



TRANSCRIPT: NIIT Technologies Ltd Q4FY2019 Results Conference Call

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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator: Good day, ladies and gentlemen. And welcome to NIIT Technologies Q4 FY2019 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 ‘*’ and 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: Good afternoon and welcome, everyone, to our Q4 FY2019 earnings conference call. Thank you, especially for joining us on a Saturday afternoon, on a weekend. You would have already received our emails with the results that we had sent across, the same are also available on our website, www.niit-tech.com.

Present along with me today on this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our Vice Chairman and Managing Director; Mr. Sudhir Singh, our CEO; and Mr. Sanjay Mal, our CFO.

We will begin today’s forum with opening remarks by our CEO Mr. Sudhir Singh, and after that the floor will be open to your questions.

With that, I would now like to hand over the floor to our CEO. Over to you, Sudhir.

Sudhir Singh: Thank you, Abhinandan. And a very good evening and a very good morning to you, wherever you are folks in the world. At the outset, let me state that the year gone by has been one of the most successful year in our firm’s history. The new financial year has also began with some significant actions, which included signing of a definitive agreement to acquire 53% stake in WHISHWORKS IT Consulting Private Limited, and divestment of our GIS business. I plan to address the key transactions, and post that I shall roll on to the end of year and the end of quarter review.

So moving on, talking specifically about the acquisition of WHISHWORKS IT Consulting Private Limited, as you are aware, the company signed a definitive agreement to make a strategic investment in WHISHWORKS IT Consulting, which is a MuleSoft and Big Data specialist. This transaction will strengthen the company’s digital capabilities, complement its existing competencies and create a powerful offering combination in the digital integration space. This agreement, which was signed in April, is to acquire a 53% stake initially, with the remaining equity to be acquired over the next two years through payouts that will be linked to financial performance. The transaction closure, of course, is subject to fulfillment of certain government approvals.

The second transaction was the disinvestment in GIS India Technologies Limited. In April 2019, the firm also signed a definitive agreement for the sale of its entire 88.99% stake in Esri India

Technologies Limited. Esri India has been an exclusive distributor of Esri Incorporated of its cutting edge GIS products in India, and it has been supporting customers since 1996. The distribution agreement was expiring on the 31st March 2019, and Esri expressed its desire to directly manage the distribution of its products in India. The divestment of its stake in GIS India will allow NIIT Technologies to focus on its core verticals and global markets.

Please note, that as the GIS business is being hived off, all our future analysis and outlook will be excluding the GIS business going forward.

I shall now address, first, the year performance and then the quarter's performance.

Let's start with the revenue analysis for fiscal year 2019. This was, as I said at the outset, an exceptionally successful year for the firm. This year's revenue at Rs. 36,762 million represents a growth of 22.9% over last year. The constant currency growth for the year was 17.6% on the back of growth across all businesses.

Insurance expanded 35.7% year-on-year, contributing to 28.7% of the revenue. BFS expanded 18.2% year-on-year, contributing to 16.1% of the revenue. And Travel & Transport was up 20% year-on-year, contributing to 26.9% of revenue. Other segments collectively expanded 17.1% year-on-year and they now represent 28.3% of overall revenues.

The geo based growth cuts also show sustained growth. Americas, which contributes to 49% of our global revenues, grew by 21.8% due to higher revenue in all three verticals. EMEA revenues grew by 32%, once again, due to growth across all our three verticals, and they now represent 33% of the revenue mix. APAC revenues grew 15.3% and they contribute 10% to the firm's total revenue. India contributed 8% to the firm's total revenue and grew by 7.4%. You will note that APAC and India have declined to 18% contribution together to the firm's revenue from 20% at the start of the year.

We do want to point out that we achieved a significant acceleration in revenue growth, which was accompanied by a material uptick in operating margins during the year as well.

Talking of margins, operating profits increased by 28.7% during the year and they stand at Rs. 6,452 million. Operating margins stand at 17.6% for the year. Strong growth allied with very strong operational rigor were the key drivers of the margin growth. SG&A for the year is down from 19.1% to 17.4%. As we have mentioned earlier, on an average going forward we are expecting to maintain the SG&A at around these levels, despite a material injection of investments in domain centered front-end sales capability, a consulting organization that has been created and very sharp capability augmentation that's been done across Cloud, Automation and Data, these specific investment areas.

Finally, our net profits increased by 43.9% over last year to Rs. 4,033 million. The tax rate for the year stood at 24.9% of the PBT.

Having talking about the fiscal year 2019 revenue and the margin analysis, I will now roll over to the quarter four analysis, starting with revenue first. During the quarter, revenue grew 23.2% over the same quarter of last year to Rs. 9,722 million. Quarter 4 has always been the strongest quarter for our GIS business, but this year the GIS business, which as I said, has been divested, declined 14% in Q4 over Q3 because of the code of conduct before the General Elections which kicked in, impacting government procurement. Sequential quarter-on-quarter revenue growth in constant currency is 1.3%, and excluding GIS it is 2.1%. In reported terms, revenues remain flat due to adverse impact of currency.

