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TRANSCRIPT: NIIT Technologies Ltd Q4FY2020 Results Conference Call

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FROM NIIT TECH:

MR. SUDHIR SINGH, CHIEF EXECUTIVE OFFICER (CEO) & EXECUTIVE DIRECTOR

MR. AJAY KALRA, CFO

MR. ABHINANDAN SINGH, HEAD — INVESTOR RELATIONS AND M&A

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(1 crore = 10 million)

**Moderator:** Ladies and gentlemen, good day and welcome to the NIIT Technologies Q4 FY20 Earnings 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, 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 Q4 FY20 Earnings Conference Call. You would have received our results by now. Those 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 as usual 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 good evening and a very good morning to everyone across the world folks. Welcome to the Q4 FY’20 call where we will discuss the Q4 results and the Fiscal Year ‘20 results.

At the outset, let me state that I hope that your family, your loved ones and you yourself are safe and healthy as we pass through the COVID-19 pandemic. I know that a lot of you have made time for this call while you are dealing with the other ramifications of the pandemic. And I would like to thank you very sincerely for joining us for this conversation today.

With that, I shall now share details of our quarterly and annual results, which is Q4 and Fiscal Year ’20 results.

We are very pleased to report that the quarter that closed has been a strong growth quarter for us. We are equally pleased to state that the year gone by has been one of the most successful years in the firm’s history.

Let me start with the Q4 Results first. During the quarter, revenue grew sequentially by 3% in constant currency terms to Rs.11,093 million. In reported terms, revenue grew by 3.3% quarter-on-quarter. This growth comes despite very strong headwinds that the firm has experienced on account of the COVID-19 outbreak, especially in the travel sector. The growth is also a testament to the depth of our client relationships, the strong order executable that we entered the quarter with, the flow through impacts of the recent large deal wins, and of course, the commitment of our employees.

In this quarter, our Insurance services business grew 5.8% quarter-on-quarter, contributing to 30.9% of the quarter's revenue, while the BFS business remained flat and contributed to 15.4% of the revenue.

The Travel & Transport services business declined by 2.1% quarter-on-quarter, contributing to 27% of revenue. Other segments collectively expanded 8.7% quarter-on-quarter and they now represent 26.7% of the overall revenues.

The geo-based cuts for the quarter on the revenue front are as follows: Americas, EMEA and the Rest of the World contributed 46%, 40% and 14% to the revenue mix.

The top five clients now contribute 27% of the total revenue and the top-10 and the top-20 contribute 37% and 50% of the total revenue respectively. The broad based growth that the firm has experienced is reinforced by the number of million dollar plus clients which stands at 106 at the end of Q4. Onsite revenue represented 64% of total revenues.

I shall now move on to the margins and operating profits analysis for Quarter 4. We are pleased to report that in a very tough quarter we were able to hold margins at 18.1% in constant currency terms. The reported margin was 17.9%. As you will note, our margins continue to be best-in-class for a firm of our size. The EBITDA increased by 2.5% during the quarter and stands at Rs.1,988 million. The continued growth allied with a very strong operational rigor and cost cuts during a difficult quarter were the key drivers of the EBITDA growth. Finally, our net profits contracted by 7.9% over last quarter to Rs.1,136 million. The tax rate for the quarter stood at 21.9% of the PBT. That was a quick run through of the quarter performance.

I shall now share the annual results for Fiscal Year '20.

This was an exceptionally successful year for the firm. The year's revenue at Rs.41,809 million represents a growth of 18.5% over last year. The constant currency growth for the year was 17.2% on the back of growth across all the businesses of the organization.

Insurance expanded 20.5% year-on-year contributing to 30% of the revenue. BFS expanded 13.9% year-on-year contributing to 16% of the revenue and Travel & Transport was up 18% year-on-year, contributing to 28% of revenue. Other segments collectively expanded 20% year-on-year and they now represent 26% of overall revenues.

The geo-based growth cuts also show sustained growth. Americas, which contributes to 48% of our global revenues, grew by 11.7% owing to higher revenues in all three verticals. EMEA revenues grew by 27.9% and they now represent 37% of the revenue mix. APAC revenue grew 6.7% and they contribute 9% to the firm's total revenue. India contributed 6% to the firm's total revenue and increased by 33.6%.

The Digital portfolio of the firm which contributed to 37% of our aggregate revenue grew by 47% over the previous year. The IP-led products business of the firm contributed another 6% on top of the 37%. As I have said in the past, we continue to apply a very stringent lens to classifying any revenue as Digital. The quality of our Digital revenue and the higher rate realization that we get there as a consequence, has been a significant influencer in the firm recording best-in-class margins over the last two years.

Significant revenue growth in the year was accompanied by a material uptick in operating profits during the year as well. EBITDA increased by 22.4% during the year and stands at Rs.7,467 million. EBITDA margins stand at 17.9% for the year. EBITDA margins post RSU stands at 17.8% for the year. Strong growth allied with very strong operational rigor were the key drivers of operating profit growth. Finally, our net profits increased by 23.2% over last year to Rs.4,714 million. The tax rate for the year stood at 19.5% of the PBT. That, folks, rounds off the revenue and the profit analysis for the quarter and for the full year.

I shall now switch on to the order intake section.

The order intake story remains very positive. We secured fresh business of US\$180 million during the quarter. Out of this US\$180 million order intake, the US contribution stood at \$81 million. EMEA was at \$52 million and we secured \$47 million from the rest of the world. The cumulative order intake for this fiscal year '20 was \$748 million, which was up 16% over the previous year.

