



# CFO CONNECT

July 2015 ■ Rs 100

**Ties that Bind:**  
Indo-Bhutan  
**Land Acquisition for Whom,**  
By Whom and Why  
**Turn Crisis into**  
An Opportunity



Rohit Gupta,  
CFO, NIIT

Rahul Keshav Patwardhan,  
CEO, NIIT

## Game Changers

This issue of CFO Connect contains 52 pages including cover and backcover.



Rohit Gupta,  
CFO, NIIT

Rahul Keshav Patwardhan,  
CEO, NIIT

# Game Changers

The story of NIIT began in 1981 when three IIT graduates got together to do something innovative. The trio founded NIIT with an objective to optimise on the opportunity of booming IT education and training in India. Since its inception, NIIT has always evangelised the gospel of technology and endeavoured to create an IT enabled society. Through a franchise model, it first began imparting IT education and opened centres across every nook and corner of the country.

Cut to the present day, NIIT is on a transformative path and creating waves across the globe. Today, NIIT is by far one of the most successful digital organisations impacting millions of lives through its learning solutions that are carefully designed to suit the changing times. Be it in classrooms, corporate boardrooms or in individual learning spaces, NIIT is redefining talent and skills and preparing a pool of manpower for global industry requirement. From working with over 139 universities across 66 cities in China to signing a ten-year management contract with a Norwegian oil and Gas Company, NIIT has maintained a sharp focus on international markets like the US and Western Europe and of course, China. The story continues and promises to get bigger with time. Rahul Keshav Patwardhan, CEO, NIIT, and Rohit Gupta, CFO, NIIT, tells *CFO Connect* what is so unique about NIIT and where does it go from here.

## Long road to innovation

NIIT always evoked the image of youngsters longing for a career in the IT sector especially in software development. Today, its many other innovative courses bear testimony to

the fact that NIIT has evolved. When and how did the real transformation take place?

**Rahul:** It started a long time back. NIIT first started to do business outside the B>C consumer market place

in a significant way in 1991 when it went to Atlanta. We started building the multimedia business of NIIT there starting with a large engagement with IBM. We were building content for IBM which they in turn would offer to their customers worldwide. That was a corporate transaction and nothing to do with the consumer marketplace. Based on this start, we began to get many similar contracts from US companies. Similarly in 1992, we went into the South East Asia market and started getting similar contracts to build content for large government departments, for example, Ministry of Defence, Singapore.

We did very substantial work in building content for different subjects and audiences ranging from pilots to HR professionals. The content had nothing to do with training about IT. Rather, it was utilising IT for delivery of training. We also helped launch a multimedia university in Malaysia besides launching a training academy for Ericsson for their Asia Pacific region. That was the first phase where we got various corporate content

## COVER STORY

development engagements in US & Southeast Asia.

About six years ago, we started a new line of business called Managed Training Services (MTS) where we approached large multinational customers and offer a comprehensive strategic training outsourcing package. In addition to content development and training delivery, we also offered to take over a substantial part of their training functions worldwide. It then became a natural progression for us. We started getting into deals like the one we have with Shell where they spend a few hundred million dollars on training globally and they outsourced a significant part of the management and delivery of this training to us. The MTS business has taken off significantly and today it accounts for about 88 per cent of our Corporate Learning business globally. And the overall corporate business alone is now 51 per cent of NIIT, while the original core business for which NIIT is famous for in India (IT training) is actually now a small part of our revenue. Even in the public training that we do in India, our focus lies in training for sectors like banking, management, retail, telecom, among others, and a number of other skills, with IT being just one of them. NIIT today is a global, technology-enabled Skills & Talent Development Company, and not the IT training company we began our journey as.

### Realignment of business: Lean and mean

**As part of the business transformation program, how did NIIT go about creating a lean and nimble structure?**

**Rahul:** There are three parts of the transformation. The first part is what we would call the restructuring case which is what we did in the last six months from the time I joined. And most of the impact happened in quarter 4 and it reflected in our results in that quarter.

The second phase is the re-energising phase where we are working with all the businesses that we have decided to move forward with, and putting a lot of new energy into growing those

businesses. The third phase which we are working on - in the background - is the technology transformation phase - where we are looking at renewing some of the business models around a core technology platform for all our businesses.