Within this quarter BFS expanded 5.3% quarter-on-quarter and contributed to 16.2% of revenue. Travel & Transport was up 2.5% quarter-on-quarter, contributing to 27.1% of revenue. And Insurance declined 6.5% quarter-on-quarter on lower product revenues in NITL, because contracting of a license sale got delayed. Insurance now contributes to 27.7% of the revenue for the last quarter. Other segments collectively expanded 1.7% quarter-on-quarter and they now represent 29% of the overall revenues.

Geo based cuts for the quarter, Americas, EMEA, APAC, India, continue to contribute 49%, 33%, 10% and 8% of the revenue mix, which is exactly what they did last quarter as well.

The top five clients now contribute 29% of the total revenue and the top 10 and the top 20 contribute 41% and 54% of the total revenue respectively. Broad based growth is reinforced by the number of \$1 million plus clients which stood at 90 this quarter. Onsite revenues represented 66% of total revenues.

That was the revenue analysis for the quarter. Moving on to margin analysis, before I actually get into the margin analysis, I would like to first explain the exceptional item which has been booked during this quarter.

Now, consequent to the recent judicial pronouncement in Australia with respect to Royalty tax, the company reassessed its position pertaining to applicability of fringe benefit tax, GST and royalty tax in one of our acquired entities in Australia. Basis this reassessment, the company has filed voluntary disclosures with the Australian Tax Authorities. The impact of the same has been booked as an exceptional item amounting to INR 56 million. And you will see that in the results we have shared with you.

Operating profits stood at Rs. 1,706 million for the quarter, representing a decline of 5.5% and an improvement of 20.4% over the same quarter of last year. The quarter, and it is important to note this, also included non-recurring expenses relating to FBT in Australia, the Fringe Benefit Tax. And an increase in legal and professional expenses due to the M&A activities that I cited at

the beginning of this call. Excluding the impact of these non-recurring expenses, operating profits stand at Rs. 1,763 million, representing a decline of 2.3% and an improvement of 24.4% over the same quarter of last year.

Operating margin has declined 102 basis points quarter-on-quarter to 17.6% for the quarter. Excluding the impact of the non-recurring expenses that I talked about, operating margin has improved by 16 basis points over the same quarter of last year, and it has declined by 44 basis points quarter-on-quarter to 18.1%.

Constant currency margins for the quarter are at 18.3% as against 18.6% in Q3. The decline in operating margins is due to the decline in the GIS and the NITL businesses that I just referenced a short while back. Effective tax rate for the quarter stood at 21.2%, net profit for the quarter are at INR 1,055 million, which are up 22.5% year-on-year and they are up 5.2% quarter-on-quarter.

I want to move on to our order intake analysis and the delivery operations analysis now. The order intake story remains positive, we secured fresh business of US\$ 170 million during the quarter. This number represents a step jump over the order intake numbers that we have seen in the recent quarters. Out of this US\$ 170 million order intake, the U.S. contribution stood at US\$94 million, EMEA was at US\$ 45 million and we got US\$ 31 million from the rest of the world. The cumulative order intake for this year is US\$ 646 million, which is 27% up over the previous year.

The large deal signing momentum continues. We signed two large deals in this quarter as well, one was in the Travel domain and the other one was in the BFS vertical. We signed 11 new customers during the quarter, which was a good number. With the sharpened market focus over the last two years, we have now opened 40 new clients during fiscal year 2019, and we have opened 71 new clients over the last eight quarters. The total number of our clients now stands at around 335, out of which the \$1 million plus clients are 90. Moving forward, we have primed our hunting engine to focus on select but highly scalable pursuits alone. We have also repurposed some of our hunters to drive accelerated growth across existing accounts. Order book executable over the next 12 months has expanded again, and it now stands at US\$ 390 million, and that number is up 15% year-on-year.

I am going to give you a quick flavor of the delivery operations of the firm now and the capability generation at the back end. Delivery operations of the firm delivered key milestones for our client across verticals. The BFS team successfully completed the migration of more than 7,000 advisors from a legacy to a new platform for one of our key clients. In the Travel domain, we pushed through and delivered on an AI-based testing engagement for our new client, and we have now institutionalized an AI based testing framework across the enterprise.

Our newly incubated Data Services business worked in conjunction with our Technology R&D Center, we call it the TIC, to rollout the SLICE framework which uses cognitive technologies to

rollup unstructured data as semi-structured and or structured data to facilitate automation and insight generation.

Furthermore, using our proprietary TRON Automation Framework and Microsoft AI technologies, we successfully delivered three automation engagements. We have incidentally also re-approached some of our previous RPA implementations and structured new engagements to create a cognitive layer on those implementations. This quarter saw the Cloud Service practice migrating approximately 250 workloads for a key European customer to the Cloud successfully and completely on time.

Finally, from a capability perspective, we have augmented our Domain Consulting organization by incubating a Technology Consulting arm as well in the last quarter. The Product, Platform, and Partnership strategy agenda is being formalized and will be driven by an ex-Microsoft veteran. The investments in RPA, Data, Cloud and Intelligent Automation have started yielding results, and they are expected to achieve material scale and size in fiscal year 2020.

I am going to step on to the people curve now. There was an increase in headcount by 119 during the quarter. Total headcount at the end of the quarter was 10,263. Utilization during the quarter was 79.3%. Attrition stood at 12.2%. In line with our recent strategy to add senior lateral talent from Tier-1 providers, we on-boarded two EVPs as my direct reports to manage two key businesses of the firm. Vamsi Rupakala, who was an MD at Accenture joins us as the Global Head of our Infrastructure & Cloud Services business. We also hired Sreekanth Lapala as an EVP to lead our Incessant business. Sreekanth was the Global Delivery Leader of Virtusa earlier.

A quick callout around some balance sheet aspects. Cash bank balances stood at Rs. 9,758 million, which is an increase of Rs. 1,498 million over the previous quarter. And it is an increase of Rs. 1,701 million over the previous year. Capex spend during the quarter was Rs. 143 million. The debtors at the end of the quarter stand at 62 days of sales outstanding; you will recall this number was 69 last quarter. DSO including unbilled is at 75 days, which we believe is one of the best in the industry. Outstanding hedges in USD are US\$ 68.48 million at an average rate of Rs. 72.74 to the US\$. In British Pounds, we have 13.05 million outstanding, and that's at Rs. 96.51 to the Pound. And in Euro it is 4.5 million at Rs. 86.18 to a Euro.

Finally, concluding with the outlook, overall for the financial year the firm clocked very robust revenue and margin growth and also recorded improvement across all material operating parameters. The fundamentals of the business are strong. As we've noted in the past, we continue to plan for robust, predictable, and profitable growth in the quarters and year ahead of us.

That brings me to an end of my opening remarks. I am going to hand this back to Abhinandan now.

Abhinandan Singh:

Operator, we can now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Congratulations for a good execution in FY19. Sudhir, my first question is on the FY20 outlook. Do you think the kind of growth that we had in FY19, you think with the kind of exit that we have achieved in terms of order wins, is this something which we can aspire to repeat? Or you think that we get to a more normalized curve in FY20 on an organic basis?

Sudhir Singh: Pankaj, thanks for the question. You, I know, of all people definitely known that we don't offer guidance on a go-forward basis. But as I noted, as we look at our business, we are absolutely convinced that the fundamentals of the business are strong. And as I said, our intent remains and continues to be that we drive robust growth and that we drive predictable growth in the quarters to come and the years ahead of us as well.

Pankaj Kapoor: So just a clarification then on the new order intake that we had. Will it be possible for you to give a sense of how much of that would be net new business so that can give us clarity as we try to model for FY20?

Sudhir Singh: The overall order intake number that I gave you of \$170 million, Pankaj, geographically it was spread almost evenly in line with the numbers that we carry, \$94 million in the U.S., \$45-odd million in EMEA and \$31 million in the Rest of the World. The mix is broadly in line with the numbers that we have been reporting in the past and we have been recognizing in the past over the last four to eight quarters that we have been talking about. We don't classify order intake as necessarily new and renewals. So, it has broadly been in line with that number. You anyways got the numbers around order intake and the executable that we talked about at the end of the year.

Pankaj Kapoor: Okay. And although, I mean, it's probably early days, but any sense in terms of with Baring coming in, what is the conversation that you have progressed on? Do you think that any reaction from your larger accounts in terms of the change of ownership? And secondly, with them onboard, do you see any difference in the way they would want to monitor or may want to approach the business?

Sudhir Singh: So, the larger accounts were made aware of the change, and that has been very clearly communicated to them. The message that has gone to them from Baring and from our current Board has been that Baring is coming in with an agenda to help support and drive growth of the organization on a go-forward basis. They are very appreciative of it. At this point in time, we have picked up absolutely no issues or concerns from their end at all. So things continue to be on the up-and-up. Baring, obviously, is not directly engaged with clients, as we speak, or with the firm in terms of execution at the current point in time.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Congratulations on a good quarter, barring these one-offs. Sudhir, you said that you added now a technology consulting layer to the domain. Could you just elaborate a little bit on that? What sort of are you looking at, some specific proof points being developed for certain tools or what sort of technology consulting are you talking about?

Sudhir Singh: Thank you, Ravi. So, the technology consulting group that we have really kicked off in quarter four is step two of the process that got kicked off about six quarters back when we started our business. That's initially called transformation, and we later on renamed it to being domain consulting. That's a group of about 27 individuals at this point in time who have driven very material impact for us across the three chosen verticals. What we are attempting to do with technology consulting is to create a set of client facing technical architects. We moved one of our veterans to the Princeton office in the U.S. and the intent is that the initial set of architects will either help drive enterprise architectural framework creation across technologies, or they will be very sharply focused on Data, Cloud or Automation as practice areas. So at this point in time, if I read this back and just try to sum up what I said, the bunch of folks that the technology consulting leader will have under him is going to be a bunch of enterprise architects or a bunch of Data, Cloud, and Automation architects on a go-forward basis, which is where we see the demand and which is also where we think material impact can be driven on the same lines as the impact that was driven by the domain consultants, with this group that got created and the 27-odd practitioners that we today have in the market.

Ravi Menon: Sudhir, this seems to be a fairly ambitious attempt. I mean I don't think that any of your peer group is doing something like this. And if I am not mistaken, India really doesn't have too many enterprise architects, right? So are you looking at this being a completely new kind of model, and how easy would it be to find acceptance in the marketplace?