The large deal signing momentum continued from the previous quarter. We signed three large deals in this quarter. Two large deals were in the BFS vertical, and one was in the APAC business outside India. We signed 10 new customers during the quarter. And with the sharpened market focus over the last over the last two and a half years to three years, we have now opened 40 new clients during fiscal year 2019-20 and we have opened 81 new clients over the last eight quarters. The total number of our clients now stand at 355. Order book executable over the next 12-months has expanded again. And it now stands at \$468 million. And that number, you will note, is up 20% year-on-year.

I shall now switch over to a quick overview of Delivery Operations and Capability Build and offer you a quick flavor of the process of activation and the stability of Business Continuity Planning (BCP) operations and updates during the current pandemic and also on the core technical and the domain capability generation

Let me start off by saying that our exposure to the airlines and the airports industry in the Asia Pacific region allowed us to realize the deeply disruptive implications of COVID-19 in advance starting early February itself because that region was impacted first. That advance warning allowed us to prime our global operations appropriately to ensure business continuity. As a

matter of fact, we did two dry runs of our entire BCP plan even before the lockdowns in India were announced. And that helped us in turn to resolve operational issues like laptop provisioning etc; in our case over two thousand laptops and hundreds of desktops had to be incrementally provisioned.

Amongst other aspects we also set up, and more than set up, more importantly, tested the virtual desktop infrastructure. We increased VPN licenses from 200 concurrent VPN connections to 11,200 concurrent VPN connections in 3 days flat. We believe it is a testament to the robustness of the BCP plan and its activation that within two days of the lockdown almost every billable delivery team member was fully enabled and operational, leading to negligible billing revenue loss.

The robust revenue growth that I talked about during the quarter is a direct reflection also of the detailed preparations that enabled us to make a near immediate and seamless switch to work from home. Another testament to the robustness of the delivery operations during this period has been that we have been able to start new critical engagements, complete key large transitions and launch new capabilities during the height of the COVID crisis. I shall be talking through some of those today.

A robust, scalable, de-risked functioning “work from home” model has been a revenue driver for us as well. During the peak of the lockdown and social distancing, a new client reached out to us for help. They needed cover for a frontline service desk operation that had failed to address BCP in the light of COVID. Our team which was set up and running robust operations already by then stepped in and provisioned over 100 service desk personnel operating from home and fully productive within a week, enabling them to continue 24x7 support with zero downtime for their client.

Another example from a top-10 customer of the firm was where we had started a large transformation project in December that will change the way their audit is conducted by bringing greater transparency, speed and availability of information and its accuracy. That project was initiated just weeks before the full impact of COVID-19. And I am very pleased to say that Phase-I which was the most complex part of the project is on track and scheduled to go live in mid-July 2020.

Building platforms and software ecosystems for our clients is a core part of NIIT Technologies’ DNA. In our efforts to drive and support the platform economy, we recently started working with APPII, which is an online personal verification platform company founded in 2016. APPII’s platform provides customers a configurable “software as a service” that automates the pre-employment checking processes, reduces the time for background checks from weeks to minutes. We are now working with APPII to expand their platform to include verified health

status service which is a critical service that is required post-lockdown be it for the airports, hotel chains, malls or other public spaces. NIIT Tech is APPII's platform engineering partner now.

As social distancing becomes the new normal, NIIT Technologies has created an AI computer vision based "Inspection AI" platform to monitor social distancing for retailers, hospitals, warehouses, and offices. The platform can read real-time video and image feeds and determine if two people are maintaining a safe distance from each other. We are in advanced talks with a few clients who are in the process of piloting this platform.

Finally, on the Financial Services side with the impending elimination of the use of LIBOR in 2021, we at NIIT Technologies have developed a framework for rapid impact assessment that creates remediation and also removes LIBOR dependence roadmap for clients. At this point in time, we are working with some large financial institutions to roll out our assessment framework there.

In Quarter 4, we launched the beta version of the NIIT Tech Digital Foundry. The Digital Foundry is our digital engineering platform that enables us to compose digital solutions at an accelerated pace and explore the art of the possible with emerging technologies. Our Innovation as a Service offering leverages our Digital Foundry's 7 studios, 40 digital assets and SimplyCrowd, which is our crowd sourcing service, enabling customers to ideate, innovate and incubate.

Finally, I am happy to say that our market leading Pega practice received an award of "Partner Excellence in Growth and Delivery" at Pega World 2019 for the second consecutive year during the last quarter.

Moving on to the People aspect, there was an increase in headcount by 307 during the quarter. Total headcount at the end of the quarter was 11,156. Utilization during the quarter was 78.1%. Attrition stood at 11.8%.

A quick recap of the Balance Sheet metrics: Cash bank balances stood at Rs.9,365 million, which is an increase of Rs.305 million over the previous quarter. It is a decrease of Rs.393 million over the previous year. Capex spend during the quarter was Rs.159 million and the debtors at the end of the quarter stand at 75 days of sales outstanding.

Hedge Position: Outstanding hedges are US\$75.93 million at an average rate of Rs.73.89 to the US dollar. In British pounds, we have 21.65 million outstanding and that is at Rs.94.53 to the pound. And in Euro those numbers are 5.83 million at Rs.83.86 to a euro.