**Rohit:** The restructuring phase was the first stage of the business transformation. In 2014-15, we initiated the process of business transformation and we looked at four to five aspects. First, we started with the succession planning where our present CEO joined as a CEO designate and now as the CEO, and we also brought in a host of senior-level professionals into our skill and career growth sector as well. The second step saw us rationalising our subsidiaries where we started with mergers of three subsidiaries to simplify our structure. We then carved out one of the school businesses into a wholly-owned subsidiary, a step meant to simplify the operation and also enable the school business to raise long-term funds. The third step was looking within our business and that led us to defocus or exit from some of the low return businesses and products in some of the geographies which were not giving return commensurate to the investment we have made.

So in essence, we looked at capacity consolidation across all our physical training centers. We were also able to take a decision to completely exit from our government school business which has always been a defocus area for us since it was a strain to maintain the operations and the infrastructure cost due to bill collection delays. Even though we have been in the school business for more than ten years and while it has a good EBITDA margins, we have been facing pressure due to liquidity issues and it creates a mismatch in our working capital.

**Was there a feeling somewhere that NIIT was spreading itself too thin? It had to defocus and exit business operations from certain international geographies in the emerging countries, where the business had limited potential for scale.**

**Rahul:** NIIT expanded its presence in the B→C education segment outside

**“We decided to sharply focus our energies only on four primary markets: US and Western Europe for our corporate business; education business will focus on China and India; schools business will focus only in India.”**

– Rahul



India in a number of countries- in Africa and in Southeast Asia. Apart from Africa, I was involved in the launch of the China business in my previous stint at NIIT so I have a good understanding of that business. What I think happened was, with the focus on some of the businesses of NIIT over the last four to six years, there was some kind of defocus that had already happened on our international B→C business. And then there were cash flow issues in certain geographies in which we went. A close analysis led us to get out of such markets with no potential for significant growth or return. Second, we wanted to disengage from all markets where we have substantial receivable collections but do not see the probability of being able to get those collections back. Instead, we decided to sharply focus our energies only on four primary markets: US and Western Europe for our corporate business; education business will focus on China and India; schools business will focus only in India.

In Africa, we have disengaged from South Africa and Botswana. We do have some presence in West Africa but it is strictly on a cash and carry model basis. We are open to cash and carry relationship with franchise partners in other parts of the world.

Being asset light and in positive cash flow businesses is very important

## COVER STORY

and a core tenet of strategy for us. Which is why, even though government school contracts can be big and look attractive, they force us to build solutions that are capital intensive and cash flow negative, since deals are typically structured as hardware-cum-services. We do not want to be in that kind of business.

### Corporate Learning business – opportunities

Global spending on corporate training continues to grow at a robust pace. For instance, expenditure by companies on training in North America is estimated at over USD 85 billion, and combined with Europe represents a USD 125 billion opportunity. In the light of this, do you see corporate training as an opportunity in India? Does Corporate India deem it worthwhile to invest on corporate training?

**Rahul:** Firstly, corporate India is no more competing with only itself. It is competing with the world. Corporate India is also present outside India and similarly, multinationals outside India are extremely active in India, as India

**“We were also able to take a decision to completely exit from our government school business which has always been a defocus area for us since it was a strain to maintain the operations and the infrastructure cost due to bill collection delays.”**

**- Rohit**



is the next big growth market for the world. Given that, the competence and calibre of work done in corporate India has to now match the quality and performance levels of multinational companies both in India and abroad. So that creates serious pressure for reskilling and upskilling of the entire existing workforce. There is no doubt a big gap here with global best in class competency levels, and therefore a big opportunity for training organisations like ours. At the same time, there is also a big challenge for most of corporate India. The challenge essentially is the way it has grown. It is growing at a very fast pace and a bit rampant at that, as is common in high growth markets. The workforce that was required to support the growth had to be filled by picking up people who were not completely ready or adequately skilled because the supply chain for high calibre talent in various different industries was not adequate. As a result, thousands of people have entered these companies without necessarily having the same calibre or skill for their roles that their compatriots in multinational companies anywhere in the world would have. There is a need to bridge that gap if we, the Indian industry, want to be competitive.

Second, all sectors of Indian industry are still growing faster than global average, so there is a huge pool of people who need to enter every year in different sectors. On the one hand, we have millions of people who are unemployed in India. And on another level, we find that most of these companies are unable to find properly certified and competent people. So the industries are forced to take half trained people and that is becoming a big challenge.

We are seeing the changes happening and the changes are being driven twofold: one is, multinationals operating in India are focussing on skill building as a very important strategic differentiator and they are now competing with India headquartered companies. That is creating a natural pressure to do the same, among the Indian firms.

Second, some of the multinationals

are extremely active outside India so the demands of their management structure that are focussed in the international market is pushing them to make the change in India too. The issue of corporate training is no doubt beginning to be addressed seriously, but there is still plenty of gap in terms of where it needs to go. The government's initiative in this space is also very useful. For instance, the National Skill Development Corporation's (NSDC) initiative to set up qualifications and certifications across 32 skill sectors for every role working with each industry is commendable. This step will be supportive in creating the framework and standards to develop the right calibre of skills in all these industries. We do see a lot of demand for source, train and hire. Our task is to source the people, train them and make them ready so that when they step into the organisation from day one they are productive. Earlier, most companies would recruit freshers and train them for a year inside the organisation at their cost and time. Now, most companies want this done externally by training providers like us. We therefore, train freshers specific to the need of the organisation. However, the problem is deep rooted. It lies in our education system. If we take our universities, they do not program employees for a particular organisation. It is a generic education. The problem with generic education is, it takes time to prepare and do productive work in a company.

**Rohit:** Today, when corporates hire professionals, they want them to be right at first click. So there is a lot of training which needs to be given to employees before they join any organisation. When the employees join they are not absolutely trained as per the corporate requirements even from that perspective we have an opportunity so that employees are able to contribute to the organisation straight away rather than spending more time on them.

**Going forward, what do you expect from NIIT's three lines of business - Corporate Learning Group (CLG), Skills & Careers Group**

## COVER STORY

(SCG), and Schools Learning Group (SLG)?

**Rahul:** The three businesses have different shape and colour. The corporate business is an international business and it will remain largely so. No doubt, we will also serve businesses in India but the quantum will not be in the same scale simply because of the currency differences as well as the propensity to buy outsourced corporate training. The kinds of customers we are dealing with are Fortune 1000 size of companies so there are not yet so many of that kind in India. We expect that business to grow around 15 per cent per year on the top line and maintain an EBITA at about 12 per cent per year. With some inorganic activity that could be a little bit faster but that's roughly the scale at which this business can grow.

The skill business is however, going through tremendous transformation. The application of technology into the skilling industry provides opportunities for scaling substantially. The third and most important fact about this business is that it can be a highly leveraged business. So the minute you raise the level of utilisation of the physical capacity that we have, margins can start shooting up quite substantially. This year we are focused on bringing this business back to growth and profit, and then scaling it aggressively thereafter.

Comparatively, the school business is a smaller part of our business. Yet, we see huge potential even though we are focused only on India. Given the fact that we have an overall investment limitation as a company, we obviously would want to focus more of our investment on the first two businesses. So we created a separate subsidiary where we can attract third party investment to participate in addressing the schools marketplace which is huge.

### Skills & Careers - Beefing up Beyond IT initiatives

**How did you beef up your Beyond-IT programs? And would IT-related programmes be still the core strength of NIIT?**

**Rohit:** Beyond IT is showing tre-

mendous growth. Last year it was contributing around 26 per cent and this year, it has already gone up to 33 per cent. Beyond IT includes banking, finance and insurance training, BPO, KPO, IT and it includes management programmes where we have alliances with some premier institutes in India like IIM Calcutta and Ahmedabad. It also includes training for vocational skills. While IT has been the mainstream in previous years, recently our focus on beyond IT has gone up as our primary growth focus. We are seeing a lot of traction too with the newer products that we are rolling out. This is offsetting de-growth in the IT business due to maturity of the sector, and helping us on two counts. One is capacity utilisation and secondly, our margins are relatively better here. With the recent consolidation of capacity that we have done, we are now rolling out our entire beyond IT programmes to all our centres and to all our business partners.

**Rahul:** NIIT has contributed in IT tremendously. We have trained 35 million people in the last 34 years. I think we have made our mark. The industry has now matured to an extent, and compared to the more generic skills required in the past, now there is much more diversified and specialised talent requirement which we will continue to service. The challenge and responsibility for NIIT as the only company that has trained 35 million people in one subject is, can we extend that experience and expertise to service the need of India in all the other sectors? We are focussing on that, and our NIIT IT centres which everybody knows as NIIT have now become multi-skilling centres. One of my biggest challenges is while NIIT has already transformed internally, the external perception of NIIT is still the same that NIIT is equal to IT training, which is not true anymore. The truth is, 51 per cent is corporate business international and nothing to do with IT training per say. Even in India, the training we do is not just in IT. It is all kinds of other industry sector training. So we have a significant brand repositioning that we are also working on so that India at large sees NIIT as something much

**“Corporate India is no more competing with only itself. It is competing with the world.”**

**- Rahul**



more than what they knew it was.