Sudhir Singh: So, the architecture career track that we have created under this particular consulting group, Ravi, is going to have a bunch of project architects, program architects and enterprise architects. So there is going to be a gradation as there is across any other technology track. We believe, just as we have been able to start with 27 people domain consulting business, of whom at this point in time I would reckon about 9 are exceptionally senior. A group of about 25 to 30, if we were able to create that over the next four quarters, and if off that group about 10 could be enterprise architects and the others configured as Data, Cloud and Automation architects, then that would be a good number to have. And more than the number or the direct revenue that these folks create, we think that the downstream that can come in from some of these engagements can be significant for us. Did I answer your question?

Ravi Menon: Great. this will be very interesting to watch, and I hope that will succeed.

Sudhir Singh: I hope so too, Ravi.

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

- Sandeep Shah:** Congrats on a great execution in FY19. Sudhir, first question, wanted to understand the related to the insurance product decline where you said the license agreement got delayed. So, what has caused that? This is largely related to Brexit or some other reasons?
- Sudhir Singh:** Sandeep, thank you for your initial comment. Insurance, as you know Sandeep, as a business has grown more than 35% on a yearly basis. This quarter there has been a blip and you will see the 6.5% quarter-on-quarter decline that I talked about. This is fundamentally a contracting closure issue. When you do a license sale, if you have a license sale that is almost on the boundary when it comes to quarter closure, you do end up in some of these situations where the sign-off normally gets extended. And this was more to do with contracting than to do with any macro economic factors like Brexit, etc.
- Sandeep Shah:** Okay. So overall, for NITL as a business segment, you continue to remain positive for FY20?
- Sudhir Singh:** Yes. Sandeep. As I have said, we think that all businesses, if you look at our performance this year, all businesses have grown. As we consider all our businesses next year, obviously GIS is not going to be in the mix anymore because it has been divested, we think that growth again will be broad based.
- Sandeep Shah:** Okay. Second, just in terms of capital market, how is the demand outlook? Because there are mixed arguments coming, some larger vendors are cautious, some smaller vendors are seeing some demand traction. So how are you looking at that segment in terms of FY20 versus FY19?
- Sudhir Singh:** So if I look at it more from an immediate lens perspective, this quarter our BFS business, which really is a surrogate for being a buy-side capital markets business, grew 5.7% quarter-on-quarter, Sandeep. It is very difficult to predict on a quarterly basis what the variations are going to be, but if I were to look at the year ahead, on an annual basis, we think that the capital market buy side, which is where we operate, is a space that we should get good growth next year as well.
- Sandeep Shah:** Okay. And in terms of the margin commentary, earlier you alluded that 18% is your comfort range, so that you believe would be possible at the current rupee dollar entering in to 2020?
- Sudhir Singh:** On an annual basis, as we have referenced earlier, Sandeep, 18% we have always said is a new normal. We think we will, on the portfolio that we had at a point in time when we made that assertion, deliver on 18%, as we have always said. Of course, the GIS business has now been divested. So, net of the effect of that divestment, the indication that we had given around 18% being the new normal is an indication that we continue to stand by.
- Sandeep Shah:** Okay. Just a related question, last time you said that the dilution, because of GIS, both on margin or on EPS would be compensated by the WHISHWORKS. So one can model that or are you standing by what you were saying last time?

- Sudhir Singh:** So, at this point in time, Sandeep, the WHISHWORKS, we have signed a definitive agreement. There are regulatory approvals that are required for the WHISHWORKS entity to actually get integrated on the revenue and the financials front. Once that is done, as we indicated last time, the revenues of WHISHWORKS are broadly comparable on an annual basis to the revenue of the divested GIS entity, and the margins also are broadly comparable. Of course, we are now waiting, we need to know when the integration will happen and when the regulatory approval process gets closed.
- Sandeep Shah:** Okay. Just a broader question for FY20, Sudhir. If I look at FY2019, in dollar terms, you have delivered almost a high-teens kind of a growth despite an issue which was coming within one of your accounts, which was on the export front within media business. Now, if you enter FY 2020, you have order book which is much higher than your order book in FY 2018, plus these clients specific issues is largely behind. So, one can say that if there are no macro issues the incremental business which you have done in FY 2019 should be at least maintained or could be higher in FY 2020. Is it the right way of looking at it?
- Sudhir Singh:** Clearly a very intelligent question, Sandeep. And you sound like my boss right now. But as I said, I feel very comfortable with the fundamentals of the business. You have noticed some of the lead indicators that you just talked about. So looking at those lead indicators, looking at the fact that the fundamentals of the business are strong, we continue to maintain that the growth should be robust, and the growth should be predictable moving forward as well.
- Sandeep Shah:** Okay. And sorry to squeeze last two questions. Sudhir, what according to you can go wrong in terms of an execution, if we keep apart the macro issue? If macro issues are not there what can go wrong in terms of your execution plan in the next one or two years, or especially for FY20?
- Sudhir Singh:** Outside of execution, if I look at the capability team, the pre-sales team, the sales team, we think we have actually been able to blend together a team that's best-in-class. If there aren't client specific issues or macro issues like visa that are immigration specific, we find it very difficult as an executive team to point to aspects that might jeopardize growth plans. Unless something really breaks apart on the integration front, macro level or the economy stand massively or there is a huge client-specific issue, we can't really think of anything at an operational level that can be a showstopper for us, Sandeep.
- Sandeep Shah:** And last question, Sudhir, any attrition have you seen in some of your senior leaders, which you have recruited over the last four to six quarters?
- Sudhir Singh:** Zero attrition, Sandeep, zero. Anyone new that we have hired, SVP plus in last eight quarters, zero attrition.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

