



## TRANSCRIPT: NIIT Technologies Ltd Q3 FY2017 Results Conference Call

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FROM NIIT TECH:

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MR. AMIT GARG, CFO

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(1 crore = 10 million)

**Moderator:** Ladies and gentlemen, good day and welcome to NIIT Technologies' Q3 FY2017 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. In case 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 of Investor Relations at NIIT Technologies. Thank you and over to you sir.

**Abhinandan Singh:** Good afternoon everyone and welcome to our Q3 FY2017 earnings call. Present along with me today on this call are Mr. Rajendra S. Pawar - our Chairman, Mr. Arvind Thakur – our CEO and Mr. Amit Garg - our CFO. You would have received our results e-mailed to you earlier today. The same is also available at our website [www.niit-tech.com/investors](http://www.niit-tech.com/investors). We will begin the forum today with opening remarks by Mr. Arvind Thakur, and after that, the floor will be open for your questions.

With that, I would now like to hand over the call to our CEO, Arvind Thakur.

**Arvind Thakur:** Thank you Abhinandan. At the onset, let me wish you all a very Happy New Year. As you are well aware, the third quarter of the financial year is usually a small quarter for the industry on account of the lower number of available days in the quarter. We had also advised in our Q2 earnings call that a key travel client in North America would be cutting on their technology spend, which could impact our revenues in this quarter. Consequently, as expected, we have had a soft quarter, with consolidated revenues growing 0.6% in constant currency. The adverse impact of currency movement has resulted in a reported sequential revenue growth of 0.1% to Rs. 6,938 million, representing a 2% growth over the same period last year. We actually experienced strong growth in the EMEA region, which expanded 4% in constant currency. But due to the depreciation of the pound and euro, reported growth was 0.6% sequentially, representing 34% of the revenue mix. Revenue share for US stood at 48%, which is a 1.6% decline in revenues and APAC in India contributed to 10% and 8% respectively to the total revenues.

Decline in the US has been on account of the lower revenues that we experienced in the travel and transport segment, which declined 2.8% sequentially, mainly because of the ramp-downs in the North American client, as I had mentioned in my earlier earnings call. So Travel & Transport now represents 32% of the revenue mix. BFSI has remained flat during the quarter and contributed to 42% of the total revenue whereas the share of other segments, which includes Manufacturing & Media, have increased to 26% due to expansion in manufacturing, media as well as our GIS business.

Our top five clients grew 2% sequentially, contributing to 33% of the total revenues and the share of our top 10 and top 20 clients represent 44% and 59% of the total revenue, respectively. We have seen onsite revenues representing 60% of our total revenues during the quarter.

Operating profits grew by 1.5% sequentially to Rs. 1,162 million and this has happened on the back of increased offshoring. Operating margins improved 23 basis points sequentially to 16.8%. Margins in constant currency would have been 16.9%. Net profits expanded 5.9% quarter-on-quarter to Rs. 624 million. The effective tax rate stands at 25.3% of PBT during the quarter. We had fresh business of \$101 million secured during the quarter. This included 38 million from the US, 51 million from EMEA and the balance 12 million from the rest of the world. We added three new customers during the quarter, two of them in the Travel & Transport space and one in another segment. The orders executable over the next 12 month now stands at \$311 million.

During the quarter, we also executed several projects in the Digital space. These included migration of application services and databases from a data center on to the cloud and successfully decommissioning the data center for a major bank in the APAC region. The company delivered the final phase of a mortgage solution during the quarter. We have also been focusing on putting together an automation framework, which we call Excelerate, and this has been used to transition IMS as well as AMS towers in a large insurance engagement and we have also gone live with robotic IT operations at a large manufacturing client. So a lot of focus on Digital and Automation during the quarter.

We have inducted two senior leaders into the organization, one to strengthen our digital practice where we have Joel Lindsey, who joins us as the head of digital services. He comes as really experienced with a deep understanding of digital, and he joins us from Hewlett-Packard Enterprise, where he was leading their digital transformation programs globally. Joel will be based in the US and driving our Digital business globally. We also inducted Adrian Morgan, who joins us as the head of our NITL, which is the NIIT Insurance Technologies business. He has 20 years of extensive experience in delivering technology services to the global insurance industry. Joel will be based in the US and Adrian in the UK. And Adrian joined us from CSC, where he was the UK digital transformation practice head and most recently, held the position of the head of digital in the UK. So both are very experienced and relevant hires at a time when the organization is transitioning its business model to increasingly deliver both services around platforms and in Digital.

