and we will see many players operating here.

HR Gala:

But you don't see any margin depletion because of the competition?

- Rahul Patwardhan:** We are very clear that we are trying to leverage our strength which is we have 35 million people that we have trained over the last 35 years who know NIIT. Many of them will want to come back for additional skill so we don't need to spend a lot of money to market to them. Second we have many corporate customers in India who have hundreds of thousands of employees and we are already servicing these customers. This is now a new delivery vehicle and available to service them so we will use these kinds of methods to acquire customer rather than just growing up a lot of money which is what a typical pure online peer would do in the first couple of years.
- Moderator:** We take the next question from the line of Dipen Shah from Kotak Securities Please go ahead.
- Dipen Shah:** First on the book keeping side, can you give us the gross debt and the cash and cash equivalent that is the balance sheet.
- Rohit Gupta:** We started the quarter with the gross debt of 220 crores and through our focus on collections, working capital management and by the receivables from the government collections we have been able to bring down our gross debt to about 192 crores and our net debt which was that 130 crores at the beginning of the quarter is now down to 91.7 crores.
- Dipen Shah:** Once again on the SNC business, we had in the last four quarters growth rate which were always increasing about last quarter we had growth rate of about 6.6% and before that it was 5.2%. So is it very safe to assume that this is the one quarter blip and from the next quarter we will once again be back on that growth part of maybe 6% to 7%?
- Rahul Patwardhan:** It is a one quarter blip from the viewpoint of the three things that I mentioned here on this call. Having said that the fact that we are telling you that we will grow little bit slower to the full-year indicates that we expect a little bit of lag impact to be there in Quarter 3 and Quarter 4 also. And basically the trajectory of the old IT business coming down versus the trajectory of the new IT business going up it tends to hit you most in this quarter because this is a big quarter for people who are addressing the old IT program.
- Dipen Shah:** And once again very briefly on beyond IT courses if we look at the revenues on a quarter-on-quarter basis we have continued with the growth rate. We are at about 38 crores versus 35 crores in the previous quarter. On a YOY basis there has been 8% degrowth obviously because the base in the second quarter of the last year was much higher at 43 crores. But apart from that anything else to be read in that business beyond IT or should we not look it at sequential business going ahead.
- Rahul Patwardhan:** I mentioned that the banking and the government business there was a phase delay by a quarter and on the specific contract in the banking sector and some other government contracts which because of the movement of control from central government to state government there has been a delay in payment to us and a delay in the execution of the next phase of project. So that all are non-IT so that is one. Second is that the management curriculum that we had on the Imperia we consciously decided to go to profit rather than go for volume because we had a certain portfolio of courses last year which delivered a certain revenue volume but when we looked at them very

carefully found that certain products generated good number of registration for a course and therefore the profit were very good. While there were few products on the long tail where we launched the products but the normal registration of products were very few and we consciously chose to cut back those products rather than spend a lot of marketing money and execution money and not actually make any profit on those products. But that did result in a small deduction in the management revenues also so it's a combination of these three put together that has resulted in a slightly lower beyond IT's percentage for the quarter.

Moderator: We take the next question is from the line of Ganesh Shetty an individual investor. Please go ahead.

Ganesh Shetty: Our digital transformation business is based I think one of the trends presently having in the market. Are you finding any new business for this digital in like SME sector or government PSU organization where we can act as a consultant and advisor to take up a digital business for them in future? Can you please throw some light on this?

Rahul Patwardhan: Your voice is breaking a little bit so I didn't get the first part of the question. But there are some opportunities that are there, for example GST regulations pay some opportunity for training large number of people in the corporate sector and this is one of the initiatives that in are India corporate business is definitely looking at. In the area is this whole digital transformation it's not only about IT training for digital innovators and digital developers which we are anyway doing with StackRoute and DigiNxt but is also about all their executives, middle management, senior management across all companies and all sectors there is an acute need for them to understand what digital transformation will do to them and what they need to do to make sure that rather than disrupted they can survive and grow. So that is why we have tied up with Barry Libert to bring to the market a curriculum that will help leaders understand what digital transformation tend to do to build a future of their companies. And that's something we will start doing and there will be a set of products servicing the senior executives and middle level executives in this space. In addition there are other areas we are looking at but our focus in the retail market is really IT and that too new IT, management, banking and financial services and if we go into any other sectors they will tend to be a premium sectors where price points and the kind of people who do these programs are of a particular profile where they are able to afford a premium price for the product. We are not going into commodity business anymore.