Finally, the outlook moving forward:

As you are aware, as a firm we have always stayed away from offering a guidance. However, given the exceptional circumstances that surround us on account of the COVID-19 pandemic, we would like to share our plans around revenue and margins for the near-term. Before I offer our outlook, it is important to recall that the 3% sequential constant currency growth in Q4 came through despite the material headwinds in the travel industry, that were in effect for at least half of the quarter. This growth was a function also of the strong locked-in order executable which came off the back of 11-consecutive quarters of order intake increase. We were able to absorb the revenue losses from the airline sub-segments which accounted for 46% of our total Travel segment volumes and yet grow because of the momentum from the large deals that had been closed in the previous quarters and the fact that six out of the seven constituent businesses of NIIT Technologies, outside the Travel business, continue to plan for growth.

As noted, within the Travel sector as well, our exposure to the Airline segment is currently 46% of our total revenues. The quick, successful and seamless billing loss free pivot to a work from home model was also key to winning the trust of our clients and in some cases wresting the share of our competitors where our clients attempted partner consolidation during the current lockdown. In Q1 FY '21 where we are already approaching the midway mark of the quarter, we expect to see a sequential single digit percentage revenue decline which shall be driven by the erosion in volumes that we anticipate from our existing Travel clients led by those in the airlines sector. In Q2, based on the direct impact of the three large deals we have signed in Q4, which I talked about, which would have completed transition in Q1, along with the bounce back from the non-airline travel segments, we expect to see a sequential revenue growth.

Over the last three years, since the management team reconstitution at NIIT Technologies, we have delivered industry-leading organic growth. Importantly, that growth has been predictable and has been in line with the plans that we have shared in advance. Our plan is to grow in fiscal year '21 despite the COVID-induced headwinds. In FY '21, we do intend to stay at or near the head of the pack of IT service providers on organic revenue growth.

On the margin front, we took very strong and very urgent actions. And the speed of those actions was in line with our approach to the rapid BCP implementation as well that I have spoken about. In addition to effecting strong and immediate cuts across all non-personnel part of our costs, we have canceled all salary hikes for the year. As a consequence of these plan measures, we expect our margins for the year net of ESOP cost to be within 80 bps of our FY '20 margins.

That ladies, gentlemen brings me to the end of my opening remarks. I shall to hand this back to Abhinandan now.

**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. Please go ahead.

**Sandeep Shah:**

Just wanted to understand how the Travel & Transportation as a segment is behaving in terms of your negotiations with the clients as a whole -- so, is it the project cancellations which are happening, is it the billing rate cuts which are coming and how you are so confident to say that the second quarter may see a QoQ increase in the growth because there could be some pressure which has started to be visible in 1Q, will have a full quarter impact in the second quarter as a whole? And within your top-20 accounts, do you see any systemic risk with any of your clients where their existence may be questionable as a whole because of the COVID situation?

**Sudhir Singh:**

Let me take the first question around the Travel segment, Sandeep. The issues in the Travel industry, and these are particularly acute when it comes to the airline industry, is something that we have already lived with, experienced and been exchanging very detailed notes around with our clients over the second half of last quarter itself. So Q1 is not necessarily going to be a quarter where we will start getting a full sense of what has gone down. We believe that Travel is an industry that is going to be distressed and within Travel, airlines are going to be particularly distressed for a while. As we look at the future, we do not expect airlines related revenue to start bouncing back anytime soon. And we've baked those projections and those assumptions into the planning and projections that we have offered you. Overall, the way we approach Travel as an industry is as a composite of Airlines, Travel Tech, Airports, Hospitality, Surface and Rail Transportation and Logistics. Airlines, as I said during the result read out, constitute 46% of our travel industry volumes. And we believe that those volumes are going to continue to stay under stress. They were under stress last quarter, they will be under stress in Q1, they will be under stress in Q2 and as we model the future we are modeling the fact that they will continue to be under stress in Q3 as well. Our current assumptions around growth bake in significant and long-term compression in IT spends in airlines. They also bake in the impact of the \$468 million order executable that we are walking into the next quarter with, the impact to the three large wins on top of the four large wins in the previous quarter that will come in, the impact of a few non-large win deals which are very material like a \$9 million ACV deal that we signed in Insurance where the revenue will come in the current year itself and the impact of scalable engagements in newer verticals like healthcare where we started a 100-member engagement last quarter. Coming back to your question around Travel once again, Travel is an industry that we recognize is under distress. Within Travel, we look at the industry as a composite of five sub segments. One of those which represents 46% of our volumes in Q4 is particularly distressed, We have baked in a long cycle recovery there, and on that conservative basis, looking at order executable, looking at the large deals that we've locked in which will start delivering for us, looking at the impact that we are getting in terms of scalable wins from new verticals that we are incubating, looking at the fact that even within Travel where airline customers who have been under stress and have consolidated they have gone with us, and looking at the ground up build of our best estimate, we have offered the outlook that I did on behalf of NIIT Technologies.

Coming to your second question around looking at the top-20 clients and if there is a systematic risk, at this point in time, for any client that we see going into Q1 as a top-20 client, we do not



see a systematic risk of any one of them going down. As you can imagine, there are a few airlines in the top-20 list. We have assumed very compressed revenue generation from those airlines in the next few quarters, but there is no systematic risk that we see.

**Sandeep Shah:** Just on the first quarter, you are saying single digit decline while some of your large peers, indicated a mid single digit kind of a decline in the first quarter which is similar to what GFC slowdown has seen. With your portfolio more concentrated with the airlines, is it fair to say that your decline in the first quarter could be higher than the industry average?

**Sudhir Singh:** I think the first thing that we need to recognize is that our growth in Q4, from the results that I have monitored, have been significantly higher than industry average. So that is the base that we are entering Q1 in from. At this point in time, we would like to state that after that 3% growth in Q4, which I think we all recognize is high, we do not expect anything more than a single digit sequential decline in Q1 followed by growth in Q2. It is difficult for me to say at this point in time whether it is going to be low single digit, mid single digit or high single digit, Sandeep, but we are very clear, since almost half of the quarter is gone, that it will be in the single digits only.

**Sandeep Shah:** And just a clarification, you said FY'21 growth would be actually a positive growth at/or near the industry where we could be slightly ahead of industry on organic basis and the margin, you are saying 80 bps plus or minus to the FY'20 reported margins, right?

**Sudhir Singh:** Absolutely correct, Sandeep. And the point that I was making was in the last two years if you look at our organic constant currency growth, it has been the highest or right next to the highest over that period since the new team has been in place. This year as well when we look at Q1 and when we then look at Q2; Q3, Q4 it will definitely be a growth year as we see it ..The intent of the firm is that despite the compression that we see on the airline sub segment, we would still like to be at the front of the pack when it comes to organic revenue growth ranking by the end of the year.

**Sandeep Shah:** If you can give some color in terms of the demand scenario in the other segments in the COVID especially in the banking, capital markets, insurance and the other segments? And can you also throw some light about the extraordinary charge which also relates to a bit of a COVID-related impact, what is exactly that as in its nature?

**Sudhir Singh:** From a demand scenario perspective, outside of the airlines sub-segment within travel, the travel tech piece seems to be resilient . Airports, there seems to be a compression, but there are also conversations going on around automation and digitization. Within surface and rail transport again spends appear to be resilient. That is the overall picture of the sub-segments within travel itself outside airlines. On the BFS side, we expect to see continued growth going into next year. We expect to see growth on the BFS and the insurance side in Q1 sequentially as well. Two of the three large deals that I shared with you, have come from BFS, and one has come from Asia

Pacific, and that also plays into the revenue growth analysis and expectation from our end, Sandeep.

**Moderator:** Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

**Pankaj Kapoor:** Two questions from my side: First, what kind of pressure are you seeing specifically with your airlines clients in terms of pricing as well as in volume, I mean, if you can give some color in terms of any kind of sense of what kind of pricing demands that your clients are making, that will be helpful? And second, if we are looking at the airlines under distress, airlines is roughly about 50% of our travel and transportation, so overall around 15%-odd of our revenues, what is giving the confidence about the outlook in the other verticals -- are you not seeing any similar kind of distress in the other verticals which is making you confident of a growth on overall basis?

**Sudhir Singh:** Thank you, Pankaj. When it comes to the airline clients that we talked about, and Sandeep made a point earlier around the exceptional costs related to COVID-19, part of that \$1.8 million or Rs.128 million exceptional item entry that you see is primarily a provision for a receivable of an airline in Asia Pacific that has gone into administration. More directly to your question on airlines, there is a very clear pressure on volumes which began with the APAC airlines beginning February and with airlines in the rest of the world beginning March. This is likely to continue, so there is clear volume compression that is happening. On the pricing side there have been asks for pricing decreases. In a lot of cases, the ask around pricing reduction has been accompanied by an opportunity around increasing wallet share over time because of vendor consolidation that is also being attempted by airlines. That is a very high level overview of the pressure on the airline client side that we see. The only silver lining that we have seen so far is the pressure on the airlines around cost is leading them to consider very proactive proposals that we made around consolidation and in case of one airline, we have been able to over the last six weeks actually consolidate vendors and significantly improve our wallet share even though our revenue will stay the same in the short-term, but over time hopefully become larger.

You are absolutely right on question number two around the fact that airlines constitute 46% of our Travel revenues as seen from a Q4 lens. In Q1, I expect that 46% to fall materially. The Airline subsegment therefore contributed roughly 13%, to the company's aggregate revenue in Q4. The distress that we see on the airline industry front and the fact that we believe that it is something that is going to go away in less than a 10-months window at least, is being offset when you hear the commentary that I gave around Q2 and for the year. The fact that Q3 saw four large deal wins that we secured was the reason why we were able to grow in Q4 despite the airline related headwinds. That record of four large deal wins in Q3 has been backed up by three new wins in Q4. Each of these large deal wins, as you recognize, takes about two to three to three and a half months of transition before material revenue starts flowing in. When we do a grounds up build of revenue projections and we marry the executable this year, which is about

20% higher at this point than where it was when we started last year, when we marry that with the fact that order intake through the year was 16% more than last year and when most importantly, we do our own internal stress check to ensure that the large deals are not going to get impacted by COVID-19 we feel confident. We have a sense that we will be able to manage the downturn... we did manage it in Q4, but the impact was not there for the full quarter. We expect a sequential decline which you know Pankaj is unlike the kind of results we have given in the past because in the last 12-quarters, we have never ever declined. This is the first time we will decline. And in Q2, looking at the number build up, we believe that there will be clear sequential growth over Q1.

**Pankaj Kapoor:**

If I may squeeze in one more. Two parts. One is what kind of a sense you are getting on the deal closures in the current quarter or maybe going forward? I understand the momentum of deal closures would have been fairly good which is giving us the revenue visibility going into the second quarter. But do you expect any kind of slippage happening on deal closures in the current quarter or maybe in the second quarter which can have a lag impact on the second half of revenue growth? Second is that of course this is a time when a lot of clients would be looking at vendor consolidation as an area to drive pricing, what makes you confident that NIIT Tech, given the scale it is in, will not come under increased pressure from the much larger scale players?