There was a decline in headcount by 59 people during the quarter, so the total headcount at the end of the quarter was 8,809 and utilization is at 80%. Our attrition is now at 12.6%. Our cash and bank balances have increased Rs. 1,083 million over previous quarter and now stand at Rs. 5,686 million. This has been on account of very good collections that we have been doing in the last many quarters. And in fact, our debtor days at the end of the quarter now stand at 69 days of sales outstanding. Capex spend during the quarter has been Rs. 190 million.

During the quarter, the Company concluded the consultation process in respect of a government contract for which an extraordinary provision was taken in the first quarter and has entered into a settlement agreement. Now, the details of the commercials cannot be shared as they are bound by confidentiality. But as the agreement gets implemented, we expect a partial reversal of the

provision and also additional revenue during quarter four. As shared in our last call, revenues and margins are set to expand in quarter four. The settlement, if completed in quarter four, will provide further impetus and improvement to the revenues and margins and so we expect to deliver healthy growth in the next quarter.

So with these opening remarks, I would be happy to now answer your questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Abhishek Kumar from JM Financial. Please go ahead.

**Abhishek Kumar:** Arvind, you had mentioned last quarter that you expect second half to be better than first half. Now with third quarter being flattish, can we expect the sequential growth in constant currency terms for 4Q to be better than what we saw in third quarter, which was around 3.5%?

**Arvind Thakur:** That was second quarter, sequential growth for second quarter?

**Abhishek Kumar:** Yes, correct.

**Arvind Thakur:** That will be giving very specific guidance. But yes, as I mentioned earlier, we will have healthy growth in 4Q.

**Abhishek Kumar:** And it is good to see the top five clients growing in a seasonally weak quarter. So, could you throw some light on how the demand is shaping up in UK, especially as the Brexit date approaches? And any impact on travel accounts, in general, outside of the US travel account, where we saw some softness in this quarter?

**Arvind Thakur:** I think the softness in Travel has bottomed out because whatever cuts had to happen, have happened. And so, we do not expect any more issues in the Travel space. As far as Brexit is concerned, this is something I talked about, I think, maybe a quarter ago, where we said it would impact our NITL business, which is the insurance business that we do in the London market. So we would expect that to remain soft in the next quarter as well.

**Abhishek Kumar:** One last question. Now that we have won \$100 million plus deals for five consecutive quarters and 4Q is looking up for us, can we expect FY18 at least to achieve industry-level growth? I know it is too early but initial sense, any sense that we can get. Thank you.

**Arvind Thakur:** I do not see any reason for it not to. That is all I can say at this point in time.

**Moderator:** Thank you. We have the next question from the line of Dipen Shah from Kotak Securities. Please, go ahead.

**Dipen Shah:**

I had a couple of questions, Arvind. Firstly, on the BFSI segment, in quarter, we have seen some headwinds. If you can just maybe elaborate on that, whether that is one-off or is there a trend to it? And the second question is related to the employees. We have been seeing consistent fall in the employees and also the utilization rates are near peak levels of 80%-81%. Do you see any employee additions in the near future? Because that is something which will indicate growth ahead in the next couple of quarters. Thank you.

**Arvind Thakur:**

So, let me first talk about BFSI. So, BFSI has two components, BFS and I. And I think we have seen strong traction in the insurance business and even look at our order intake in the earlier quarters, there has been the total outsourcing deals that we have secured, they have been in the insurance space. So, in fact, we had healthy growth in insurance in this quarter; grew 2.1% sequentially. The only soft spot in insurance is the NITL business, the growth is despite that. Also, the NITL business is not de-growing, it is flat. So I see good traction in Insurance. Where we have seen some softness is in the BFS space. And in BFS, in fact at least in Q3, it has primarily been on account of one large program that we are doing in the digital space, which is the digital integration space which has gone live. So when a program goes live, you see that there are declines in revenues. But I expect business to start picking up in that client also. So to answer your question, good traction in Insurance and some volatility in BFS. That was one part of your question. Second was around people. That's one of the things that we are working on in the organization. See, earlier we had seen a headcount decline because our government programs had gone into the O&M phase and, in fact, they were a margin drag. And a lot of these people were really retainers. Terms had to be kept extending as the programs were getting implemented. A good amount of clean-up has happened on that front. At the moment in the organization, we have embarked on putting together our next-generation delivery organization, which is deeply focused on the principles of lean and automation. So we are now implementing our automation framework, which we call Excelerate and that is driving productivity improvement and also helping us transform our workforce to be able to induct new talent that is more relevant for the digital world. So I think going forward while there will be additions in headcount, I would say addition of headcount would not be the primary drivers for the business.