Ganesh Shetty: My second question is regarding the CLV business and where oil and gas sector which was our core business for a last few quarters and how that is doing now and are we getting any renewal contracts from those venture.

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

Chetan Wadia: Coming back to the skills and career that you were just discussing, can you give us the sense of the new courses to be rolled out under the both IT and beyond IT to FY17? What would be the impact on the revenue line or on EBITDA for next 4 to 6 quarters on account of the same? Also

are we seeing any improved traction on the enrollments in the career business and what is the outlook for this for next quarter?

Rahul Patwardhan:

I will take the number part of the question then ask Prakash to talk a little bit about the actual courses. Overall we have reduced our outlook for the skills and carrier business for this year. That doesn't mean that we are thinking that is going to be bad in future. It's our ability to drive the new IT faster in absolute term to grow than the rate at which the old IT is degrowing and that's been the challenge and therefore we are being a little cautious in reducing our guidance for this year. That's number one. We also have only launched three of the products that we have in our plan; there are many more products to come. What you also need to keep in mind is that the products that we go into the third and the fifth and sixth and seventh product we get into the narrower and narrower niches but higher and higher price points where the salaries that the people can get will be even higher. But they are therefore going to be much more niche products and therefore we are carefully phasing the sequence in which we have rolling out these products and we have started first on the product so we believe the volumes will be the largest. But I will ask Prakash to talk through some of the products that we have in mind over the next few quarters.

Prakash Menon:

So last quarter as I said we have launched out of the 16 domains that we planned over the period of time, we had launched three, one has to do with DevOps, the other was New Stack and the third was Big Data. Now going forward in Quarter 3 we hope to launch three more which has to do with data sciences, it is to do with robotics and it has to do with IOP. These are typically courses meant for the graduate engineer and some of them for the undergraduate engineers as well. So you will find that kind of people who will do data sciences could not just be engineer, they could be from statistics and maths as well. And you will find that when it comes to robotics we would be more focused on mechanical engineer/electronics engineer where there will be other causes that are meant for all kinds and consultants who are participating in the digital transformation technology. So as far as IT is concerned this is what is our plan for Quarter 3. When we look at beyond IT when we look at management we hope more and more courses in the management domain that we will bring in they will move towards the multimodal platform and would be delivered direct to home. In the BFSI sector, today we are looking at certain segment of people who joined banks at an entry level. Going forward in Quarter 3 and Quarter 4 we hope to be looking at segments that would require skills at the senior levels in banking.

Rahul Patwardhan:

Just like to add one comment Prakash said about banking, we have been playing in this space of helping banks require sales officers and branch officers in the private sector banks and that will be in a large part of our business apart from some corporate training for existing employees in the banks at their junior and middle levels. There has been on one large segment that we were not operational in in the past which is the supply of probationary officers in the public sector banks. In the last quarter we had major breakthroughs into the public sector banks UBI, Bank of Baroda and Bank of Maharashtra in the PO segment and this is important breakthrough because the price point of these courses are high. They are long-duration courses so they give assured revenue year at a time and they are the started now and there are many more banks to service. So this is an important growth driver in the BFSI sector.