**What is the lifespan of courses in NIIT? Do some courses ever get redundant and have to be done away with? How regularly does NIIT update its courses?**

**Rohit:** Reviewing course portfolio is a continuous exercise. We have to meet the market, subject matter and technology requirement that is constantly changing and evolving. Even the needs of students change to be in sync with the changing time.

We took a major product rationalisation in our business transformation exercise. We have a lot of multi-disciplinary IT courses which we called RevGNIIT. The earlier the GNIIT course was a fixed course with duration of 18 months to three years. That was transformed into various modules which the students could pick and choose as per their requirement. We did away with 94 courses and brought down our entire list to a much more compact portfolio. We also digitalised our courses and incorporated multimedia component into them to enable students to have easy access and learn faster.

**Rahul:** With the digitisation of all our courses, we are moving towards content being completely dynamic. Technology enables and permits you to do that today. We are also not so focussed on building our own content. Rather, our thrust is to make the learning experience worthwhile and enriching. We therefore design the learning model and leverage content that's already available, and build content only where it is not available. We are into creating something unique to enrich their learning experience. Just

## COVER STORY

like music, movies and books, free content is available out there. So, the real challenge is how to put together a meaningful content. In doing so, our task as a training organisation is changing. That, to me, is really the value that NIIT brings. Learners can come with a different background, experience and different ability to learn on their own. Hence the programme has to adapt itself to cater to them. That is actually the direction we are trying to move in.

### Entering the dragon

**Can you draw up a future road map of NIIT in China considering that it is a primary market for NIIT?**

**Rahul:** China will continue to be an important market for NIIT. We are focussing on fewer markets and China is one of them. We see a potential there. We are already imparting IT courses and we have been doing that for a while. Now, we are looking at forging more alliances and expanding our reach. Our workforce is Chinese and we impart NIIT courses in the universities and we also have alliances with local partners in various provinces where we have centres. There are two important steps we are taking in this year. First, we have recently signed a contract with Guian district, where we are going to setup centres and train 50,000 students in Big Data skills and we are looking at more tie-ups. That's because the Chinese central government has nominated Guian province

**“All sectors of Indian industry are still growing faster than global average, so there is a huge pool of people who need to enter every year in different sectors.”**

**- Rahul**



as the national hub for the big data industry. The Chinese government has deliberately chosen the area to build high technology like big data in this province so that they can raise the average level of the province. So when they decided to do that the first thing they did was to contact NIIT seeking our help to build the pool of people to staff the industry because a person from Shanghai or Beijing may have skills but may not move to Guian. That is a big responsibility. We have similar relationship in Qingdao University in a province in the north of China for a similar engagement. About 40 per cent of the University students there are pursuing NIIT courses.

Secondly, we are taking our Cloud Campus and Synchronous Learning Technology (SLT) platform to China with a lot of modifications including language localisation to suit the market there. We want to use that to expand our coverage and to bring in more students. It will be cost effective and we will be able to service a much large number of customers.

One of the more strategic reasons for our presence in China is not just the market size. China is ahead of India in adoption of technology. The rate at which the average Chinese citizen uses mobile phone and internet for everything is ahead of India. That may be because of a stronger bandwidth penetration which is ahead of India. Also, culturally they tend to use technology much more. So we felt that if we pilot our new offerings first in China and are successful in satisfying the Chinese market, then our products will be ahead of the curve for India. So there is also a strategic value in remaining in China in the education space. Being able to compete and succeed in the Chinese market automatically puts our products far ahead of what is required in India and we can bring them back into India later. We are also transforming our entire Chinese delivery model into synchronised learning which means that a faculty sitting in one studio somewhere in China will conduct the class and students all over China in different centres will attend that together. We are moving one hundred per cent into

that model. In China, we are focussing only on IT training. Beyond IT has not been launched but we will do that too. The model allows us now to roll out anything we want.

### Hurdles and victories

**What are some challenges in trying to introduce technology-based education in schools in India?**

The challenges differ. Take an example of MathLab which is really a world class product. We have done a recent survey with a well-known consulting firm which surveyed the impact of Mathlab before and after MathLab was introduced in schools and the impact on the math score. It is now statistically proven that the NIIT MathLab when implemented into schools will increase the maths scores. Despite the statistical evidence, it is difficult to understand why is it that schools around the country are not picking up this product as fast as they should. The issues are in the school systems in India which are still slow to adopt technology. It is not only to do with the CBSE curriculum or anything but it is more to do with the mind set about using latest technology. Take for example, even private schools where we implemented something five years ago and provided hardware and systems. Five to seven years later, the same hardware that was installed then is still there in the schools. We have upgraded our content and our software because we have to be latest, but then these cannot run on that system. So there is an issue in the speed of adoption of technology in the schools systems in India even amongst private schools sectors. There are some schools which are more forward looking though. So how do we stay contemporary and modern when the platform is behind times and our products cannot work on those platforms? That is the strange paradox that we are stuck with in the school system.