**Dipen Shah:**

So in that case, Arvind, do we get to see increased utilization rates, or you think 80%-82% is the optimum, as was indicated last quarter or the quarter before that?

**Arvind Thakur:**

To my mind, 80 to 82 per cent is optimal. We will, of course, using lean, see how we can push it beyond that and that is our intention to see how do we push it beyond that. But what we will see is high productivity because even our contracts are moving from fixed bid, T&M fixed bid into managed services. When we move into managed services, we need to really put in place the tools which can drive productivity. That is the focus within the organization.

**Dipen Shah:**

And, lastly, any further updates on the Smart City program in Bhubaneswar? And have we won any one or more of them? Thank you.

**Arvind Thakur:** Yes, we have won more cities. Off the cuff, I cannot tell you how many. Dharamshala, Nagpur, Bhubaneswar, and there is one more. So, we had a very good traction in Smart Cities, and that is predominantly for our GIS business and in fact, the offtake that you are seeing in GIS revenues is coming a lot from the Smart Cities program.

**Dipen Shah:** So about four cities you have already won?

**Arvind Thakur:** Yes.

**Moderator:** Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please, go ahead.

**Madhu Babu:** Sir, regarding hiring, I think we have done two hires for Digital and Insurance. Would we require to do further hiring to strengthen our digital capabilities in our focus verticals?

**Arvind Thakur:** Now that we have brought in the leader, I think it is a call that the leader will make in terms of further hires. But I think at the leadership level, we have the individual. Now, we need to see in terms of people who are going to execute programs, what kind of profile and people do we need to induct for that. That will be the focus now for the organization.

**Madhu Babu:** So within our top 10 and top 20 accounts, would there be any risk of losing out from vendor consolidation, or are we fairly strong enough? Because, nowadays, most of the deals having digital as an integral part.

**Arvind Thakur:** In fact, wherever there has been consolidation that has happened in the recent past, we have retained our position in the client. A good example is IAG, which is one of our top 10 clients. They recently consolidated their IT organization, which was spread across four companies, into one single entity. In that process, they wanted to consolidate their vendors. And so there was an exercise that happened and they finally zeroed in on four vendors which will now support the entire group, and we continue to be one of those four vendors.

**Madhu Babu:** And sir, congrats on the good cash flow for this quarter. So now, if you see the capital allocation strategy, I mean, would we look at acquisitions to boost our Digital, or would we do a tender offer-based buyback? I mean, some of the peers like Hexaware and Nucleus have been doing that. So how would we see in terms of cash allocation?

**Arvind Thakur:** I think the best utilization of cash would be to do an acquisition or do acquisitions to transform the organization and take it into the new digital world. But I think now that the cash position is healthy, we will evaluate all options and see what is most appropriate way of utilizing that cash.

**Madhu Babu:** And just what is the GIS revenue for the quarter?

- Arvind Thakur:** GIS is Rs. 352 million.
- Moderator:** Thank you. We have the next question from the line of Dipesh Mehta from SBI Cap Securities. Please, go ahead.
- Dipesh Mehta:** Just to continue with the previous question, can you provide revenue and margin performance of GIS, Morris, Insurance business, Proyecta, and Incessant?
- Arvind Thakur:** So just here are the numbers. So, GIS is Rs. 352 million with a margin of 22%, NIIT Insurance Technologies (NITL) is Rs. 348 million with a margin of 20%, then Incessant is Rs. 530 million with a margin of 26% and Morris is Rs. 353 million with a margin of 7%.
- Dipesh Mehta:** How much revenue, you said, 357 million?
- Arvind Thakur:** 353 million.
- Dipesh Mehta:** And what about Proyecta?
- Arvind Thakur:** Proyecta is Rs 137 million with a margin which is negative 4%.
- Dipesh Mehta:** And now, just to understand clients, top 6 to 10 seems to have declined. Whether it is only on account of travel client, where we expected ramp-down, or we are seeing weakness in any other client as well?
- Arvind Thakur:** Yes. So that is the prime reason for that decline.
- Dipesh Mehta:** And how you expect that client to pan out for us? Because I think earlier in the commentary you indicated it is bottoming out, but when do you expect growth to return in that account?
- Arvind Thakur:** I think we will have to sit with them and see. It has bottomed out, so now we have to see how do we build back the revenue in that account.
- Dipesh Mehta:** So in near-term, it is likely to remain stable at lower levels?
- Arvind Thakur:** There will be improvement, but I do not think there is a dramatic improvement.
- Dipesh Mehta:** And just to understand BFS weakness, I think you partly attributed it to one of the program coming to closure kind of thing or going live.
- Arvind Thakur:** That is right.

