



TRANSCRIPT: NIIT Technologies Ltd Q3FY2020 Results Conference Call

**4pm IST, 29 January 2020**

FROM NIIT TECH:

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*(1 crore = 10 million)*

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY20 Earnings Conference Call of NIIT Technologies Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh, Head – Investor Relations and M&A at NIIT Technologies. Thank you, and over to you Mr. Singh.

**Abhinandan Singh:** A warm welcome to all of you to our Q3 FY'20 earnings Conference Call. You would have already received our results by now. These are also available on our website, [www.niit-tech.com](http://www.niit-tech.com). Present along with me on this call are our CEO Mr. Sudhir Singh; and our CFO Mr. Ajay Kalra.

We will start this forum with opening remarks from our CEO and post that we would open the floor for your questions. With that, I would now like to hand over the floor to Mr. Sudhir Singh, our CEO. Over to you, Sudhir.

**Sudhir Singh:** Thank you, Abhinandan and a very, very good evening and a very good morning to all of you across the world. We are pleased to report that we registered a good performance in Q3 of fiscal year 2020.

Today, before I delve into the quarterly results, I wanted to make an important observation. You would have seen our intimation in November about Mr. Ajay Kalra who has joined us as our CFO, and I am happy to say that he is present with us on the call today. He joined us from Genpact where he was the Global Controller for the firm. In his long tenure at Genpact, Ajay has accumulated rich experience and expertise across the finance function including corporate finance, complex deal structuring, pricing, contracting, treasury and mergers and acquisitions. Ajay was also a key member of the team that took Genpact public in 2007 and he has been associated with the company’s capital raising efforts. Ajay is a Chartered Accountant with over 25 years of experience and the organization and I are very pleased to have Ajay join our leadership team. Welcome, Ajay.

**Ajay Kalra:** Thank you, Sudhir.

**Sudhir Singh:** As I walk you through the results today, I would like to call out the framework under which I shall articulate them. As indicated in the earlier calls this year, and as you are aware, in April 2019, we divested the GIS business and on June 14, 2019, we closed the WHISHWORKS acquisition. I shall be discussing numbers and analysis only in the context of the continuing business, i.e. excluding ESRI and including WHISHWORKS.

With that, I am going into jump into revenue analysis.

We would like to share that the revenues grew quarter-on-quarter in constant currency terms by 2% and by 3.4% quarter-on-quarter on a reported basis to Rs.10,734 million. In constant currency terms, BFS contracted 2.9% quarter-on-quarter. Travel, Transport and Hospitality grew by 4.6% quarter-on-quarter. Insurance contracted 2.2% quarter-on-quarter and the others portfolio grew 5.2% quarter-on-quarter. In reported terms, BFS contracted 1.3% quarter-on-quarter contributing to 16% of revenue. Travel, Transportation and Hospitality was up 6.2% quarter-on-quarter, contributing to 28.5% of revenue. And Insurance grew 0.2% quarter-on-quarter contributing 30.2% to overall revenue. The other portfolio grew 7.4% quarter-on-quarter and they represent 25.3% of the overall revenue.

Americas, EMEA and rest of the world contributed 48%, 37% and 15% of the revenue mix.

The top-5 clients now contribute 27% of the total revenue and the top-10 and top-20 contribute 36.4% and 50.3% of the total revenue respectively. The broad-based growth is reinforced by the number of million dollar plus clients which has risen to 100 this quarter. Onsite revenues declined quarter-on-quarter and contributed to 64% of total revenues.

Moving on to margin analysis now.

On margins, we are pleased to report that we registered a healthy performance in Q3. EBITDA margin for the quarter is 18.2% in CC terms. In reported terms, the margin is now 18.1%. Effective tax rate for the quarter stood at 20.7% which is an increase of 265 basis points from Q2. Net profit for the quarter stand at INR 1,233 million.

The next section that I shall approach is the order intake commentary.

The deal flow story for the firm remains positive. We secured fresh business of US\$218 million during the quarter. This number represents a sharp increase over the order intake number that we have seen in the recent quarter. Out of this \$218 order intake, the US geo contributed \$90 million; EMEA \$62 million and the rest of the world \$66 million.