**Sudhir Singh:**

Let me take the first question first, Pankaj which was around deal closures. The deal pipeline getting into Q1 is looking robust. In Q3, four large deals were signed. In Q4, three large deals were signed. We have some irons in the fire when it comes to the large deals pipeline. We have some good deal conversations that are in advanced stages and the deal pipeline, despite the COVID-19 impact, continues to be robust. The flavor of the deals has changed a little bit. Some conversations are more centered around taking over small captive units that were set up by some of our clients, A lot of them are centered around consolidation and we are focused more on consolidation where we are the first to go back with a counter proposal. That is something that we have done in Q4 as well where we were the first to go back with proactive proposals instead of waiting for the client to get a deal advisor and then run a structured process. There is a certain flavor in some of these deals, which has to do with the rebadging of existing employees of clients where the clients want to offload cost themselves. Overall the flavor of the deals has changed a little bit, but the size and velocity of closure continues to be on the lines of what we had seen in quarter three and quarter four.

As far as consolidation is concerned, our intent right at the outset when we first started seeing issues in the travel and airline sector in February beginning of the year, was to make sure that in Q4 we went back with proactive consolidation proposals. From our point of view, this isn't the case of trying to create proposals going forward. Everything that we wanted to propose on the consolidation front has been presented, in some cases re-presented to the clients. We have already secured one consolidation win, there is another one which we think we might have over the next one month. When it comes to consolidation opportunities, and when I gave you the

commentary around margins actually being potentially 80 bps lower next year, a lot of that analysis is based on the fact that we will in the short term have to offer some discounts, or big discounts in some cases, to increase our wallet share. It's also, as you can imagine, in the case of a mid-tier player like us, a function of choosing our battles. It's a function of speed and it's a function of showing keenness and flexibility. Those things and those attributes are the ones that have allowed us to grow fast. The consolidation proposals are in, some wins have been registered. Looking at where some of the other conversations are, we feel good about where we are. We understand that in some cases we will have to discount to win, and I think the appetite is very clearly there and the intent is not to be underbid.

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

**Dipesh Mehta:** Just a couple of questions. First about you do provide some data point which you generally said about NITL and WHISHWORKS, revenue and margin. And then maybe I can ask you our second question thereafter.

**Sudhir Singh:** Sure, Dipesh. So, WHISHWORKS, the revenue for the quarter in Indian rupee terms was Rs. 721 million. The margins for WHISHWORKS for the quarter was 35%. For NITL, the revenue for the quarter in Indian rupees was Rs. 735 million. The margins for NITL for the quarter were 40%.

**Dipesh Mehta:** Sudhir, just on these two business, I think these two businesses seem to have had a very strong quarter, WHISHWORKS as well as NITL. If you can help us understand what are driving this strong performance in Q4? And how we expect them to play out? Second question is about the fixed price and T&M mix, if you look business mix, it has same significant change this quarter. So if you can provide what is playing out there? And the last question is about the request from client about having extension of credit period, if you can provide your perspective and how NIIT Technologies is handling that? Thank you.

**Sudhir Singh:** Thank you, Dipesh. Let me take all the three questions in order. WHISHWORKS and NITL, you are correct, this was a strong quarter for the businesses. As a matter of fact, the entire year was a very good successful story for both WHISHWORKS and NITL. WHISHWORKS, from our point of view was particularly important because this was a new entrant to the NIIT Technologies family. They have integrated, they have settled down and they have contributed as a leadership team. Moving forward, we are continue to expect them to keep chugging along at the same pace and with the same level of commitment that that team has shown. NITL, again, as you would have noticed from the margin numbers that have gone up and from the revenue number that has, again, been going up, we expect for a product business, our ability to continue to perform well, even under a "work from home" environment to be particularly strong and robust. NITL in many ways is a product and is a software business. Everything that we see at

this point in time from a specialty insurance domain perspective and from a software product operations perspective gives us comfort that the business again is going to go into quarter one and beyond and perform well for us.

Fixed price and T&M, from what I recall, I believe Fixed Price was roughly about 51% and T&M is about 49%. Fixed price component has gone up as some of the larger deals have started playing more into the revenue mix. Fixed price also could have gone up, and we obviously need to do some more analysis here, because the share or the maintenance business and the support business which typically tends to be more fixed price driven is going up. And the third reason why fixed price business is going up is because we have been pushing that construct over the T&M construct, since it allows us more leeway to expand our margins by driving operational productivity and retaining some of the benefits of what the operational productivity delivers for us. And hence the increase in the fixed price piece that you refer to.

Finally, client extension of credit. We have received asks from clients, clear definite asks, for extension of credit terms over the next one quarter. They want credit terms to be extended for the next three months. Each of those cases is being handled on a case by case basis. And where we believe that the credit worthiness is not an issue and will not be impaired, we are taking and will continue to take positive business calls.

**Dipesh Mehta:** Just one question on the WHISHWORKS and NITL. Whether you expect margin or profitability what you have achieved is sustainable going forward?

**Sudhir Singh:** I expect the margins and the profitability, both to sustain. And I am talking fiscal year FY 2021 obviously. A plus or a minus can happen on a quarterly basis. Across the year I expect the margins to sustain.

**Moderator:** Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal. Please go ahead.

**Sudheer Guntupalli:** I have just one question. Sir, regarding the name change of the company, just trying to understand what is the original thought process at this juncture, especially given the fact in the Indian context, this new change is a bureaucratic hassle involving both time and money. Secondly, there is also going to be a cost associated with the rebranding of the company.

**Sudhir Singh:** Sudheer, pleasure to speak to you, you are my namesake. The name change process of the firm is underway. The different options around name, the connotations and associated costs were presented to the Board. The Board has approved the change. And we are planning to communicate it out shortly. We have received approval from the MCA for name availability, we are reaching out to the stock exchanges to share the new name with them as well. There is going to be a downstream process post intimation. We expect the name change to get rolled out

depending on what the market outlook is, somewhere between August to October of this year. As far as the marketing spend associated with the name change goes, I and the team look at the marketing spend as a composite over previous year. Given current outlook, our intent is to spend \$2 million less on marketing costs in the current year over the previous year. However, with the amount that is retained, we believe that in the context of a B2B entity, which is who we are, we should be able to do a good job largely leveraging digital technologies and digital media to effect the rebranding. A slightly long winded answer, but that's how we see the name change, Sudheer.

**Moderator:** Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

**Abhishek S:** The first question is regarding the 'Others' segment, would appreciate any colour around other segments, both for Q4 as well as what you are expecting for FY2021?

**Sudhir Singh:** Sure. The other segments for us, Abhishek, is a composite of the revenue that we get from retail, from high tech, from healthcare and from media. We have, and we discussed this a little bit in the last quarterly call as well, been dipping our feet in the water to test verticals and sub segments within those verticals where we might over time enter full force. The Others segment growth this quarter and for the year has been driven significantly by the growth that came from the WHISHWORKS team that has become a part of our organization and our family. It's come from the work that the Incessant Pega team continues to do well and continues to do at scale. Interestingly, we have experienced material upsides in the last quarter since we did a pivot in the healthcare segment. And there has been a new client that we have added straight out with 100 people in quarter four itself. Healthcare and Hi-Tech, given where we are right now, are the two other verticals where we are increasingly tuning ourselves to. BFS, Insurance, and travel transport will continue to be three core verticals. H-Tech and Healthcare, where we have hired new sales heads based in the markets under a new overall global sales leader, are also increasingly becoming focus areas. And more than focus areas, investment areas for us as we look at the future. Long story short, we expect the Others segments, given the fact that now we are focusing a lot more on them and are likely to construct newer verticals across those, should continue to grow and hopefully accelerate growth at some stage when the crisis is over.

**Abhishek S:** That's helpful. And the second part of the question, it's a two part question. The first one is on the margins. Thank you for giving us guidance for 2021. If you can just elaborate on the headwinds or tailwinds. And also can you have a walk about the 4Q margins? The second part of the question is, the expectation of growth in the second quarter, is it building any captive monetization or acquisitions? Or is this organic number that you are talking about? Thank you.

**Sudhir Singh:** Thank you Abhishek. Let me take the second question first, because that's a lot easier. The quarter two sequential growth that I talked about is organic sequential growth that we are targeting, it does not have any inorganic or a captive acquisition flavor to it. Moving on to

question number one, the first question around margins, headwinds and tailwinds. Clear headwinds that we see at this point in time are pricing headwinds that have come into play, particularly in the Travel sector. So that is something that we have seen now playing out in the recent months, I would say, about two months. We are living through those challenges and we are responding to those and in some cases taking advantage of those. The tailwind that we see are very aggressive cost cuts that we have done. Just as I believe, we approached the BCP exercise with tremendous speed. We prepared ourselves, re-prepared ourselves, tested, re-tested before the lockdown came. From the end of January, given our exposure to APAC, airlines and airports, it was clear to us that we were going to hit the kind of issues that we did. The cost cuts that we have done, we believe have been extremely aggressive and approached with speed. When I bake those cost cuts and their implication on the margin, and try netting off the headwinds that we see and the compression on the margins that might arise as a consequence, that maths leads us to believe that we will still, for a firm that is almost operating at an 18% EBITDA at our size be within 80 bps of that 18% EBITDA benchmark that we have created for ourselves. You will recall that our organization used to operate at about 15% EBITDA till about three years back, somewhere in that benchmark of 15% to 15.5%. There were very aggressive measures that we have taken around SG&A. And as a consequence a firm our size of about \$600 million went all the way to 18%.EBITDA We normally do a very granular and a very structured and a very intense process around looking at our costs. And we take very diligent, decisive and swift actions to make sure that what we plan for gets met. In this case, almost all the actions around cost have been undertaken or communicated. There is nothing that we are waiting on which we will act out in the future. They have either been undertaken or they have been communicated and are about to be undertaken. So in some ways, those cost savings are under our belt. The headwind clearly at a time like this is going to come on pricing. We have zero intent of starting to lose business that we would like to retain, just because we could not match a discount ask. Hence, the netting off of those discount costs gets us to within 80 bps of FY 20 margins. Therefore

the confidence around where margins are likely to end up, despite the very clear headwinds that we see. I am not sure if I answered your question fully, Abhishek, but that's how we look at headwinds, tailwinds, and that's how we look at the sequential quarter to grow.

**Abhishek S:** That that's very helpful. Thank you for taking my question. Just wanted to last a clarification. The increase in the receivable days, I thought you kind of linked to the increase in provision, the one-time, is that right?

**Sudhir Singh:** I am going to request our CFO, Mr. Kalra to respond to that. Ajay, would you like to take that?

**Ajay Kalra:** Thank you, Sudhir. Abhishek, the increase in the DSO was because some of our payments got tripped from of 31st of March. Though they have been realized post that, as of 31st March we saw higher receivable days.

**Abhishek S:** That's helpful. Thank you.

**Sudhir Singh:** And I also want to just add on that in dollar terms, Abhishek, our DSO was 69 days. As Ajay said, there's a certain set of things that are playing in, but if you really look at our DSO in dollar terms, it was 69.