- Dipesh Mehta:** Excluding that, because I think in a way it also suggests we are not winning enough to maintain momentum. So if you can provide some more clarity how one should look at in medium term kind of it?
- Arvind Thakur:** So as I mentioned earlier, because BFS is not that big a vertical for us, there tends to be higher volatility, whereas we have more stability in Insurance. I expect improvement in Q4. But if some other client decides to either cut back or program gets implemented, then again, we will have some volatility.
- Dipesh Mehta:** Because in the digital integration space, if I look at Incessant's performance, it does not seem to be that weak, whereas we are attributing to BFS weakness to these accounts. So whether it was organic, or how one should look at it, these numbers?
- Arvind Thakur:** If you look at Incessant, last quarter and this quarter, their growth has been somewhat muted, and that is because they have delivered this program.
- Dipesh Mehta:** But whereas in BFS, we have seen dip.
- Arvind Thakur:** So the dip is coming from there.
- Moderator:** Thank you. We have the next question from the line of Pankaj Kapoor from JM Financial. Please, go ahead.
- Pankaj Kapoor:** Arvind, just wanted your views on the leadership build out. I believe you were looking to add at the senior levels at a corporate role post Sudhir Chaturvedi's exit. So any update if you can share on that?
- Arvind Thakur:** No, on the contrary, I think I clarified that we are not adding anybody in replacement of Sudhir and that the functions have been devolved with the business unit heads. So we are not planning to add anybody. We are adding in roles that need to be strengthened, which we have done. So we have added a Digital leader, and we have also added a leader for NITL. If you recollect, earlier, Sudhir used to be based in the UK, and he had close oversight of NITL. Now that he is not there, we felt it was appropriate to bring in a strong leader to run that business.
- Pankaj Kapoor:** And has there been any additional exits post his departure at a sales or operation level?
- Arvind Thakur:** Nothing to report.
- Pankaj Kapoor:** So, broadly, our leadership team you think now is fairly complete?
- Arvind Thakur:** Yes, leadership team it is quite stable and complete.



- Moderator:** Thank you. We have the next question from the line of Sandeep Shah from CIMB India. Please, go ahead.
- Sandeep Shah:** Arvind, can you give us some color, qualitative or quantitative, about where are we standing versus the risk on the visa? So if you can give us color, whether a lot of work to be done in terms of the risks, which have been spoken about?
- Arvind Thakur:** In fact, I think the industry is collectively concerned about the bill that has been introduced. And I think it is something that one has been preparing for because, essentially, if you look at Donald Trump, he has won on the mandate of increasing jobs in the United States. So it is only to be expected that the visa regime will become more difficult, and there would be some protectionist policies that may come into place. It only means that we all have to tweak our business models and very clearly, I think we are prepared to address that challenge. So going forward, our plan really is to send people who are highly experienced on-site, because if there is a minimum cap of \$100,000 for an H-1B visa, one would be looking at experienced people only who would shift from offshore to on-site and drive more business offshore. And if there is a need to increase people on-site, we already have an engine which will drive local hiring to be able to support that.
- Sandeep Shah:** Any color in terms of current local hire as a percentage to total US employees?
- Arvind Thakur:** Yes, I think it is upward of 35%.
- Sandeep Shah:** How much?
- Arvind Thakur:** Upwards of 35% for us.
- Sandeep Shah:** And in terms of the NITL, which you said will have some softness continuing going forward, so this may lead to some decline, or you are saying flattish kind of a scenario may continue, going forward?
- Arvind Thakur:** Yes, that will be flattish.
- Sandeep Shah:** Secondly, in terms of the government contract, so if we also exclude because you are saying 4Q would be better, but if we exclude the settlement for the government contract, then also you expect the revenues to be better, even the margins to be better?
- Arvind Thakur:** Yes. In fact, I think I had earlier talked about an exit margin of 17.5%, so we hope to deliver that.
- Sandeep Shah:** Excluding the government settlement?
- Arvind Thakur:** Excluding the settlement, yes.

- Sandeep Shah:** And for the revenues which you are talking about for the government contract, is it fair to say the efforts are already in the P&L? So whatever revenue may come may lead to additional margins for you in the fourth quarter?
- Arvind Thakur:** That is what I mentioned, yes.
- Sandeep Shah:** So in that scenario, the margin of 4Q could be much better if we include the revenues from the government contract also?
- Arvind Thakur:** That is what I mentioned earlier.
- Sandeep Shah:** On the export services, I do agree that there are some client-specific issues, but on an overall basis IT services exports this quarter has been flat, maybe because of the travel account in the US. Also, in the first two quarters, which are seasonally better for export services, growth has not been that great or in line with the industry. So what is your outlook entering into FY2018 just for the export services?
- Arvind Thakur:** If you look at our intake, it is been healthy throughout the year. And this is good quality intake because this is all business that we have been acquiring internationally. And so, that should give you the confidence that we will be entering FY18 with a healthy order book that can deliver much better growth next year as compared to this year.
- Sandeep Shah:** And, sir, in terms of cash flow addition, I think it is a good job being done. So, if the capex continues to remain between 10 crores to 15 crores quarterly, then this kind of a cash addition may continue even in 4Q and that may lead to almost like a 60% jump in the cash equivalent at the end of FY17 expected versus FY16. So will that lead to a slightly better cash distribution to the shareholders as well?
- Arvind Thakur:** As I shared with you earlier, I think we are in a very happy position now with the cash position. And the best utilization of cash at this point is to see how do we transform the organization with some good quality acquisitions. At the same time, we would definitely want to evaluate whether other methods of cash distribution can be considered. But that is something which the board will take a call on.
- Sandeep Shah:** But is it fair to say that quarterly cash addition can be of this level, as we are not looking for major organic capex?
- Arvind Thakur:** Yes.
- Sandeep Shah:** And just a follow-up on that. Any progress in terms of improving the treasury management, bringing some of the overseas treasury to India and yielding higher return on the same?

- Arvind Thakur:** Yes. So actually, we have sent our team, which is examining the process of sweeping and seeing how best we can improve our cash management, so that our yield much is much better.
- Sandeep Shah:** So is it fair to say FY18 could be the year where treasury or the yield could be better?
- Amit Garg:** Yes.
- Arvind Thakur:** That is Amit saying yes, so it is expected to happen.
- Sandeep Shah:** Anymore client-specific issues or now almost now, we do not have any more client-specific issues and we and this potential could be better if we mind the clients better?
- Arvind Thakur:** Yes. The thing is, in this kind of an uncertain environment, you can never take a call on client-specific issues. So right now, things look stable, but I do not think anybody can predict that with certainty.
- Sandeep Shah:** And Arvind, last question, just a clarification. Earlier, we were saying that for Sudhir's replacement, yes, there won't be a role of COO, but we may look directly for a future CEO. So whether that is also now not a plan, going forward?
- Arvind Thakur:** Well, that is something I do not think we have discussed. And I do not think it is appropriate even to discuss in an open forum.
- Moderator:** Thank you. We have the next question from the line of Abhishek Shindadkar from Equirus Securities. Please, go ahead.
- Abhishek Shindadkar:** Sir, my first question is regarding the Smart City project. We highlighted that it would be a part of GIS. But would that imply that our government contribution to the business would go up as we start implementing the Smart City project?
- Arvind Thakur:** If you look at Smart Cities, our focus on Smart Cities is to position our technology, which is the GIS platform that we have. In a sense, we are engaged with other integrators as an OEM. So we are not going to be entering into that business as a system integrator or to provide services, but we are going to participate in the Smart City program as an OEM, delivering a platform and supporting that platform. That is how we are going to be engaging in Smart City. So, yes, government revenues will rise if the GIS business rises. But as you know, GIS business is predominantly about government, and that business is a business where we have a leadership position in the marketplace.
- Abhishek Shindadkar:** That is helpful and just a follow-up to that, so do you expect better payment structures versus what we have seen in the past?