The uptick in order intake was driven by four large deal closures during the quarter under review. Each of the four principle business units of the firm, Insurance, Travel, BFS and APAC contributed one large deal each to the max in this kitty of four large deals for the quarter. Ten new customers were added during the quarter. As I have noted in the past, we have trained our hunting engine to focus on select but highly scalable pursuit. We have also repurposed some of our hunters to drive accelerated growth across existing accounts. The order book executable for the next 12-months is expanded and it now stands at US\$424 million.

Commentary on delivery operations and capability augmentation is as follows: The delivery operations of the firm continue to create real world impact across our three chosen verticals. During the quarter, within the travel industry, we successfully implemented rest-based micro

services for the booking engine of a large US-based travel technology company, started the rollout of an intelligent automation platform for a rail major, and we built an AI engine for detecting suspicious customs declarations for a low cost airline.

During the quarter in the BFS space we worked on transforming the Service Model to bring efficiencies across Development and Testing for a large Wealth Management platform provider.

And within Insurance, we are consolidating multiple systems for an EMEA-based global insurer's surety line of business into a single modern experience platform for the brokers, retail wholesalers and agents.

For another Insurance major we implemented Pega based AI bots that resolve Claim queries using Chats and Emails, thereby reducing 85% of the workload on Customer Executives.

Finally, for a new logo Specialty insurer within the Insurance vertical itself, we implemented a SLICE which is our own internal proprietary framework, it stands for Self-Learning, Intelligent Content Extractor that accelerates underwriter decision-making for the client.

Talking about capability augmentation, during the quarter we developed a next-gen quality engineering platform. We internally call it CoTAP (Cognitive Test Automation Platform) and this platform provides test analytics and it allows auto healing of test cases. We expanded our full suite Duck Creek capabilities by expanding our footprint to include Duck Creek Data Insight and Duck Creek Customer 360 platforms.

We have also developed and delivered a differentiated Sitecore-based customer experience (CX) accelerator.

As part of the broader leadership talent augmentation program, we were pleased to welcome three new Executive Vice Presidents during the quarter.

I have already introduced our CFO and EVP Mr. Kalra who joins me on the call today and shall be taking questions along with me.

In addition, we onboarded a new Global Head of the Digital business, Arun Varadarajan who is based in Princeton, New Jersey and joins us from Cognizant.

With an aim to further accentuate our market focus, a new global sales leader Puneet Sharma, who again shall operate out of the Princeton, New Jersey office, has joined us from Infosys. Our hunting sales engine globally has been aligned with Puneet.

Finally, the last four sections and I am going to run through these quickly. On the people front, total headcount at the end of the quarter was 10,849, reflecting an increase in headcount of 49

employees. Utilization during the quarter declined to 79.3% given the furloughs that happened in this period. Attrition for the organization has improved quarter-on-quarter; it is lower at 11.9% and continues to be one of the best across the industry.

Key balance sheet items that we'd like to call out: Cash and bank balances stand at INR 9,060 million. Capex during the quarter was INR 103 million. Debtors at the end of the quarter were at 67-days of sales outstanding. The DSO including unbilled stands at 83 days.

On the payout front, some of you might be aware that the board today in its meeting declared a second interim dividend of Rs.10 per share.

A quick commentary on the hedge position: Outstanding hedges in US dollars are 71.99 million, at an average rate of Rs.73.08 to the US dollar. In British Pound, we have 19.11 million outstanding at INR94.16 to the British Pound and in Euro it is 5.94 million at INR83.49 to the Euro.

Finally, on the outlook moving forward, overall, the company delivered a robust operating profit performance during the quarter under review. The fundamentals of the business are strong. We continue to plan for robust, predictable and profitable growth in the future.

With that, I end my opening comments.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Shah from CGS-CIMB India. Please go ahead.

**Sandeep Shah:** Sudhir, just wanted to understand, is it that in the order intake there is a material portion being renewal? Or does the renewal portion continue to remain normal?

**Sudhir Singh:** Sandeep, thank you for the question. Three out of the four large deals that I referenced, reflect new revenue streams for the organization. So the significant proportion is new deals and not existing deals getting rolled forward.

**Sandeep Shah:** With a lot of changes and the additions which you have done at a senior leadership roles within the sales and marketing delivery, do you believe that we can now sustain this new intake as a target on a quarterly basis?

**Sudhir Singh:** Sandeep, as you are aware, we do not offer guidance around financial numbers. We do believe, and we've said this for a while, that growth will continue to be robust and the addition of senior seasoned leaders in the form of Ajay, Puneet and Arun just adds more credence and confidence to our contention that the growth will continue to be robust, profitable and predictable going forward.

- Sandeep Shah:** But this quarter if we look at the growth from top-5, top-6 to top-10, all have declined on a QoQ basis at almost 5% to 8%. So is it apart from the one client specific issue which you called out, what has happened in the other rest of the accounts, any new client specific issue within the top-10 or any other issues which you would like to highlight?
- Sudhir Singh:** It was a mix in some ways of a cluster of factors, Sandeep. The first one of course is Q3 as you know reflects a quarter in which there are furloughs on account of holidays, and some of our most seasoned relationships happen to be within the top-10 and the furlough impact there has been material in the quarter. The second aspect has been top-10 BFS client which we had called out in Q1 and Q2 where we are seeing softness. We continued to see softness in Q3; however, the important point to note is that in one of the four large deals that I referred to, one has come in from this client itself. It is a new revenue stream when we have taken wallet share away from another service provider. We now expect, in Q4, a rebound to happen on that front.
- Sandeep Shah:** So overall you believe most of the top-client specific issues are now behind?
- Sudhir Singh:** There is always an up and down as you can imagine in a \$600 million organization. But we believe that overall given the ups and downs that happen in the normal course of our business, the aggregate performance would continue to be robust.
- Sandeep Shah:** Any policy being framed in terms of capital allocation, cash distribution policy and looking at the market price versus the announced buyback price, because the steep premium to the current spot rate versus the buyback price, whether board will reconsider in terms of revising the buyback price and also some amount of clarity in terms of what should be the payout ratio on ongoing basis?
- Ajay Kalra:** Sandeep, thank you for your question. Basically, the buyback process is still on. We are currently in the process of eVoting which is on. We will know the results of the shareholder voting by February 15<sup>th</sup> and that is when the next course of action will be decided.
- Sandeep Shah:** Any cash allocation policy?
- Ajay Kalra:** That is decided by the board and we will defer to the board.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** My question was a bit on the margin front. This quarter we saw the margins basically almost flat on a QoQ basis. Could you just take us through what were the major headwinds and the tailwinds that we saw in this quarter and how do we see those playing out over the next quarter?

- Sudhir Singh:** Vibhor, you are right, the margin was essentially flat. It was driven by two factors; one, the furloughs that happen in Q3 every year; the second one was because of the investments that we made in two out of the four large deals that we secured and which have started and the transition cost associated with them. The last leg of your question was around the outlook for the year. We continue to maintain as we have in the past that we are targeting an 18% EBITDA margin for the fiscal year.
- Vibhor Singhal:** And do you expect this transition cost that you mentioned were incurred in this quarter for those large deals, they could also recur for the large deals that we have won in this quarter, so they could be more recurring in nature than being just one-offs?
- Sudhir Singh:** Transition cost by definition is a one-time cost incurred during the beginning of an engagement. The other two deals will have their own transition cost associated with them. However, taken as a composite, we expect the firm's margin for the entire fiscal year to touch the 18% that we have been planning for.
- Vibhor Singhal:** Also, just on the travel and transportation domain, what is the kind of outlook that we are looking I mean if we are reporting very strong growth, insurance and BFS was slightly weakened, you mentioned the reasons for that as well. But on the travel, transportation, do we expect the momentum to continue or any kind of headwind that you see maybe far out in the future or something which are likely to be in the near future that we see?
- Sudhir Singh:** Travel and Transport for us largely reflects revenue that we derive from the airlines and the airports sector. At this point in time, we do not see any macro headwind impacting demand that is coming our way largely because of the fact that digital spend for both airline and airport is no longer materially discretionary. So the short answer to your question is, at this point in time, no material headwinds on the macro environment front for travel and transport that we see.
- Moderator:** Thank you. The next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.
- Shashi Bhushan:** Are our deal wins coming from clients that are scalable? We now have strong deal wins. Can we have some of these new clients graduating to top-10 or say top-20 clients in coming quarter? And is there effort by the management team to reduce exposure to few of our top-10 clients which does not have capacity to spend even during the good time?
- Sudhir Singh:** We do expect the new revenue stream has been created for some of these deals to translate into becoming clearly a top-10 corporate account for the firm. At this point in time, we have no intention of pulling back from any of the existing relationships that we have. We have in the case of a lot of those relationships, grown not only because the spending has grown but we have also grown because we have been able to wrest wallet share from some of our competitors in those accounts. So, the intent is not to go away from any global business that we have. And the

intent also is to make sure some of the new revenue streams that are represented as part of these four large deals do scale up to join the corporate top-10 group.

**Shashi Bhushan:** Four large deals in a quarter, that too when the decision making is missing almost for a month in Q3. Was there any deal that would have been pulled into this quarter from Q3? And how is our large deal pipeline after our large deal win this quarter?

**Sudhir Singh:** Nothing was pulled in from Q4. The large deal pipeline for Q4 also independent of the four deals closed this quarter continues to be robust.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

**Dipesh Mehta:** A couple of questions: First of all, just to get sense about Q3. Whether it played out broadly in line with the management expectation at the beginning of quarter, if you can provide some perspective? Second question is on the data point related. If you can provide NITL and WHISHWORKS revenue, EBITDA performance? And other question is about the weakness in BFS and Insurance which we have seen in this quarter? And partly you alluded about the large deal with one of the clients where you are seeing some challenges or can we say now broadly BFSI client-specific challenges are behind and we should see steady performance going forward?

**Sudhir Singh:** Thank you, Dipesh. I will take each of your three questions in sequence. The first question that you had was whether the Q3 records were in accordance with how the management expected them to pan out. And the answer is yes. We had called out the fact that in Q3, that we expected growth to get moderated after two successive quarters of 4% and 4.1% quarter-on-quarter constant currency growth. The number of 2% constant currency quarter-on-quarter growth that you see therefore is in line with this. The margins are flat but still above 18% as you would have noticed. And that is largely because there were four large deals that was signed and there is an upfront investment cost that went into those taking off in Q3. So that is the answer to a question one.

The answer to question two around revenue and margin profile for NITL and WHISHWORKS is as follows: NITL's revenue for the quarter was INR576 million and the EBITDA margin was 28%. On the WHISHWORKS front, revenue for the quarter was INR451 million and the EBITDA for the quarter was 24%. The third question that you had was around BFS and Insurance weakness. We have over the last many quarters driven our growth essentially through a strategy which has been broad-based growth driven and has derived its strength from growth coming from all the constituent businesses that the firm has. On the BFS side, as I noted, with the large deal win that we had in Q3, in the client where we saw softness, we expect BFS to turn around, and we expect insurance also after a relative weakness that we saw in Q3 to turn around as well.



- Dipesh Mehta:** If I look your segmental reporting, APAC segment has shown weakness in margin. So anything specific to read into it?
- Sudhir Singh:** That has essentially largely been a function of the furlough that we referenced earlier in the conversation as well.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** On the new hiring for the digital head, so which are the immediate areas of focus where the investments in digital need to be strengthened for an organization of our size? Second, on the other verticals which saw a strong growth, so which are the sub-segments where we are seeing deal wins and would we carve out something specially from this vertical? And lastly on the payout for the earlier acquisitions, your views on that, when is the timeline for the amount to be paid out?
- Sudhir Singh:** Madhu, I am going to take the first two questions and I am going to request our CFO to take the third one. Regarding the new hiring with Mr. Arun Varadarajan joining us as a global digital leader, Arun was running the Data Services business of Cognizant Technologies globally. With his arrival, we expect him to drive broad based growth across our entire digital portfolio. But of course, we expect data to be an area of particular focus. In addition, we will continue to drive focus around cloud, around cognitive where we have already invested significant dollars and continue to invest, and also around interactive technologies.
- The second question that you had was around others and the others revenue stream going up. The growth that we have seen in this quarter in the other space has come from a clutch of industries. It has come from industries including Manufacturing, a little bit of Retail, a little bit of Oil and Gas, and a little bit of Government, right. So once we think that we have built enough expertise and depth in any one of them, the management, in consultation with the Board, will take a call around incubating a fourth vertical. At this point, that call has not been taken.
- The third question that you had was centered around payouts. And I am going to request Mr. Kalra to answer that.
- Ajay Kalra:** Thank you, Sudhir. The payouts for WHISHWORKS are in June 2020 of approximately Rs. 62 crore. And another payout for WHISHWORKS which is on June 2021 for Rs. 69 crore. This will complete the acquisition of WHISHWORKS. For RuleTek, the payment is of approximately Rs. 70 crore in May of 2020.
- Madhu Babu:** Okay, just one last one on Incessant, I think earlier promoters have left I think four months ago, so how is it spanning currently in present portfolio?

- Sudhir Singh:** The Incessant portfolio is a portfolio that's now aligned by the different NIIT Tech geos. And we now are using the Pega capabilities which are very strong capabilities that the Incessant business brought to us as a spearhead, as part of the NIIT Tech Europe, NIIT Tech US geo, and the NIIT Tech APAC portfolios. In the quarter that just closed, quarter three, one out of the four large deals that we talked about was actually spearheaded by our Pega capability.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja:** My first question was more from an ahead, FY21, FY22 perspective. Given the number of large deals that we have seen and the robust pipeline that we have along with the fact that some of the challenges within our BFSI portfolio are behind, should we essentially see a further increase in our revenue growth rate going forward?
- Sudhir Singh:** Manik, thank you for the questions. We, as a firm, have never given forward guidance. What we have always done is share our broad plans. Given the large deals that you referenced, and given the revenue trajectory that we have built up over the last 11 to 12 quarters, our plans and our intent continues to be to figure out a model of driving robust growth, equally importantly, driving predictable growth and profitable growth, so we will continue to attempt to do that.
- Manik Taneja:** Sure. If I can chip in with one more question. So this quarter we have seen our offshore mix of revenues reduce by about 200 bps on a quarter-to-quarter basis. Should we see further changes around this metric given the large deal pipeline?
- Sudhir Singh:** The blip that you saw, Manik, in the lower than the onshore revenues which have decreased, and that blip was largely because the furlough impact onshore in the holiday season tends to be more pronounced. We expect the onshore revenue to continue to be around the 65%-66% mark, which is where we have been.
- Moderator:** Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.
- Abhishek:** I know our strategy has been to focus on select verticals, but as you mentioned that we are reaching that 600 million size and the investments that we are making in the hunting and farming side of the business, do you believe that we may need investments in any other vertical apart from the ones we have from a 2021 perspective? Thank you.
- Sudhir Singh:** Thank you for the question, Abhishek. The call around whether we want to incubate a new vertical or not is going to be driven basis the traction that we see in the market. If we were to incubate a new vertical, we would in all likelihood, take existing resources, both employees, IP, alliances, partnerships, people, and allocate them to the new vertical. I do not believe creating a new vertical in a services business like ours is going to be a very huge investment, at least at the outset. If we were to create a new vertical, the approach we will take is going to be consistent

with the approach that we have taken in the past. We will first dip our foot in the water, make incremental investments and as we start recognizing returns, start accelerating those investments.

**Abhishek:** Thanks. But have we thought of any particular vertical where we might start investing?

**Sudhir Singh:** We haven't. As you can imagine, Abhishek, we always have potential verticals under consideration every quarter when we sit down as a management team. We've bounced off a few but we haven't finalized on any.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

**Rahul Jain:** Congratulations on strong order win. My question is more about the commentary. If you could give about the various vertical, what you are seeing in terms of decline in behavior there, the area of spend, any challenges and incremental opportunity area that you identify? You have more shared in terms of specific plan, but if you could give an overall flavor in the space.

**Sudhir Singh:** Thank you for the question, Mr. Rahul. Let me just address the three verticals that we have. Travel, transportation, hospitality for us, as I noted earlier in the call, is essentially an airlines and airports play. Airports, given the significant stress that they put on trying to push more passengers using the same existing infrastructure are increasingly adopting digital as a tools for getting that done. One pivot that they are trying to pursue is around making the passenger travel more seamless, reducing the amount of time a passengers spends in an airport before boarding a flight. And that is essentially a digital play where we expect significant investment to be made. Airlines, again, are driving most of their discretionary revenue using digital channels. So digital spend there are likely to expand.

Moving on to BFS, which for us has essentially been centered around capital markets buy side-wealth and asset management. Innovation dollars have been coming back into the space largely because most of the majors have been challenged by the new FinTechs in the wealth management space. And we would like, and we hope we will be able to participate in the new investment dollars that are flowing in. Finally insurance for us is essentially a Property, Casualty and a Specialty insurance play. At this point in time, especially the Specialty Insurance industry is an industry where we expect that with growing a geopolitical risk, growing geo-economic risk, we expect the investment spends to continue to be robust.

**Rahul Jain:** Secondly, on the profitability, you said your escalation of the 18% margin, I missed your comment, how you are see that happening, given the current nine month performance and your comment on that?

**Sudhir Singh:** Mr. Rahul, we have shared in the past that we are planning for an EBITDA margin of 18%. We, at this point in time, feel confident that we should be able to deliver on that promise for this fiscal year.

- Rahul Jain:** Fair enough. And any specific reason that you would see a significant jump in Q4, is it a general business revenue led momentum that you see or there are any specific factor beyond that?
- Sudhir Singh:** No, the principal reason there would be, (a) we obviously will not have the overhang of furloughs that we normally have; (b) quarter four normally tends to contain a higher number of billing days than quarter three does. And third, I don't expect transition cost of the same order that hit us in quarter three to hit us in quarter four.
- Rahul Jain:** Right. And if I could squeeze one more. The executable next 12 month order that you shared, if you look at the Y-o-Y growth in that businesses is 13%, although we have been hitting much stronger on the order intake front. So is it fair to assume that given that we are adding a larger order size than average what we used to add in the past, most of these orders are creating more visibility in future than what they add to the current run rate?
- Sudhir Singh:** Yes, you are right. Order executable is a good metric for figuring out the extent to which we are able to look into the future, especially over the next 12-odd months. So to that extent, your analysis is correct. We have more visibility and more certainty basis the higher number that you have seen, with higher numbers in order intake having flown in to order executable numbers.
- Rahul Jain:** Right. So, although you don't give specific guidance, this 12%, 13% kind of a growth that we are seeing in the executable order book and also the order intake is strong, should that be a good way to look into the expected growth?
- Sudhir Singh:** As you know, we don't offer guidance, right. And there is a certain extent to which maths works well in a real-world sales environment, and after that it stops. So I think it's a good metric to look at, but I suspect it will be very difficult for any one of us to say that is the only metric to look at to forecast where we land.
- Rahul Jain:** So what essentially I am asking here is that, if we look at the run rate which is at 424 million, and if we look at our revenue run rate, basically, the 75% odd revenue of our existing run rate is taken care of on the existing order, and the incremental should be function of new order that we win and execute. So that by nature in terms of the nature of deal and their recognition period, is that more favorable than in past or this is not the conclusion that we can make?
- Sudhir Singh:** Rahul, a business has many moving parts, as you know. There are pieces of our business which tend to have a very strong multi-year managed services component. There are other pieces where it is the velocity of the deals more than the TCV that's important. So it is going to be very difficult to calculate and give you a very hard answer to that. All I can say and the whole management team can say with conviction is that we are planning, and we hope to deliver robust growth moving forward.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS CIMB India. Please go ahead.

- Sandeep Shah:** Sudhir, just want to understand, with the Brexit coming into play, you believe that there could be some pause in terms of decision making or you believe the growth momentum may continue to remain stable, especially with our higher revenues coming out of UK? So any client discussion gives you any kind of worry?
- Sudhir Singh:** Nothing, no client conversation, Sandeep, specific to Brexit has given us any immediate cause of worry at this point in time. Our play in Europe is centered around the airline industry, to a limited extent around airports, and largely around specialty insurance. And in those three sub-segments we haven't heard or seen anything that gives us pause.
- Sandeep Shah:** Okay. And just on the margin, when you say for the full fiscal 18%, you are saying margin excluding the one-off which we had in terms of ex-gratia payment in 1Q, right?
- Sudhir Singh:** That's correct. What I was referring to was the EBITDA percentage margin, and you are right, that was taking into account the exclusions that you just referenced.
- Sandeep Shah:** Okay. So even considering that I think we are looking at almost 100 bps kind of a Q-on-Q improvement, which you believe because of the tailwinds which you have discussed is possible on a constant currency basis?
- Sudhir Singh:** We don't offer guidance, Sandeep. But I guess your maths is correct, yes.
- Sandeep Shah:** Okay. And just few things on the deal pipeline. Do you believe the deal pipeline which you were catering at Q3, the size on a Q-on-Q basis still remains robust even at entering Q4?
- Sudhir Singh:** That's right, Sandeep. The deal pipeline entering Q4 for large deals continues to be robust.
- Sandeep Shah:** Okay. Just, Sudhir, last question in terms of, we are showing a consistent, stable, profitable growth. What can go wrong according to you in the next maybe six to eight quarters, or maybe in the next two to four quarters, which gives you a bit of a worry?
- Sudhir Singh:** See, the only thing that we can think of is, is possibly very large macro movements when it comes to immigration related issues. We haven't seen any, we haven't heard of anything that is fundamentally going to take place there. But that's the one thing that we can think of. I cannot think of anything else, because for a firm our size which is, I mean, 600 million, a lot of our growth has been predicated on wresting market share from existing providers in our large accounts. We have over the last 12 quarters grown with some ups and downs in top 10 accounts as is the usual. But beyond material issues happening at a global level, which are specific to immigration or mobility, as a team we can't really think of anything else that should significantly waylay the current trajectory.
- Sandeep Shah:** Okay. And just last bookkeeping question, maybe CFO can answer is, what is the reason for a Q-on-Q decline in the intangible assets, which has gone down by more than Rs. 40 crore?

- Ajay Kalra:** The reason is that we finalised our purchase price allocation, study of the WHISHWORKS acquisition, and this is the impact of the reduction in assets around that.
- Sandeep Shah:** Okay. And anything to read for reduction in a future acquisition liability from Rs. 192 crore to Rs. 175 crore. Is it the growth outlook or slight decline in some of your, maybe, RuleTek or WHISHWORKS?
- Ajay Kalra:** No, it's not growth decline ; it's the impact of the purchase price allocation which is basically certain assumptions getting changed and finalization of our acquisition. And it is pertaining to the liability of the WHISHWORKS acquisition, not RuleTek.
- Sandeep Shah:** Okay. And, just wanted to understand, once the e-voting is done on the buyback, will we have an option to revise the buyback price or there is no such option? And your clarity in terms of how the buyback taxes which will impact you in terms of percentage.
- Ajay Kalra:** So, once we have the results of the e-voting which we will have on February 15th, we will decide the next course of action at that point of time. The Board will take a call if we get the positive movement. But at this moment, we are just waiting for the results from the shareholders.
- Sandeep Shah:** Okay. And in terms of buyback taxation, I think you would be obliged to pay, right?
- Ajay Kalra:** As of now, that is correct.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Central Broking. Please go ahead.
- Madhu Babu:** Just two, three strategy questions. We have been strong mostly on the European and Asia-Pac on the airlines side. So in American airlines, which are very larger enterprises, so how has been the... because we tried to enter a few accounts there, so how is the traction on the American airlines side?
- Sudhir Singh:** Mr. Madhu, we don't answer questions specific to individual clients. But at an aggregate...
- Madhu Babu:** I am not saying American Airlines, I am not asking the specific company as such, overall in the US region on the airlines side,....
- Sudhir Singh:** Yes. So within North America, there has been good traction within the airline industry for us, both in terms of growth of the existing airline relationships and also in terms of new logo and new relationship initiation.
- Madhu Babu:** Okay. And second on the ecosystems, I think how are we expanding within the areas like, I mean, any new areas of investments and partnerships we are signing? Like we have strengthened Pega and Mulesoft. So any other areas where we would like to strengthen on the ecosystem side?