### Tech: the driving tool

**Technology is an enabler in your scheme of things**

**Rohit:** It is the biggest enabler for us. Internally too, it has been a big

## COVER STORY

realisation some time ago. We have been investing in cloud campus and it has helped us in rationalising our product. Besides, it has helped us to create a better learning experience for our students because of the various changes that we are making. Our focus on technology is extremely high. We are using technology to service our customers in all of our learning modules. We have invested both in India and overseas. We are investing in China in creating learning experience and making sure that the entire product is dynamic, fast improving, benefits the learners, giving them a choice between classroom training and online module. We are also able to use expert faculty who could be stationed anywhere and cater to students across the globe.

**Rahul:** Today, corporate India is starting to get engrossed with the term digitalisation. We are already a digital company but people do not really understand that outside NIIT. Our business cannot function without technology as it is the primary and critical platform for delivery. You may see all those physical centres but they are only one part of the total service delivery model. The centre, therefore, is one vehicle for delivery. It might not be the only one.

### Looking ahead

**Where do we see NIIT five years from now?**

**Rohit:** Corporate Learning group grew by 23 per cent last year and it is expected to grow at least 15 per cent overall. We may also have inorganic growth in our business. Skill learning group is of course a transforming story and right now the mantra is, we want to bring it back to growth and profit from the de-growth that we are witnessing. There is potential to grow multi-fold especially because of the size of the market that we have in India and China which are our focus areas. In Schools learning group, our focus is on private schools across India, on B→B segment. In the future, we will actively explore the B→C segment too. From our current level, we are on our march to a billion dollars in terms of overall revenues combined with or-

ganic and inorganic growth.

**What would you attribute are the reasons for NIIT being voted as one of the Great Places to Work Institute in IT industry?**

At the top level, way back in 1986, NIIT put together a document which reflected our values and beliefs. It has three statements. NIIT is People; NIIT is Value; and NIIT is a Mission.

### NIIT is People

The message really here is that before anything else the success of a company is made up of the success of the people. If the people are happy and if we can leverage the potential of every NIITian, then the company will grow. If every NIITian grows, the company being nothing more than a collection of all NIITians, will automatically grow too. A lot of focus has gone in making this a reality, from that time onwards and having come back with a ten year gap, I see a lot of focus still very much there in the company, which is why we keep winning awards amongst the best companies from an HR perspective in India, even though we are not as big as some of the larger companies in India today. That is the true reflection of the fact that NIIT does really well in the people management area.

### NIIT is Value

Here we are constantly looking at new ways of doing things or looking at new ways to deliver value to the customer not just servicing the customer demand, but coming back to the customer with an attitude of "we can also do this for you."

### NIIT is a Mission

Because of the industry in which we are, is about training and education, everybody in NIIT must see the fact that we are in a business which is a missionary business. It is about upskilling people and about getting the best out of people, not just our own people but people in society at large and our customers.

If we can keep ourselves focused on these three principles all the time, then in all the million things that we

**“R**eviewing course portfolio is a continuous exercise. We have to meet the market, subject matter and technology requirement that is constantly changing and evolving.”

- Rohit



are working on, they provide us with a constant beacon that directs our future success.

**What roles do the promoters play today?**

They are on the Board. Mr Pawar is the Non-executive Chairman. Mr Thadani is the executive Managing Director, while Mr Rajendran is the executive Joint Managing Director. They essentially operate at the Board level, while Rohit and I run the company on a day to day basis. This is the first time that the promoters are handing over to professional managers, so it is a very important period in the history of NIIT. I have been around in NIIT for 20 years. I went out for 10 years and have now re-joined. So I have that linkage and was a part of that history having worked as the 34th employee from 1984 to 2004 and I have seen every single thing the company did during that period. My 10 years away allowed me to see and experience many different things and come back with freshness but never with a sense of disconnect from the history. Usually, the single and biggest challenge that promoters face is the issue of succession. Because they have to simultaneously let go and feel comfortable to trust. I think in this case, it is a little bit easier. Having said that, it depends on results. ■