- Arvind Thakur:** What happens is, when you are operating as an OEM, you are working with a system integrator. So your payment terms are with the system integrator and not with the government. So you obviously get better payment terms there.
- Abhishek Shindadkar:** And the second question is regarding this reversal of the one-time item that we saw in 1Q. Can you just help us understand what could the accounting treatment be?
- Arvind Thakur:** At the moment, we cannot share that till the settlement is implemented; then we will know how the accounting will happen. But we do expect some reversals of the provisions that we have provided and some impact on the revenues for the services that we have delivered.
- Abhishek Shindadkar:** Any readings from what your clients are saying regarding CY17 budgets and their spend patterns? And you highlighted that you have 35% of the people local, especially in the US. Could you also quantify what could our average salaries would be? A ballpark range would be good enough. Thank you.
- Arvind Thakur:** So as far as budgets are concerned, so far, we have not heard anybody talking about cutting back, except in specific clients who are experiencing issues. So I do not think there would be anything unusual with respect to budgets. What we are seeing is that investments are moving more towards digital and therefore, what we really need to do is to align our services and our value proposition to the opportunities that have been presented by our clients. In terms of average cost, I do not have the numbers right now, so I will not be able to share them now.
- Moderator:** Thank you. We have the next question from the line of Rahul Jain from Systematix Shares. Please, go ahead.
- Rahul Jain:** Just two queries. One, on this nine-month growth, if I have to see on the new order intake that on average basis is up 10% versus the corresponding period but, so far, that has not been reflected in the revenue. So how we should read this? Does that mean this is more adjusted for the tenure period or some repeat orders in this? Or does this mean a far better outlook than what we did in calendar '16?
- Arvind Thakur:** Actually, the number that you have to look at is the executable over the next 12 months. So, when you get intake, it is spread over many years. What revenues you get are only those that happened over the next 12 months. So I do not know what the number was, 301 has gone to 311. Right?
- Rahul Jain:** Yes.
- Arvind Thakur:** That is the growth that we are seeing in the year.

**Rahul Jain:** And secondly, on the recent hiring that we did, you have touched on it in one of your earlier remarks. But just to understand, given that they were handling an equal role in a much bigger organization, what is their motivation to join us? And what do they effectively bring to us in terms of capability or client access or what all they could bring in as they join us?

**Arvind Thakur:** I think they are very impressed by our strategy. In fact, if you look at a lot of analyst reports, if you look at ISG, for example, they talk about NIIT Tech having taken the lead in automation and analytics. Now, likewise if you look at Horses for Sources, they look at our implementation of robotics and the way we are engaged with clients, and they talk about us having got it right. I think we have a very good story in terms of the strategy as well as capability that we are building in the organization, which gives these leaders the confidence that they can make a difference in an organization which is of our size, because they all come from very, very large organizations, where their ability to make a difference is limited, whereas here, they can truly transform the organization. So that is very exciting for them. And I think we have got excellent talent onboard, which is truly going to drive the transformation that we are trying to do in the organization.

**Rahul Jain:** That is interesting. Is their role more towards the execution side or more on the sales side or it could be a combination of both?

**Arvind Thakur:** Well, if I look at Adrian, he was the P&L leader. In fact, he was responsible for building and driving the business for CSC in exactly the same space as we are right now in the London market with NITL. So he understands this business, he has run the P&L, and not only grown the business but also evolved the platform and made it successful for that organization. So in Adrian I think we have a leader who was a P&L leader. With Joel, he has been responsible for digital transformation with HP clients, both getting the business and making sure it is executed well. And what is more important is that both these leaders have extensive experience of working with companies and people offshore. They understand the culture as well as the value that they can deliver out of these facilities. So to my mind, excellent finds and great addition to the organization.

**Rahul Jain:** We would appreciate if you are able to get these gentlemen on call sometime whenever you find it appropriate. Thanks and best of luck.

**Arvind Thakur:** Yes, most certainly. I think let them get inducted, and we would be happy to have you have a conversation with them as well.

**Arvind Thakur:** We have the next question from the line of Shyamal Dhruve from PhillipCapital. Please, go ahead.

**Shyamal Dhruve:** My question is mainly on the GIS side. The revenue has grown by around 23% Q-on-Q. So just wanted to know the main drivers for this superior performance in GIS.

**Arvind Thakur:** A couple of things. Number one is, we have started engaging with our clients with an enterprise agreement, which gets in large multiyear engagements with those clients. Number two, a big opportunity has opened up with the Smart Cities program, and this technology is being positioned as the first step into planning for and implementing Smart Cities. And so, the time is right for deeper engagements in that particular segment. These are two things which are contributing to the growth in GIS.

**Shyamal Dhruve:** Secondly, on the Proyecta side, the margin performance has improved in the last couple of quarters, from negative of 20% in Q1 to negative 12% in Q2 and now a negative 4% in this quarter. So when should we expect breakeven in this segment?

**Arvind Thakur:** What we need to understand is that our business in Spain is very strategic for us, because we have one of our top clients who has a company in Spain. This client is IAG. IAG was formed when British Airways merged with Iberia, and Iberia is a Spanish Airline. So the reason why we are engaged with IAG after the merger is because we have a footprint both in British Airways as well as in Iberia. Now, the model of engagement has changed ever since the IT organization of Iberia and British Airways merged into one common IAG IT organization. There is more focus on offshoring, whereas our model in Spain was predominantly on-site and supporting people on-site. So what is happening is, we have to now get more and more work to be done offshore and to do that, the people on-site have to either be re-deployed or replaced. So that process is what is adding to the cost structure of that particular geography. We expect this to continue for another quarter. And so, in Q1 is probably when we will see a turnaround in terms of that region coming into the black.

**Moderator:** Thank you. We have the next question from the line of Vaibhav Badjatya from HNI Investment. Please, go ahead.

**Vaibhav Badjatya:** I just want to know what is the broad proportion of revenues that we have from ERP implementation?

**Arvind Thakur:** ERP?

**Vaibhav Badjatya:** Yes, ERP implementation either SAP or Oracle or any other provider?

**Arvind Thakur:** Well, nothing significant. ERP is not the focus for the organization.

**Moderator:** Thank you. We have the next question from the line of Sandeep Shah from CIMB India. Please go ahead.

**Sandeep Shah:** On the Incessant, I think it has been a very solid performance. So if I look at the nine-month revenue on a pro forma basis, it looks like a growth of almost 45%-50%. So do we believe, based on the pipeline and the deals, these growth rates can be maintained, going forward?

- Arvind Thakur:** Yes. In fact, that is the reason why we acquired that entity.
- Sandeep Shah:** And what is, if I missed this somewhere, I think I have not found this in the press release, what is the digital services contribution this quarter?
- Arvind Thakur:** It is 19%.
- Sandeep Shah:** 19%, okay. So it is almost like similar to last quarter, so...
- Arvind Thakur:** That is right.
- Sandeep Shah:** So this time, the growth has not been that great, maybe because of seasonality and one project completion in the BFS vertical?
- Arvind Thakur:** That is right, exactly.
- Moderator:** Thank you. We have the next question from the line of Ganesh Shetty, an individual investor. Please, go ahead.
- Ganesh Shetty:** Most of my questions are answered, just one query regarding digitalization. As we are moving in a right direction for digitization with organic as well as inorganic focus, are we seeing any change in mindset of our customers for going digital, or are we convincing them for going digital? And, also, due to digitalization, are we expecting our manpower strength to go down and can that give us higher margins going ahead? That is all from me, sir.
- Arvind Thakur:** There is a demand. Customers are looking for partners who can lead them on their digital journey. So it is a question of positioning ourselves with the right skills, capability, and understanding of their business to be able to engage with them. That is the reason why we are seeing good growth and expansion in our digital business. It does require a significant re-tooling of the workforce on many fronts. The technologies that are used are different from traditional technologies. But more important, we need to change the mindset of people where, so far, they have been used to doing what they are told to do. In the digital world, they have to constantly keep looking for opportunities of value add. So that is the biggest transformation that we need to do within the workforce to engage successfully with these clients.
- Moderator:** Thank you. We just have one last question. That is from the line of Madhu Babu from Prabhudas Lilladher. Please, go ahead.
- Madhu Babu:** Sir, if you adjust for constant currency, what would be the Y-o-Y increase in the order book, 12-month executive order book, which is currently \$311 million, if you adjust for the cross currency impact, because some of your orders are GBP and euro and all that. So Y-o-Y growth, what is the Y-o-Y growth?

**Arvind Thakur:** Doing a back of the envelope calculation, it should be around 320 million. If that was the last question, I would just like to thank everybody for their participation. Abhi and myself would be available for any other questions that you may have subsequently. We are happy to engage with you. Thank you so much and good evening.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of NIIT Technologies, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

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**Note:**

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