- Sudhir Singh:** We focused a lot and we poured in a lot of investment dollars into a few spaces. One is in terms of strengthening the partnership and alliances, ecosystem itself, under a leader who has taken charge of it. Out here we have constructed and are in the process of constructing newer partnerships with players, where we think the partnership is going to be stable and scalable.
- The second thing that we focused on very significantly is building an advisory business, an industry consulting advisory business for the three verticals. And off late, also incubating a digital advisory business for our clients. So those have been the areas of focus for us.
- Madhu Babu:** Okay. And last one on the IP portfolio, which we used to have on the insurance side. So any further investment or any further areas where we want to build our IP portfolio? Because we had some IPs even in travel, so just on your own IP portfolio, any views on that?
- Sudhir Singh:** We would like to continue to focus on the services side, Mr. Babu. And that continues to be our prime focus for now and leading into the future. The IP portfolio that we have is continuing on a steady trajectory and continues to be stable.
- Moderator:** Thank you. The next question is from the line of the Devanshu Bansal from Emkay Global. Please go ahead.
- Devanshu Bansal:** Sir, there are several cash outflows which are yet to be done, an interim dividend of Rs. 10 per share, impending buyback against the cash of about Rs. 880 crore? So, what would be the comfortable level of cash that we would like to maintain to pursue growth opportunities in the business?
- Ajay Kalra:** Both the payment of the future acquisition liabilities and the buyback and dividend, we will still have enough cash for the growth. And as you are aware, we are generating cash on a quarterly basis, and that also will add to our kitty and will be enough for future growth plans.
- Devanshu Bansal:** Any absolute number which you can provide for the cash...
- Ajay Kalra:** I would be approximately around Rs. 400 crore levels, that would be...right now.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda Capital Markets. Please go ahead.
- Ruchi Burde:** Congratulations for strong deals. I have two questions, first regarding your Europe business. It's good to hear that Brexit doesn't have any worry for you in terms of client discussion at this point of time. I wanted to check with you, does Brexit kind of make you rethink about your leadership bandwidth or a delivery mechanism at the Europe at this point of time?
- Sudhir Singh:** We have recently carved out Europe geo which is the entire European business outside the three core vertical under a new executive vice president. What triggered that was an appreciation that we believe there are opportunities within continental Europe and UK that we missed in the past.

So to your specific question, Ruchi, we have already acted on that realization. We have already invested in a leader and a team to address that opportunity. We look at Brexit as something that has to be monitored but also as an opportunity, because the exit is going to warrant significant amount of investment, IT dollars to facilitate the entire process in some cases of integration and other cases of actually demerging systems. Hence, the investment in a leader and a new sales team to address this potential opportunity.

**Ruchi Burde:** Understood. The second question I had was regarding your ROW or rest of world. For the last two quarters you have been winning significant amount of deal wins there. Can you elaborate more what kind of engagements we are seeking, what is working for us and what is more there in the pipeline to you?

**Sudhir Singh:** Absolutely. In the rest of the world, we closed one large deal, which was a new client for us. And that was, as I said, in Asia, which was Pega led. What we are doing very consciously is we have added two sales leaders, one to run Australia as a sales geo for us and to spearhead that team, that's been in an investment from our side over the last quarter. The second leader who's been hired has been hired as APAC sales head in Singapore to drive that growth. Given the growth that APAC has seen over the past decade or couple of decades, we believe there is significant leeway for us to grow in Asia Pacific, in Australia on a go-forward basis, and our investments there in quarter three have been in line with that philosophy.

**Ruchi Burde:** And is there some difference between how the deals that you get in a rest of the world versus your international business or those are mostly similar in terms of the profitability, the onshore offshore construct kind of aspects?

**Sudhir Singh:** So, deal margins and the onsite offshore is on par with what we see in other Western geos, North America and Europe both.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Sudhir Singh, CEO, NIIT Technologies, for closing comments.

**Sudhir Singh:** Thank you. And I want to thank you, ladies and gentlemen, for making time for us late in the evening for this conversation. We introduced our new CFO, Mr. Kalra on the call, and we as always, very sincerely appreciate the interest that you take in the organization and the time that you make for joining these sessions. We look forward to speaking with you again next quarter. Thank you. Goodnight.

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

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**Note:**





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January 29, 2020*

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