- Madhu Babu:** The top client's growth has been steady over the last three quarters. So is it the cross-selling or which are the service lines, or is it market share gains within the top accounts?
- Sudhir Singh:** It's a mix of both, Madhu. And there are, obviously, different things that apply across the top-ten clients. But if I were to think through it, cross-sell has been a very conscious focus. In the new service lines that we created – Data, Cloud, and Automation, specifically -- we have been very focused in terms of making sure that among the top 10 clients there is a tick in the box around selling these. That has clearly been one driver of growth. The other thing that happened is, in some other clients we have actually been able to secure a higher wallet share as well, over time, and that, again, has been a growth driver in the top 10 accounts.
- Madhu Babu:** And second thing, in Infrastructure, we have added another new head. I mean, is it like fulfilling on selling it to the existing clients or are we able to try into get into new accounts with IMS route?
- Sudhir Singh:** So the intent, at that point in time, is to go into the 330-odd clients that we have and sell them infrastructure as a service, because we believe that IMS as a service line is relatively underpenetrated, in the U.S. especially. And in the U.S. and in EMEA we plan to make sure that as many of the 335-odd clients that we have, we start penetrating those. Of course, if there is a material opportunity, which is a standalone new client opportunity that presents itself, we will go after it. But for the most part, the intent first is going to be to cross-sell in to what we already have.
- Madhu Babu:** And last one, when do we expect a closure of WHISHWORKS?
- Sudhir Singh:** At this point in time, our guess is it will take at least the end of the quarter. And I suspect we might roll into the early part of next quarter, and we will keep you posted as the quarter evolves.
- Moderator:** Thank you. The next question is from the line of Shashi Bhusan from Axis Capital. Please go ahead.
- Shashi Bhusan:** Congrats on great execution. So do you think the quarter panned out below your expectation or in line with your expectation, excluding GIS? In insurance business, the impact which we witnessed in this quarter – is that the only weakness, and otherwise the quarter was largely in line with expectation?
- Sudhir Singh:** Well, the way I look at it is, if you look at the last quarter, it was 4.2%, the previous quarter was 7.1%. I would have been happy with a 3% quarter. And had it not been for the numbers that I shared on the GIS front and NITL front, we would have hit 3%. So getting back to your immediate question, am I happy with not doing 3%? The answer is no, I am not happy with the 1.3%. Could we have got the 3% had these two issues not happened? The answer, again, is yes.

Shashi Bhusan: Do you think a part of some of the execution impact is also because of M&A-related news in the media and that would have led to some of the slippages?

Sudhir Singh: So, I would not really say that it has a direct link. I mean, a contracting closure wasn't certainly impacted by the M&A activity that was going on. And the GIS issue was really more to do with when the elections in India were announced, and government procurement got impacted post that. So I won't really pin it on the M&A activities at this point in time.

Shashi Bhusan: And would it be safe to assume that given the strong deal closure in FY19 we can see growth in FY20 to be almost similar like in FY19? And any major headwinds that we see in the near-term?

Sudhir Singh: So as I said, Shashi, I mean, the only possible headwinds could be macro headwinds coming in because of macro factors, or if something were to drastically change at one of our leading clients. Other than that, no material headwinds. Growth, obviously, this has been an exceptional year for us. The fundamentals are strong, difficult for me to put a hard number out there. But we think the fundamentals of the business are strong, and the robust predictable growth should continue.

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

Govind Agarwal: Congrats on a very good execution in FY19. If you could just throw some light on the digital portfolio post WHISHWORKS acquisition, and the opportunity to cross-sell WHISHWORKS to our existing clients? And also, as a portfolio, WHISHWORKS along with Incessant and Ruletek?

Sudhir Singh: Sure. Govind, this year at the end of the year, digital, and we tend to have a very strict classification around digital revenues. It contributes to 30% of our revenue. The business has grown about 45% odd over last year, the digital portfolio, WHISHWORKS for us is the kind of capability that we have been waiting for, for a while. I think our team has been waiting on for a while, and our clients having been waiting on for a while, because when we look at the world, digital for us is an aggregate of cloud capabilities, data capabilities, automation capabilities, and both digital integration and digital experience. MuleSoft, today, in many ways is the gold standard when it comes to digital integration across enterprises. In areas like insurance and travel, digital integration is, obviously, key to running an effective shop. And MuleSoft capabilities, to that extent, are in significant demand. We think that WHISHWORKS coming in is going to aid fulfill an unmet demand and also allow us to go to other clients who may not have expressed it directly and try to structure solutions with them.

The second piece is, Pega, as you know, is more in what these days is called a digital process transformation space, but was the more classical BPM space earlier on. So it tends to be, in some ways, an orchestration platform. Having integration tools and being able to work across both of them will allow us to structure the kind of enterprise architecture frameworks and solutions that

I was talking about in response to an earlier question around technology consulting. So we think the Incessant and the WHISHWORKS competencies are complementary. They will help us structure end-to-end solutions. And as a standalone, MuleSoft, which is the gold standard around the whole DI, digital integration space, is something that's going to meet an unmet and a very explicitly stated demand from our clients for a while now.

Govind Agarwal: Okay. So you mean there's already a demand, a lot of demand, among your top clients for MuleSoft skills?

Sudhir Singh: Clear demand and high demand, Govind.

Govind Agarwal: Sure. Okay. And another question would be, see the large deal which you signed in the current quarter and a very healthy new client addition of 11 clients, so if you could shed some light on that deal wins and the nature of large deals won in the current quarter?

Sudhir Singh: Sure. Absolutely, Govind. So let me talk about the large deals, first. The large deal in the banking financial services (BFS) space that I spoke about at the outset, the first one was a deal that was structured around cloud migrations for one of the financial majors, and taking over the entire mandate to orchestrate that over the next five years. The second piece was for a key airline in North America, and that was work which was essentially structured around complete consolidation of the non-infrastructure, which was the essential ADM work that the client plans to undertake over the next seven years. So these were the two large deals. And as is the norm these days, it wasn't just one technology that was in the play; this was a mix of technologies across, on both of these. The 11 new clients that we have, the broad mix of these, the geo-wise split of these clients, that there were 6 roughly from North America. There were 5 from Asia Pacific, and the 11-odd actually were spread across the three verticals materially. So there was no bias towards any vertical; almost evenly spread across.

Govind Agarwal: Okay. And you also, again, mentioned about maintaining SG&A around current levels. So is it in dollar terms and will easily lead to somewhat of a margin tailwind?

Sudhir Singh: In percentage terms it's going to be at around the number, the overall reported number that I talked about. So it's net of the GIS business that we divested that would roughly translate to about 17%, 17.5%-odd.

Govind Agarwal: Okay. And lastly, on the insurance deal which was delayed, has it now been signed?

Sudhir Singh: It's about to be signed right now, Govind.

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

- Dipesh Mehta:** I have a couple of questions. First is data related. Can you give us the revenue of NITL, revenue and margin which we usually say? Second question is about this quarter and year-end; I think dividend announcement was not given, any specific reason, I think I could not find out the dividend announced for the period. And if you can help us about the payout, how does capital allocation and payout one should look going forward? Thank you.
- Arvind Thakur:** Let me just take the dividend question first, this is Arvind Thakur. What we have seen is, that it is customary if there is annual results which happens between signing of a definitive agreement and the closure, then it is customary to postpone the announcement of dividend. So that is the reason why there has been no dividend announcement.
- Dipesh Mehta:** And what would be the typical payout one should assume, if you can help us, once these things get over?
- Arvind Thakur:** We can't say because after Closing, it would be the new Board which will decide on what the dividend is.
- Sudhir Singh:** Mr. Mehta, the first part of your question around NITL revenues and operating margin, the revenue in Indian rupees million was INR 442 and the operating margin was 19%.
- Dipesh Mehta:** Okay. And about Incessant?
- Sudhir Singh:** I am sorry. Can you repeat that?
- Dipesh Mehta:** The digital business, Incessant Technologies?
- Sudhir Singh:** The Incessant business, the revenue in Indian rupees million was 1,334 and the operating margin was 24%.
- Moderator:** Thank you. The next question is from the line of Shyamal Dhruve from PhillipCapital. Please go ahead.
- Shyamal Dhruve:** Sir, two questions from my side. One is, in the shift in our client base from \$1 million to \$5 million and \$5 million to \$10 million, so there are decline of four clients from this \$5 million to \$10 million and a similar addition in \$1 million to \$5 million. So is it like an aberration in this quarter or are we seeing in some of the clients a reduction in budget for us? And secondly, just on the offshore proportion of our revenue, our offshore has been declining for the last 7-8 quarters, so what are the reasons for the same?
- Sudhir Singh:** So let me just take the second question first, Mr. Dhruve. With the digital portfolio expanding, and you would have seen the numbers that we talked about, digital engagements tend to be short-term in nature and they tend to be on-site heavy. Of course, they are also accompanied by being higher margin engagements. So, that is really what has been causing over the past few quarters

on a running basis to the on-site revenue increasing to 66-odd-percent. I know I said that, when it was about 65%, that we expect it to hold it around that level, but 66% I suspect is reasonably close to 65%. We think it should start holding around this pattern moving forward. Can you please repeat your first question, what the first question was?

Shyamal Dhruve: The first question was on the client size shift. So \$1 million to \$2 million client has seen an addition of four clients from 62 to 66. And similar reduction in \$5 million to \$10 million clients, from 20 to 16. So it is just an aberration in this quarter or we are seeing the shift from a few of our large clients due to their lower spending?

Sudhir Singh: No. I would really classify it as more of a blip in this quarter. We are really not seeing any structural shift in terms of the number of \$5 million plus clients reducing. I think it's a good observation, but in the market and structurally we are not really seeing a decline over there.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: From the supply side perspective what are the challenges that we see in terms of availability or cost increases? And what could be the potential impact of the same in terms of wage hike, incentive and subcontracts for us?