- Chetan Wadia:** Just a follow-up on that, after all these courses are being launched will the revenue stream be more even throughout the year and not focused just on Q2?
- Rahul Patwardhan:** Yes as we said since we had 7% growth in Q1 when we had a (-)6% growth in Q2 and we are saying that we are still going to have a positive growth but slightly less than what we have said earlier of (+)7% so obviously they will do better in Q3 and Q4.
- Chetan Wadia:** Have we made any headwind in the setting of the domestic operations for the corporate learning group?
- Rahul Patwardhan:** For the corporate learning group domestic operations, yes, we have made good progress. This business actually has grown faster than many other parts of the company. The four segments that we work on the IT sector, so we worked with almost all the major IT companies and multinationals as well in Indian. We worked with many of the ITES firms which is the people in the BPO sector both Indian as well as shared services Centers of many multinational companies. We then worked with telecom companies, we worked with several companies which is basically companies which have a large retail channel in India to help them train their sales force across the country and we worked with the BFSI sector. So these are sectors where we do most of our business, all of them are sectors where they are adding you to number of people and therefore the training requirements are large, iteration is also high therefore the training requirements are even larger. So we are making very good progress in this sector.
- Chetan Wadia:** Finally for the School business I think that is still in the restructuring stage so going ahead when do you think that the School business will be as good as much as the other two divisions of the company?
- Rahul Patwardhan:** The School business right now is around 8% or so of the revenue of the NIIT, so it can't really be compared in terms of size with the other two businesses. What's really important to identify is that the business that we are today selling for the last 12 months or more is pure IT and people based services business which is what I call in the go forward business, it grew 4% in Q4, it 6% in Q1, it's now grown 13% in Q2 and therefore the trajectory is right. In parallel we are now building a plan for the future for this business both the B2B as well as the B2C business. And as we have mentioned in earlier call we are looking for strategic investment to take this business forward much faster. So the dialogue in the process for doing so has started and over the next few quarters we should see some progress on that.
- Moderator:** We take the next question is from the line of Sachdev from P&Y. Please go ahead.
- P. Sachdev:** How the SNC business was 2-3 years down the line assuming all the initiatives bear fruit in terms of turnover scale?
- Rahul Patwardhan:** I can't give you that exact answer because it really depends on the rate at which the online business and scale. It's too early really to say how fast that will scale. The potential to scale is obviously very high but the speed at which the pickup will happen and at what point the real

acceleration will happen at this point of time it's really too early to say. The rest of the business there will be a certain trajectory of the brick and mortar business and as we refresh our portfolio more and more of and we have more and more higher price courses which are very relevant to the market in all the three sectors of IT management and banking and BFSI. We will be able to make growth rate into double digit as we go forward. But the joker in the pack really is the online business and at this point of time not enough numbers to start making promises based on metrics of the past. So I think you have to watch how we do in this business over the next couple of quarters. But the potential is huge as you could imagine.

P. Sachdev: Can you assume the potential could be north of 1000 crores or something like that?

Rahul Patwardhan: I'm not going to respond to that question because the size of the market is much bigger than that. So it really depends on how successful we are in capturing that market.

P. Sachdev: The reason I'm asking you is because NIIT is been a market leader and all the initiatives have been there for a while now. So of course they go to come and start the execution what we started.

Rahul Patwardhan: Right.

P. Sachdev: So in terms of number and all there is something new guys must have projected internally or something like that. It's not a guidance or anything but some projection or some numbers that you could throw away.

Rahul Patwardhan: Not really at this stage. All I would say that it is our intention to be the leader in the blended learning online market in India and that should give you an indications of the kind of price that we are talking about.

Moderator: That was the last question, I now hand the conference over to the management for their closing comments. Over to you.

Rahul Patwardhan: Thank you very much for the time ladies and gentlemen and your support and your questions help us look back at our operation for the quarter very carefully. It also feeds in into our calibration of our defined execution plan and strategy for the future. So we will listen very carefully to all the inputs that have come and all the questions that you had so that we can calibrate how we look forward to the second-half of the year and going forward. We are just entering, in fact we are just stepping out yesterday from the kick-off to our three year perspective planning process through the board. Tomorrow we have a detailed workshop with the board following which the leadership team of NIIT is sitting about 50-60 of us spending two days deliberating on where we want to go for the next three years, what changes they want to make to our current perspective plan and that between 24th of October and around 18th of January is where we do intensive planning. We will share with our board around 18th of January revised perspective plan for the next three years and then go into budgeting for next financial year. That's a little bit of our insight into our work load in the next two quarters. But as I said we are looking at getting the same numbers that we had defined at the beginning of the year overall for

NIIT with a little bit of improvement on CLG and a little bit of depression on the SNC numbers. With that I will hand you back to Vijay if he would like to say a few words.

Vijay Thadani:

I think the team has tried to answer all your questions and I'm sure there will be more as you come along. We do appreciate your comments as well as feedback as well as some of your very searching questions which would definitely create some more work for us as well as thinking through our strategy well. We will be doing so in the next few days. As usual Pat, Rohit, Kapil Saurabh and every other member of the team, they are available to you for any questions that you may want to address or any clarification that you seek. All that remains is to thank you for being here with us and looking forward to your continued support, guidance as well as feedback. Thank you.

Moderator:

Thank you. On behalf of NIIT Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines.