TRANSCRIPT: NIIT Technologies Ltd Q3 FY2018 Results Conference Call

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FROM NIIT TECH:

- MR. RAJENDRA S. PAWAR, CHAIRMAN
- MR. ARVIND THAKUR, VICE CHAIRMAN & MD
- MR. SUDHIR SINGH, CHIEF EXECUTIVE OFFICER (CEO)
- MR. AMIT GARG, CFO
- MR. ABHINANDAN SINGH, HEAD – INVESTOR RELATIONS AND M&A

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(1 crore = 10 million)

Moderator: Good day ladies and gentlemen and welcome to the NIIT Technologies' Q3 FY2018 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 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, NIIT Technologies. Thank you and over to you, Mr. Singh.

Abhinandan Singh: Good afternoon everyone and welcome to our Q3 FY2018 earnings call. You would have received our e-mails with the results already. Those are also available at our website www.niit-tech.com. As the moderator said, we will initiate this session with remarks from our leadership team after which the floor will be open for your questions. With that, I would now like to first hand over the floor to our Chairman Mr. R. S. Pawar for some key comments before we initiate discussion of the operations. Over to you, Mr. Pawar.

R. S. Pawar: Thank you, Abhinandan and good afternoon to all of you in India and good morning and good evening depending on where you are. As you know, I do always join the conference, but my remarks are limited unless there are some specific questions. But this time, I thought it is important to start the conversation because we have an important announcement, I have an important announcement to make, which is that the Board today decided that we would have Sudhir take over the role of CEO from tomorrow morning. As you know he has been with us a little over seven months and has got very well integrated into the company, has built a very strong growth momentum. So the Board took this very important decision to make him the CEO of the company and along with that Mr. Arvind Thakur is elevated to the post of Vice Chairman and Managing Director. This period has also seen, as you will hear, a very significant strengthening of brilliant senior talent globally, particularly in the marketplaces. So with all of that, we are today on a very strong growth momentum. And I thought I would take the opportunity to share this very important news with you, a very significant in our history and very important for us at this point in time.

So with that, I will hand you over to Arvind Thakur, who now takes over as Vice Chairman and Managing Director of NIIT Technologies.

Arvind Thakur: Thank you, Raji. I would like to congratulate Sudhir on his appointment as the CEO. Over the past many months, we have worked closely across all parts of our business with our customers, staff and other stakeholders to effect a smooth transition. He has infused new energy into the organization which is visible in the improved business momentum that we see. As CEO, I will now invite him to share with you the analysis of our quarter performance and lead the discussion in this earnings call. Sudhir, over to you.

Sudhir Singh: Thank you, Arvind and thank you, Raji. A very good evening and good morning to you folks. So on to the revenue analysis, this was a good quarter for us. Our revenues have expanded 2.6% sequentially to Rs 7,565 million during the quarter and that represents an improvement of 9% over the same period last year. In constant currency terms, revenue has grown 1.7% quarter-on-quarter as we derived currency gains on account of rupee depreciation. We saw increased revenues from EMEA and that region expanded 7.2% sequentially on the back of growth in Travel & Transport and in NITL. And these two were the prime reasons for the growth during the quarter in this geography, which now contributes to 30% of our global revenues. The Americas again grew 1.5% despite the drop in revenues on account of Morris as planned. And the growth in the Americas has come on the back of growth in BFSI. BFSI as a sector globally now reflects - 43% of our revenue mix. India and APAC today contributes 10% each to the total revenue mix. We continue to experience good traction in the BFSI segment with revenues expanding 4% sequentially during the quarter. Travel & Transport grew by 4.4% and travel and transport now represents 28% of the total revenues. And revenues in manufacturing, media and the others declined sequentially due to the decline in Morris, and they today represent 30% of our overall aggregate revenues. Top five clients contribute to 30% of the total revenues, and the top 10 and the top 20 clients contribute 42% and 54% of the total revenue respectively. Onsite revenues for us represent 61% of total revenues.

So with that piece around revenue analysis, let us move on to margin analysis. Operating profits have improved 8.7% sequentially to Rs. 1,295 million representing 11.4% improvement over the same period last year. Operating margins have improved 96 basis points to 17.1%. Increase in revenues from NITL and Digital engagements in US and EMEA have led to this improvement in operating margins that I talked about. The net profit for the quarter are Rs. 756 million, up 12.4% quarter-on-quarter and up 21.2% year-on-year. Our effective tax rate during the quarter was significantly lower at 16.4% due to credit arising from the company's claim on investment write-off of one of the subsidiaries on tax filings during the quarter. Excluding this credit, normalized effective tax rate is 23.9%. That is the quick margin update.

Now moving on to order intake, large deals, new logos, market outlook, we have seen yet another quarter with good deal momentum. The order intake story is positive. We secured fresh business of US $130 million during this quarter. You will recall that the corresponding number for order intake for the last quarter was US $122 million, so out of this US $130 million order intake this quarter, 82 million came from the US, 25 million came from EMEA and 23 million came from rest of the world. As you will also recall that in the last call, we had shared that we have signed two large deals in Q2. I had also indicated that we expect to sign at least two large deals in the current quarter. I am very happy to share that in the quarter we actually ended up signing three large deals and all these three large deals were signed in the US. We are also particularly happy with the quality of the large deals, since all three of these were secured against Tier 1 contenders and in some cases against multiple Tier 1 contenders. Two of these three large deals were strongly reflective of the domain depth we have built in insurance and within insurance more specifically in the Duck Creek and the CSC domains. This domain and within the domain the specific product depth that we built, clearly differentiated us through the pursuit cycle. The third large deal that I talked about was an expansion of our footprint with the client which was off the back of a complete digital and testing led proposition. At this stage we believe that our focus on the sharply defined industry sub-segments and creating propositions leveraging digital and emerging technologies is what has helped us with these wins. And this approach of ours also is playing out very well with the large deal pipeline that we see in the future moving forward. Overall, the deal momentum continues to be exciting and we expect to add once again two large deals in quarter 4 across Europe and the US.

Now moving on to new logos, new client acquisition. We added eight new customers during the quarter. Four out of these eight were in the US, two were in EMEA and two were in rest of the world. You will recall, we have added seven new customers in the previous quarter. A little more flavor around these eight customers and eight new clients, one of these eight new clients added to our roster happens to be one of the top 10 retail banks of the world. And it was our integration and automation capabilities that allowed us to create a beachhead here. Another one of the eight new clients came from the travel domain, where we signed on one of the world's leading cruise lines as a new product. And it was our capabilities around automation, integration and digital that allowed us to make an entry. And finally, giving you another quick flavor, a third flavor of a new client and the kind of deal that came through was a multi-year, digital and DevOps based deal for upgrading the website of a large travel provider. Quickly making a segue on to order book and executable, order book executable for the next 12 months stands at US $329 million. This number has risen from US $320 million last quarter. In the last two calls, you will recall we had called out the investments we are making in strengthening the frontend sales and capabilities team and that is what Raji talked about at the beginning of the call as well. That process continues and the positive outlook that we have shared around market momentum right now has also been a function of the impact that we have seen from those moves.

Quick updates on leadership addition. In addition to the EVP who was hired to run the Europe business in quarter 2, we have added a new Senior Vice President in Sydney to run our Asia and Australia business from Sydney. Another new EVP to oversee our market push into Data and Automation has been hired in New Jersey in this quarter. Two new Cloud leaders have been positioned in the Bay Area and in London. And overall, our investments in additional hiring for the markets and moving our center of gravity towards the market to drive pipeline and growth will continue. A quick report out on our delivery; our delivery engine at NIIT Technologies continues to operate at high utilization levels, you have seen some of those metrics. And our plans around AI insertion, higher levels of automation into our delivery factory have underpinned some of the margin improvement that we saw. The focus continues to be on execution quality and on customer delight. And beyond just regular testimonies, one of the strongest endorsements we had around delivery excellence was when the Chairman of one of our largest clients came on to the operations floor last quarter to personally congratulate the NTL delivery team on an on-time, on-budget delivery of a 15-month complex integration program across two wealth management entities.

Moving on quickly to people. There was an increase in headcount by 59 during the quarter. Total headcount now at the end of the quarter is 9,081. Utilization during the quarter declined marginally to 79% and attrition stands at 10.6%. In terms of our balance sheet highlights, you would have seen some of this, cash and bank balances stand at Rs. 6,906 million, that is an increase of Rs. 443 million over the previous quarter, and an increase of Rs. 1,220 million over the previous year. The capex spend during the quarter was Rs. 127 million, and the debtors at the end of the quarter stand at 70 days of sales outstanding. Last quarter the corresponding number as you know was 66 days.

With regard to hedge position, our outstanding hedges in USD are 65.25 million at an average rate of Rs. 67.39 per US dollar. In British pounds, we have 13.05 million outstanding at Rs. 88.18 per British Pound and in Euro it is 4.5 million at Rs. 77.84 to a Euro.

Finally, the positive global macro environment coupled with our own growth momentum backed by the strong pipeline of large deal closures that I talked about this quarter, the previous quarter, the new logo additions, give us clear confidence of sustained growth despite the setback caused by Morris being acquired by Gatehouse. As shared earlier, Morris was acquired by Gatehouse and the immediate impact on revenue was expected to be $1 million in quarter 3. Despite that, we have grown in quarter 3, which is traditionally a soft quarter for the industry, on the back of the strong deal momentum that we have been referencing. For us, deal momentum continues to be good. There is very healthy order intake even in this quarter, including great momentum around large deals and increased number of new logos coming in as referenced. Based on discussions with Gatehouse, it appears going forward we will be able to retain only a quarter of the business on an annualized basis. We anticipate a decline of another US $1.5 million in quarter 4 and a further decline in fiscal year 2019 in this account. Despite this, we expect robust growth in quarter 4 on account of our deal momentum with margins to also expand sequentially. We also expect to continue securing large deals in quarter 4 and we are planning for double digit growth in fiscal year 2019.

That is a quick update. I am going to pause right now.

Arvind Thakur: Just a clarification, I think somewhere in the beginning, you mentioned BFSI was 50%, it is actually 43%.

Sudhir Singh: Yes, 43%. Thank you, Arvind.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: My question pertains to this strong commentary that we talked about on large deals and the near-term outlook as well as outlook for FY19. So if I have to correlate this with the kind of order intake that we had for the first nine-months, I mean, there is definitely an uptick, but that uptick does not look very significant and even from an 12-month order execution perspective, that number is not growing that significantly for us to believe that this growth could be upwards of double digit. So, is it to do with the deals that we are anticipating going forward and we are in advanced stage of closing some of them or is it also to do with this being driven by digital which may not necessarily reflect in the order book data that we disclose?

Sudhir Singh: So I think great question, thank you for the question, two pivots to the question. One reason for that is exactly the one that you talked about towards the end of the question, which is that with the digital revenues now increasing and digital revenues now standing at 25% of our global revenues, digital revenue timeline and execution tends to be shorter cycle. So some of that gets built into the order executable number that you are seeing. The second one, I think the more important point that I want to make, is that you have seen our order executable this quarter end at $329 million and that is a material shift after multiple quarters. The reason why the order executable has moved up but possibly not as much as it could have is on account of the SITA drawdown that you had seen three quarters back and the Morris impact that we looked at in the last quarter and we called out. However, as you would have noticed, order executable has gone up from $320 million to $329 million, and the order intake is at $130 million for the quarter.

Rahul Jain: Right. And on the profitability front, despite a very strong quarter and continuous improvement on the margin during the year if I have to see from a 9-month perspective, or the full-year possibly, the number that we'd end up closing would not be significantly better and there has been significant investment that has gone into SG&A. So what is the SG&A that we would be building for the next year? And also how we will try and work out about the sustainability from a profitability perspective, which often gets impacted by some client related issue or other factors?

Sudhir Singh: The way we are looking at margins, our outlook on margins for quarter 4 continues to be where Arvind had pointed it out last quarter. Quarter 4, we expect to hit operating margins of 18%. From our point of view, SG&A cost, if there is a reduction there it is to some extent going to get funneled back into creating the growth momentum that we are talking about and the growth outlook that we talked about for next year for the firm.

Rahul Jain: So lastly, if you could say with the kind of mix of the business that we are operating now and the kind of growth that you are trying to forecast, what is a band that we should ideally be operating at from a EBIT margin perspective?

Arvind Thakur: I think what we have mentioned is that, we typically go down in the first quarter because of the salary hikes and then you kind of keep expanding every quarter going forward, we will experience the same thing next quarter. There will be a decline in Q1, but it will be gradually increasing over the next four quarters, and on overall annual basis will be better than the previous year.

Rahul Jain: So you mean to say FY19 over FY18?

Arvind Thakur: That's right.

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

Sandeep Shah: Just in terms of the US, it looks the belief is correct that most of the peers are saying that the conversion of the deal pipelines is now getting faster converted into deals. So is it also you are foreseeing? And it looks like from this quarter the addition of two insurance deals out of three deals, we are now successful in terms of cross-selling the insurance to the US and the opportunity has just started, it could be more for such opportunities going forward?

Sudhir Singh: The way we look at deal pipeline and demand from the US, things are looking positive across the three industry segments that we are playing in, Travel & Transport, Insurance, and BFS. And you are absolutely right when you talk about two of the large of the top three deals coming from that insurance sector coming in. The deals have come because of two things as we see them. One of course is the fact that we have been able to even within insurance start targeting sub-segments. And two, because we have also been able to leverage the depth that we have built in the insurance products business and start incorporating that in the propositions that we are laying out to the market. That is how we see this. Overall, the demand outlook across the three industry segments that we play in appears to be strong, appears to be stable and the pipeline that I referenced earlier is coming from across all three segments that we play in.

Sandeep Shah: Okay. On the travel side as there are few large accounts which we had a client specific issue, there were some change in terms of the CIOs, CTOs as well. So one can say that largely those issues are behind and those couple of clients are now on a growth part? And second, I think the large peers are also targeting this vertical though for them it is a small percentage to the overall revenue, but they are also very talking positively and growing the numbers at a high single-digit Q-on-Q. So you believe that large players increasing focus on the segment, is there something in terms of a competitive worry for you or you believe, no, the spend would be enough for everybody?

Sudhir Singh: So at this stage, answering the first part of your question, Sandeep, the issues we had referenced earlier in the past around travel clients is firmly in the past. The large travel clients that we talked about are on a very sharp revenue rebound for us right now. We have grown sharply in those clients and we expect the momentum to continue and it appears it might accelerate further from where it is. So that is question number one for you. Second, travel for us has in some ways represented for many years for a decade or so, a core strength area. The clients that we have happened to be marquee clients, the relationships we have tend to be, I mean, for a lot of these clients as old as 20 years in terms of relationship tenure. And quite honestly at this stage, we are not too worried about Tier 1 players focusing on this sector. I must point out that Tier 1 players have always been focused on this sector. So any large deal and any client relationship that we have operated in over the last 10 years at least in our top 3 to 5 clients, all the clients have Tier 1 players in the mix for the last 10 years already. So just summing it up, the answer to your second question is, not terribly bothered at this point in time around Tier 1 players coming in because they have been there for a while.

Sandeep Shah: Okay. So is it fair to say FY19 you will start with almost no portfolio or client specific issues and the momentum would be better on a organic basis, ex of Morris for the FY2019?

Sudhir Singh: That's correct. Ex of Morris, no other issues that we foresee.

Sandeep Shah: Okay. Just last thing in terms of, this year been very good in terms of execution of the delivery. So if you look at the growth which is likely to be a kind of close to double digit in dollar terms in FY18, the manpower addition would be close to like 2.5% or 3.5%. So there is a deliberate effort in terms of building more automation to the delivery. So whether we can expect this trend to continue where the revenue per employee may start improving even in FY19?

Sudhir Singh: We expect it to continue Sandeep, because there are three very conscious interventions that we are making into the delivery factory. Automation is one pillar that we have talked about. We are working through how to make sure that AI injection becomes more systematic. And we are also trying to leverage tools working off the Cloud. That trinity I think will lead us to the part that we are talking about, which is more automation and a stronger delivery factory getting constructed.

Sandeep Shah: Okay. So this trend can continue in FY19 as well?

Sudhir Singh: That is how we see it right now, yes.

Sandeep Shah: Okay. Just last question on the taxation in the US. So firstly, just want to ask whether the BEAT provisions of the US are applicable to you looking at your size or it is not at all applicable? And if you can give a color how the effective tax rate will look like in FY2019?

Amit Garg: So this is Amit here. If you really look at the gross amount of NIIT Technologies business in US, we do not meet the threshold of $500 million which is being set for BEAT, so it is not applicable to us and does not impact our performance. On the effective tax rate impact, as we believe that we should be able to move from 34% to 27% would give us 100 basis points on ETR.

Arvind Thakur: You are talking about the corporate tax in the US or you are talking about something else?

Sandeep Shah: I am talking about the impact of the US tax reforms on the effective tax rate on FY19 on a consolidated basis.

Arvind Thakur: About 100 basis points will be advantages.

Sandeep Shah: Okay. So for us the ETR will reduce by 100 basis point in FY19?

Arvind Thakur: Yes.

Sandeep Shah: Okay. Any range which you can give, at which range we would be in terms of tax rate?

Amit Garg: 24%.

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

Dipesh Mehta: Just three questions from my side. Whether now we believe our leadership team is full in place kind of thing which can drive, fire all cylinders for us to meet double digit kind of growth we are indicating or we still believe there are some gaps? And if there are, where you would like to have some changes? Second question is about the deal intake. Do you think $120 million-130 million range is sufficient for us to reach to double digit or you expect that we should monitor it and it should show some uptick, and what that number would be where you are comfortable for sustaining double digit growth rate? And last question is about Morris. Can you help us understand how the decline would be in FY19? It would be staggered or in Q1 it would be fully reflected? Thank you.

Sudhir Singh: Okay, thank you for the question, Mr. Mehta. Let me just take each one of them in order. The first question that you had was around the leadership team and whether we believe there are gaps. Sitting where we are right now, we actually see no gaps, but we do see opportunities to augment the leadership team and the augmentation that you might hear about as time progresses is going to be largely in the markets, but no gaps is the current assessment that we have. The second question that you had was around order intake and whether US $120 million to US $130 million is a figure that we are comfortable with? I think the honest answer to that is, it's a number that we are pleased with, because if you look at our numbers over the last two quarters around order intake, this quarter is $130 million, last quarter was $122 million and the quarter before I believe was $112 million, right? So we are very pleased with the trajectory around order intake. Obviously, the ambition in-line with what I said, the commentary that I provided around planning for double digit growth for next year means that we will try to keep pushing it northwards. So that is a quick answer on number two. Number three, Morris, we do expect Morris to go down along the same trajectory that I talked about. As I said, it is going to go down to about a quarter of the revenues and we do expect, as I said $1.5 million impact will come in quarter 4 and we do expect further impact in quarter 1 of next year as well.

Dipesh Mehta: Yes, so question was in Q1 it would be fully reflected or it would be over Q1-Q2 or the subsequent quarters?

Sudhir Singh: Most of it near fully would be reflected in Q1, there shouldn't be anything beyond that.

Dipesh Mehta: And last, if I can squeeze in more. Can you give us the revenue breakup which we generally give Morris, GIS, NITL and those and with margin?

Sudhir Singh: Absolutely. So the revenue breakup and the currency term, I am using is Indian rupees million, NITL revenue was 415, GIS 347, Incessant 832, Morris 342.

Arvind Thakur: JV.

Sudhir Singh: For the JV. The number 342 in Morris was for the JV.

Dipesh Mehta: Yes. So it is comparable with last quarter 391 or it is different?

Sudhir Singh: It is comparable.

Dipesh Mehta: Sure. And what would be the margin of these businesses?

Sudhir Singh: I will give you the margins. NITL 23%, GIS 23%, Morris 15%, Incessant 20%.

Arvind Thakur: Just a clarification, when Sudhir says Morris, it is a joint venture with Morris. So it is not just Morris, but it includes other clients that the JV has as well.

Dipesh Mehta: So, only question is the way earlier we used to give, is there any definition difference now when you say 342?

Sudhir Singh: No, there is no definition difference.

Abhinandan Singh: Dipesh, Abhinandan here. Because we do not share client specific revenue numbers, the reason why we would share the Morris JV numbers is because it is a JV. So whenever we have shared those numbers, those always have been for the JV.

Moderator: Thank you. The next question is from the line of Abdul Karim from HDFC Securities. Please go ahead.

Abdul Karim: See, you are expecting margin to be better in Q4 FY18; could you expect a better margin scenario in coming years? And my question is, what is the margin lever you are looking at?

Arvind Thakur: Okay. So I think number one is the quality of revenues. I think as we grow our digital revenues, margin profile improves with digital revenues. Second is obviously the efficiency that we are getting in our delivery organization, particularly with automation and now with AI getting injected that is driving even more efficiencies in our execution. So predominantly these are the two margin levers. And as far as next year is concerned, I have already shared that there will be a dip in Q1, but it will gradually improve through the year in each quarter and it will be better in FY19 as compared to FY18.

Moderator: Thank you. The next question is from the line of Vipul Shah from Somangal Investment. Please go ahead.

Vipul Shah: I would like your view on utilization rate, which is around 79% which is on a much lower side if we compare it to large peers. So what is your view on utilization rates? Can we expect it to move significantly higher in coming year?

Sudhir Singh: So Vipul, our utilization for this quarter is at 79%. 80% is the number that we are targeting on the outside. It is not our intent to go beyond 80% and 80% given industry benchmark is a highly competitive number. So as we see it, this quarter was 79%, this quarter as you know tends to be normally a softer quarter for firms and there are furloughs that happen on the client side. But we are very close to the number that we want to operate at which is 80%.

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

Sandeep Shah: Sudhir, when you say FY19 double digit growth, you mean to say on an organic basis?

Sudhir Singh: Yes, Sandeep. Good question. And I do want to state this clearly. I mean, double digit growth on an organic basis, yes.

Sandeep Shah: Okay. So that means that the deal inflows which is improving, you have to further improve it and looking at the team and the investment which we are making, we are confident enough as of now?

Sudhir Singh: That is correct, Sandeep. So the deal inflow that is coming in as I said, I do expect another two large deals in quarter 4. And the leadership team that we have right now on the ground and the augmentation we might do in the short to medium term again convinces me that we have what we need to plan for and target the double digit growth organically that we talked about.

Sandeep Shah: Okay. And just on the GIS, there was some admin issues in terms of the procurement. This time it looks like there is a fantastic growth in the GIS. Is it fair to say that those issues are behind and Q4 being seasonally strong for the GIS, so the growth may even continue in Q4?

Arvind Thakur: So, those issues were around rate contract and supplies, which actually still continue, because the DGS&D contracts are not fully uploaded to the new GeMs platform. So this quarter we have been able to find ways around some of those problems. Certain problems still persist and we expect those to get cleared in this quarter to have better growth in Q4.

Sandeep Shah: Okay. So the seasonality may even continue in 4Q with a Q-on-Q growth coming in?

Arvind Thakur: That's right.

Moderator: Thank you. The next question is from the line of Ganesh Shetty. He is an Individual Investor. Please go ahead.

Ganesh Shetty: Sir, can you please throw some light on RuleTek integration and the revenue from RuleTek and how we are moving ahead with RuleTek acquisition going forward?

Sudhir Singh: Thank you, Mr. Shetty for the question. We don't call out separately the revenue for RuleTek, but the integration that you referred to has been going well. We are very pleased with the fact that both organizations not just operationally and not just financially, but even culturally seemed to have worked very well. We see clear revenue momentum coming in from the RuleTek acquisition as well. And the overall integration, the overall synergy that was expected seems to be playing out exactly as per plan. So we have positive news on that front, almost on the same lines as the experience that we had with Incessant earlier.

Ganesh Shetty: And sir my second question is regarding Lloyd's Insurance market, how is the business over there shaping up?

Sudhir Singh: So there Mr. Shetty, the business again is shaping up very well in the Lloyd's market in London. The entity that has been servicing that business has shown positive revenue momentum once again. The business plan that we had for this year for that business has been slightly exceeded and the outlook for next year again appears to be positive.

Moderator: Thank you. The next question is from the line of Govind Agarwal from Antique Stock Broking. Please go ahead.

Govind Agarwal: I had one question on the large deals, which you said you had won against Tier 1 companies. So if you can throw some light on what is helping us win against Tier 1 companies and how do we see competition over there?

Sudhir Singh: Sure. If I look at the three large deals that we called out, two of them came from the insurance vertical. What allowed us to win there were two or three different factors. Factor number one was, when it comes to insurance and when it comes to our expertise, we have been focused on not just a broad segment like insurance, but within very sharp sub-segments. That expertise we called out in the proposal and during the entire deal cycle. The second thing that worked for us is, within insurance we have over the years built very strong partnerships with the leading product providers in that space, specifically Duck Creek and CSC, that experience, that alliance again came into play here. And the third piece that worked very well for us was the fact that we also have an insurance product in Europe and the positive rub-off of the experience of running a product business where you need a lot of domain and technology depth also played out in the proposals that we had put out there. So there was a lot of positivity that came from that front. I will very quickly add a flavor around the third large deal. The third large deal was largely digital led, in a client where the revenue also is predominantly digital and I have seen a very sharply accelerated growth curve for us. So the digital expertise around automation, around digital experience, around emotionally empathetic experience that we have taken to market again has played out and allowed us to secure the third one.

Govind Agarwal: And if you could also throw some light on the deal sizes, total deal wins of large deals and how will they ramp up across FY19?

Sudhir Singh: The way we define large deal, is a deal with a TCV of greater than $20 million. Each one of these deals falls north of $20 million. And as you can imagine, all of these were secured in quarter 3. All of them are multi-year deals, so the revenue flow will definitely go into fiscal year 2019 and beyond.

Govind Agarwal: Sure. And one last question on Morris JV. See when we say Morris revenue will go to become one-fourth of the original size. So what is the revenue over here, 342 is more than that right, it is not the revenue which will go down?

Sudhir Singh: As I said the number will become a quarter of the revenue that we derived from Morris as a client, not a quarter of the overall JV number. So from Morris as a client , which is a subset of the overall JV number, the revenue will come down to a quarter.

Moderator: Thank you. The next question is from the line of Dhanashree Jadhav from Anvil Shares & Stock Broking. Please go ahead.

Dhanshree Jadhav: I have a question related to the government vertical. Just wanted to know what are, I mean, how the Smart City project is spanning out and if you can throw some more light on it and the revenues that we would get from it in FY19?

Arvind Thakur: The business in Smart Cities that we do is in our GIS technology, where GIS is a core component of a Smart City Solution. So that business actually is the one which has grown significantly and in fact it has grown on the back of the opportunity that we see in Smart Cities. We now see a large number of system integrators engaged in this activity. And we have been able to partner with these system integrators with our platform, which is now becoming more or less de facto standard for GIS in Smart Cities.

Dhanshree Jadhav: So, if you can through some light on what is the revenue that we could see coming from this side of the business considering that the guidance that we have given of double-digit growth for FY19?

Arvind Thakur: Well, the growth really will come from international markets, because as I mentioned earlier, the focus of the organization is to drive business in our international geographies. Our focus is not on our domestic particularly the government business. Smart Cities is not treated as government business because we work with system integrators as well as SPVs that have been created for engaging with Smart Cities.

Moderator: Thank you. The next question is a follow-up from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Yes, sorry for coming again. Just on the large deal wins which had happened in this quarter, is it fair to say all the three are fresh business, new business, not any part of a renewal coming into this?

Sudhir Singh: No, not all of them are new business, Sandeep. But half or more than half in some cases is new business, incremental business.

Sandeep Shah: Okay. So you are talking of the 130 million, half of that, or you are talking just for these three?

Sudhir Singh: I am talking about the three large deals, Sandeep, that we talked about.

Sandeep Shah: Okay. And even the chasing which we are doing and hoping to close two new deals in this quarter, even that split could be more for fresh or new business or it is evenly spread out on renewal and fresh?

Sudhir Singh: It will be higher than what we have realized in quarter 3. So the new component will be likely even higher than the number I just talked about for quarter 3.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Arvind Thakur, Vice Chairman & Managing Director, NIIT Technologies for closing comments.

Arvind Thakur: Thank you, everybody for joining us on this call. I think now with Sudhir at the helm the company enters into a new era of growth with a fresh perspective, particularly with the new leadership team that he is inducting as part of his organization. We look forward to his leadership to embrace new opportunities particularly around new technologies. With that we can close this conference. Thank you very much for joining us.

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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