Sudhir Singh: Well, Rahul, thank you for the question. On the supply side, overall, you would have noticed that we have successfully managed to add more than 1,000 people on a base of 9,500 people, employees, at the beginning of last year. So clearly, the supply side, in terms of fulfillment, has been a success story for us. You are absolutely right, there has been pressure when it comes to talent supply. So visa costs, immigration cost has been a significant source of inflation for us. This year, we ended up paying almost to the tune of \$1 million more than the previous year when it comes to immigration related costs. But we have been able to build those costs into our cost structure and take out cost from elsewhere to maintain margins, as you would have noticed. When it comes to wages, we expect the wage increase this year to be broadly in line with the wage increase that we saw last year. And from a supply sourcing or talent sourcing perspective, we continue to run initiatives that we think, not just the fact that they are initiatives but the way that they have been run and the way in which they have been monitored, like open houses to have people just walk into the campus and get hired, the retraining, the risk-scaling initiatives that we run as part of our standard operations, we have been able to do a pretty good job in terms of managing the evolving digital reality that we have.

We are also doing some very interesting pieces of work in terms of how we monitor and have created digital capabilities at scale by running our master's program with NU, where we have got 120 people enrolled in a master's program as we speak, who over the last one year have been getting trained in cognitive and data-related technologies. So overall it's obviously not been one step that has brought us to where we are. There clearly are challenges when it comes to getting

the right set of folks in. But it's either being able to manage the recruiting channel or we build the cost into our modeling structures and our cost models, and have been able to manage so far.

Subcontracting numbers, we have kept the numbers at where they are. There has been a very active culling of tenured subcontractors and replacement of those tenured subcontractors by our own FTEs. So while margin pressure because of subcontractors continues, some of the operational measures have allowed us to manage the cost or at least contain it and hence, manage margins. That was a fairly long answer, but that's how we are looking at tactically managing the entire piece.

Rahul Jain: Also, also in your Analyst Day you shared robust opportunity in the aviation sector there, digital led initiatives driving customer experience and aviation companies trying to drive the non-fare based revenues. So are there any successes that we have observed on those things or maybe any other new age thing that we have witnessed as a key trend in that industry?

Sudhir Singh: So, I'm not sure I got the whole question, Rahul, but I think what you were asking was in the aviation space are there any key trends that we are seeing. Is that correct?

Rahul Jain: In a way, yes.

Sudhir Singh: Right. So I mean in addition to the one that we talked about which was more around the firms trying to generate a lot of ancillary revenues, there is clear interest that is actually coming in terms of looking at a few technologies that, till a few years back were regarded as being Horizon 3 technologies and actually industrializing them. Very interestingly, from one of the largest airlines in the world in the last quarter, and I don't think I talked about it in the conversation that I had right at the outset of the call, we completed a very, very interesting project wherein we have helped them completed the rollout a set of kiosks, check-in kiosks, which will not just allow somebody to check-in but they have also been configured under a design process where there will be a lot of interventions possible, which might allow for the passenger to try to upgrade their travel experience and hence generate ancillary revenue for those airlines. That's one. A live example of something which we have just done in the last quarter, which ties into your question. There are a few other things that are very interesting that are happening in the travel space. IoT, which for a long time was a technology that a lot of airlines were playing with, because of recent IATA standards it is something that is being actively considered when it comes to baggage management and tracking across a customer's travel cycle. There are also some very interesting work that's being done when it comes to biometric technologies, and using of those biometric technologies when it comes to government system controls and access controls at airports and at the airlines. So in addition to what we talked about, about a year back, which was more around ancillary revenue, the work around IoT, the work around biometrics. Again, it is very interesting work that is evolving very fast. Did I answer your question, Rahul?

Rahul Jain: Yes. Just some bit more on the airports front. Like one example that you gave of the kiosks, are there more emerging...generally we keep seeing some new initiatives that a lot of airports are doing to drive their customer experience to the next level? Some of it could be airport-led, some of it could be aviation-led. So is there a significant opportunity in the near-term or these are just a general upgrade to the technology that we are seeing here?

Sudhir Singh: So, you are right. Even on the airports front there are some very interesting opportunities and they are emerging across the multiple axes, Rahul. For instance, most of the airports, we have seen the airport holding firms that you will speak to, they will actually tell you that they look at themselves also as a retail malls in some ways, because some of the retail shops in the airport seem to be generating more money for them than the landing rights of airlines.

The second thing that is happening, and again, we at least here a lot of it when we speak to some of our airport clients is about the airport of the future. You have multiple airports that are competing to do almost rebrand themselves and be the most intelligent airport in the future. The idea is to make travel as touchless and seamless as possible. So that's the thing that's emerging.

We also see other interesting things that are coming in. Actually, as we speak, one of the largest airports in the world, one of the largest transit airports in the world is planning for the next five years not to do any capital expenditure in physical infrastructure, and yet manage to push through close to 33% to 40% more passengers using the existing infrastructure. That, of course, will again call for very high levels of automation, almost at every point.

So in addition to the things that you've said, the retail mall evolution and some of those interlinkages, the intelligent airport construct, increasing passenger throughput without increasing physical infrastructure are other interesting things that we are seeing right now. And the space continues to evolve and it continues to be very, very interesting, especially in the Asia Pacific and the Middle East regions.

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

Sandeep Shah: I just wanted to understand the EBITDA margin and the EBIT margin and PAT margin impact because of the lease accounting standard which has come? Just some color on that.

Sudhir Singh: I'm going to request our CFO, Mr. Sanjay Mal, to answer your question around the impact on EBITDA because of the new accounting standard. Sanjay?

Sanjay Mal: So the lease accounting standards 116 is going to be implemented effective from 1 April, 2019. We are in the process of evaluating and implementing the whole system. It is yet to be firmed up, but we do not seem to have too large an impact, because it is more likely that rented property

will have the component which will be impacted by this. Other than that, it will be limited; we have the campus and that's why I think that is going to be limited to that extent.

Sandeep Shah: Okay. So even at the EBITDA and EBIT level, you are saying it would be having a limited impact because of your own facilities?

Sanjay Mal: That's correct.

Sandeep Shah: Okay. Second, Sudhir, just wanted to understand, Incessant in May we will acquire full control. And in that scenario are you forcing a risk of some attrition within Incessant? And if yes, how will you tackle that? Do you believe that may lead to some growth disruption in Incessant actually?

Sudhir Singh: I think it's a great question. And as you might have guessed, we have obviously been sweating over this for a while. As we have shared with you, about a year, year and a half back, we requested the founders to stay on for another additional year, which they had very gracefully agreed to. End of May is when they will start fading out from the organization. As I said at the outset, Sreekanth Lapala, who was the ex-global delivery leader of Virtusa has joined us. He is based in Hyderabad, he has now been in place for more than a couple of months, and he's taken over the rein. Operationally, the rein had been with NIIT Technologies leadership for a while now for about the last year. So at this point, and at this stage, we do not anticipate any attrition, any blip in operations on a go-forward basis post the end of May and acquisition being completed.

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

Akshay Ramnani: Just one quick question on the supply side constraints. So based on basic economics one would expect in the tight supply and good demand environment, pricing should see strength. So what sense are we getting based on the client interactions which we are having, like are clients willing to pay higher card rates or is the pricing stable, or are they are willing to move offshore to save on pricing? So any color on that aspect would be helpful.

Sudhir Singh: I just want to make sure I got your question right. Was your question around revenue productivity and are rates holding? Was that your question?

Akshay Ramnani: Yes.

Sudhir Singh: At this point in time, I mean, you have the occasional conversation around price deflation, but we are not seeing a trend and we are not seeing any active pressure when it comes to BAU (business as usual) operations and BAU relationships with our clients

Akshay Ramnani: Okay. So you mean to say that the pricing is stable?

- Sudhir Singh:** Yes. I think you summarized it perfectly.
- Moderator:** Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Funds. Please go ahead.
- Ashish Aggarwal:** Sir just wanted to understand this increase in other current assets, is this mainly on account of higher unbilled revenues in the quarter?
- Sanjay Mal:** Primarily yes, it is because of that only.
- Moderator:** Thank you The next question is from the line of Monami Manna from Arihant Capital. Please go ahead.
- Monami Manna:** I just wanted to ask, your attrition rate was more or less stable till Q2 FY19, around 10%, 10.5%. And then from last quarter onwards we have seen substantial increase in attrition rates. I mean, last quarter it was 11.7% and this quarter it came around 12.2%. So, going forward, if you can throw some light, I mean, how will you be able to tackle this attrition rate going up, in light of light the acquisition of stake by Baring and all that?
- Sudhir Singh:** So Monami, as we have discussed earlier in the call, the talent, specially tenure talent is in high demand. 12.2% is the number that we cited, which is the number for the quarter, it is still best-in-class for the industry and possibly one of the lowest across the industry. So our attempt will of course be to get this back down to a lower number, but 12.2% is a number that we think we can live with and are comfortable with.
- Monami Manna:** Okay. So going forward for the subsequent quarter you think this is the new normal? I mean keeping the macro environment and the supply side constraints in mind?
- Sudhir Singh:** We don't expect it to go up from where it is, we would like it to go down. It's a little difficult, of course, to predict the exact attrition numbers in a firm which has 10,000 employees. But the intent is going to be to try to nudge it down. At this point in time, we don't think it should go up.
- Monami Manna:** Okay. And then the second question is, what is the outlook on the margins front? Because in the earlier quarter's concall you said that 18% is the new normal going forward in EBITDA margin we should take. I do agree in this quarter there were some blip in the GIS and all this, due to that the margins have also suffered a little bit. So going forward, what do you see, since FY19 was an exceptional year for you people? Going forward can we expect then it should be around the 19% range? Or it will be in this range only?
- Sudhir Singh:** Monami, as we said earlier, we really think 18% is the new normal, and should oscillate around that. This quarter also, if you look at last quarter reported margins, they were 18.6%. In constant currency terms this quarter it would be 18.3%. 18.3%, I think, we will all agree for a firm our

size, mid-tier, it is best in class. So getting back to that earlier assertion, 18% is definitely the new normal, including the GIS business. We have to remodel the margins post the GIS divestment of course. Moving forward, we expect to stay consistent with what we've talked about on the margin front.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sudhir Singh, CEO, NIIT Technologies, for closing comments. Over to you, sir.

Sudhir Singh: Thank you, folks, for joining us on a Saturday evening. We recognize, all of us at NIIT Technologies, that you have a lot of other interesting things to do than to listen to us on a weekend evening. But we really respect the fact that you made time for us. We respect the interest that you've shown in us, and we look forward to interacting with you in the quarters and the years to come. Thank you again.

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

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