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

**Manik Taneja:** Congratulations for the good execution. I just wanted to pick your brains on a couple of things. Number one is that you mentioned that there is potential to acquire some of the captives. So would this be related to the travel vertical or you are seeing opportunities even outside of that? That's number one. The second thing is that, do you also see increased offshoring and higher share of offshore revenues going forward as customers look for more cost optimization? And last question was just a clarification question with regards to the revenue realization rate that we have seen in the current quarter, which is significantly lower than what we have seen other players in the industry. So what is driving that?

**Sudhir Singh:** Sure, Manik. Let me take the first two questions. And on the third one, I am going to request our CFO, Mr. Kalra, to jump in. In captive acquisition there is a certain size bracket that we are considering. We clearly are not in the game to acquire 10,000 people or 5,000 people captives. The intent also is to look at captives that are adjacent to the verticals that we operate in. And some of the conversations we are having are with existing clients or with prospects who we were already in active conversations with us in the past.. As far as offshore revenues are concerned, I believe the one good thing that has happened during the lockdown is that the resiliency of the work from home model has been fully tested. And everything, all the way from proving that secured broadband connections work, hybrid proxies can actually get operationalized asap, the FIM file integrity management system work, SOC works, NOC works, VDI infrastructure, webex reliability etc. has been proven. However, the fact that we have proven that the work from home model is scalable and robust does not necessarily lend itself to clients saying that they will offshore even more. I think what it has lended itself to is clients saying, "Yes, we are very confident about offshoring. And we will at least sustain the levels that we have." We have had very intense conversations with clients around this almost on a daily basis. The refrain we've heard is, "we are very happy with what we have seen happening, we feel very convinced that this is the model that we want to run with for years and decades going forward on the IT services side." But I really haven't seen anyone say that we just love work from home so much that we are going to give you more work offshore,. On the operations side, we don't have much of an operations business as you know, but on the operations side, the same clients and the same client leaders who we have spoken to have had a fairly mixed reaction to the speed with which they thought operations were transitioned.. On the revenue realization front, I am going to request Ajay to chime in.



- Ajay Kalra:** Manik, I missed the question. Can you please repeat the question?
- Manik Taneja:** So, Ajay, basically when we look at our dollar realization rate in the current quarter, that appears to be more like between Rs. 71.55 and Rs. 72 to \$1 as compared to the much lower realization that we have seen for players in the industry. So just wanted to understand, is this a function of us seeing higher billing in January, February or a mix of currencies, what's driving that disconnect?
- Ajay Kalra:** This is because of the Europe geo, and WHISHWORKS did very well in quarter 4, and high digital in WHISHWORKS, so that's what really is driving the realization.
- Manik Taneja:** Sure. And if I can chip in with one more question. Sudhir, you talked about aggressive cost optimization measures that the company has taken. So does this mean some significant variable cost cuts for the team members, what exactly is it?
- Ajay Kalra:** So, the cost cuts include no wage hikes, there has been wage cuts for partial year, travel across cuts, marketing cost reduction, we have taken G&A actions, so host of cost measures we have taken over the period or have announced, as Sudhir has mentioned.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Central Broking. Please go ahead.
- Madhu Babu:** On the Travel, apart from airlines, the other segments like airports, that is also under severe stress? And the rail transport large clients which we have, so how is the outlook in these segments? And second on WHISHWORKS, Incessant and all, these are all high project based businesses, I mean, because of Pega and MuleSoft. So considering the huge travel ban, I mean, so how momentum is in place for these two units?
- Sudhir Singh:** Madhu, let me take both the questions. As far as airports are concerned and as far as rail transport is concerned these businesses like, actually almost all businesses across industries are under pressure as well. But we do not see very material pressure on the IT services spend of rail transportation players we work with, or necessarily of the airports that we work with. In the case of airports, digitization and automation is actually becoming more important with the pandemic in force. The fact that they are planning to reopen and in the case of the Western geo and APAC a lot of them have already reopened and need more automation and digitization. So that's how airports is playing out. And quite honestly, we haven't seen any material change in IT spends, on the rail transportation and the surface transportation plans. That's answer one.
- Incessant and WHISHWORKS are not very exposed to Travel .The exposure that the Incessant and the WHISHWORKS business have to Travel is very, very limited. WHISHWORKS is a digital integration business and all digital businesses have been seeing a fairly significant increase in their demand. The integration business continues to do well. And Pega, which is a

quasi, actually not even a quasi, an automation business, again continues to see good demand even though the nature of the work, as you rightly said, is project based . Given the fact that which services are in demand we expect these businesses to continue to trend positively

**Moderator:** Thank you. The next question is from the line of Shraddha Agrawal from Asian Market Securities. Please go ahead.

**Shraddha:** Most of my questions have been answered, just a few quick questions. Any thoughts on the capital allocation policy going into FY21?

**Sudhir Singh:** Shraddha, the capital allocation policy related discussions are reserved with the Board. that's something that we communicate over time post the Board making decisions around that.

**Shraddha:** And you did mention that you are going in for an aggressive cost cutting, so it does mean that you are not looking at any new lateral hires. Any offers which you have already made to campus graduates, so are we sticking on to those offers

**Sudhir Singh:** So Shraddha, we actually are not going in, we have already executed or communicated almost the entire cost out program. That's in some ways a done deal. And hence, cost saving should start rolling in fast. We are still doing lateral hires because we do expect to grow in fiscal year FY21. Where we see opportunities, for example, the 100 member team that I talked about, which we ramped up in, I would say the last six weeks on the Healthcare side, we went to the market, we hired some of those people because we needed that domain and we did not have it in buckets given our current vertical configuration. We will hire where we need to hire, because the plan this year is to grow. However, we will be highly selective, as you rightly noted, in terms of who we hire and prioritize the bench that we have first.

**Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead.

**Sandeep Shah:** Sudhir, your good execution and consistency on revenue growth is continuing with your consistency on the order book. So just a question entering into FY21, do you still believe that the order intake range of \$165 million to \$170 million, plus or minus, may still continue looking at your efforts to grow proactively with the clients? If not, do you actually foresee a risk where that the FY22 revenue growth could be slightly at a risk? I do agree this is a long term question, but if you can help us.

And second, in terms of the ordered wins which you are banking upon, do you believe is there any risk in terms of any cancellation or delay in terms of the ramp up schedules of these deals wins entering into the 1H of the coming financial year? And some amount of clarification on the bookkeeping side, if you can give us a status update on the last announced buyback, when it would be implemented, whether Q1 or Q2? And why the minority interest as a charge has been

much higher in this quarter as a whole. And digital revenues looks on a Q-on-Q basis as a percentage going down. What is the reason for the same?

**Sudhir Singh:**

Okay, that's a lot of questions, Sandeep. Let me try to answer them as best as I can. And I will request Ajay to chime in around the minority charges and the digital revenue quarter-on-quarter growth towards the end. Starting off with the order book question, Sandeep, the first thing we stress tested when we understood that there was a problem on our hands in February was the integrity of the order executable number. The order executable number for the next 12 months, as you have seen, is a record high getting into next year at \$468 million. I do not see any material risk to the integrity of that order executable number, which is, as you know, the revenue that is locked in for the next 12 months. We stress tested it all the way from February, we feel very confident that it will hold and more than hold. Second, if the large deal velocity continues, and I have given you some colour, we signed four last deals in quarter three, we have signed three large deals despite everything that's been going around us in quarter four subsequently. And as I said, we have irons in the fire around large deals in quarter one as well. If the large deals come in, and if they convert, I think order intake numbers should hold. There is no reason for them to go down, most of our order intake aggregation activity is to a great extent a function of the large deal, closure velocity.

Second, do we think cancellations will ramp up. We have already seen cancellations. We have already booked the impact of those cancellations in quarter four. We are aware of some cancellations in quarter one, which is why the forecast that I am offering you is not the forecast that I have offered you in the last 12 quarters as the chief executive, for the first time I am offering you a sequential single digit decline, because we see those cancellations already being a done deal. I do not see any issues so far with any ramp ups around the large deals we have signed. The reason why Q4 was a good quarter was because the ramp up around the Q3 large deals happened. So, specific to that question around do we see ramp up cancellations? The answer is no. Have we seen cancellations in the past? The answer is yes and that has been baked into our projections. Around buyback, the plan continues to be to execute it in Q1 itself, it will get executed once the lockdown in Mumbai and NCR is lifted. But the current timeline around quarter one holds. I am going to step back, and I am going to request Ajay to come in and talk about the minority charges and the digital revenue Q-on-Q progressions.

**Ajay Kalra:**

Thank you, Sudhir. The minority charges are high because of the WHISHWORKS growth. And as Sudhir mentioned, our WHISHWORKS business has grown. And 42% is the minority charge and that's why it is high. On the digital business, on quarter on quarter it is flat. As our MuleSoft and Pega businesses did well, however, our digital works with our airline customers, we faced some headwinds, and there was a slowdown. So that was offsetting the growth in MuleSoft and Pega.

- Sandeep Shah:** Okay. And just question in terms of the margin commentary of 80 bps down, you are talking on adjusted basis of 17.9% for FY2020, right?
- Sudhir Singh:** That is correct. Against the 17.9% margin, we believe we will go down upto 80 bps net of RSU implications.
- Sandeep Shah:** And what is this new RSU plan, and how many employees have been covered and how this charge will increase on a quarter-on-quarter basis going forward?
- Sudhir Singh:** Ajay, would you like to take that question and explain the RSU, please?
- Ajay Kalra:** Sure. In late March 2020, we issued the grants to senior management for long term retention plan. The vesting of these RSUs or performance shares range from one year to seven years. From most part these are performance based and the actual listing will be determined based on the performance. The impact on average for a few years is approximately 40 to 50 basis points. However, as these are graded vestings, the first year charge is higher at 100 to 130 basis points.
- Sandeep Shah:** So you said 100 bps for the first year?
- Ajay Kalra:** 100 to 130 basis points for the first year.
- Sandeep Shah:** Okay. And these are market price linked or these are RSUs maybe at a face value you may issue?
- Ajay Kalra:** These are at face value, we issue.
- Moderator:** Thank you. The next question is from line of Shraddha Agrawal from Amsec. Please go ahead.
- Shraddha:** My questions have been answered. Thank you.
- Moderator:** Thank you very much. Well, that was the last question. As there are no further questions, I would like to hand the conference back to Mr. Sudhir Singh, CEO, NIIT Technologies for his closing comments.
- Sudhir Singh:** Thank you very much. Thank you very much for your interest. Thank you very much for your participation. And thank you very much for the insights that your questions offer us. These are tough times. And I suspect it's going to be a while before we return to whatever the new normal is going to be. We suspect that most of the businesses that we work across will see a reset and not necessarily a restart. That's what we are preparing for. Our biggest imperative over the last 2-3 months has been to make sure our employees are safe and secure and we are happy to report that all of them and their families are. Along with thanking you, I just wish and I hope that you and your families stay safe and healthy. Thank you again for your interest, for your participation and for your time. Thank you.

**Moderator:** Thank you very much. On behalf of NIIT Technologies, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

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**Note:**

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