



TRANSCRIPT: NIIT Technologies Ltd Q2 FY2017 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 the Q2 FY'17 Earnings Conference Call of NIIT Technologies Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh – Head of Investor Relations at NIIT Technologies Ltd. Thank you and over to you Mr. Singh.

Abhinandan Singh: Good morning and thank you for joining. 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 emailed to you earlier; the same are also available on our website www.niit-tech.com/investors.

We will begin this 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 Mr. Arvind Thakur, our CEO.

Arvind Thakur: Thank you, Abhinandan and good morning, everybody. This quarter we had to have our board meeting on Saturday because many of our board members had challenges in terms of scheduling the meeting because of their travel plans, but I hope that has given you the opportunity to study our results in a little more detail which I will be discussing with you.

As you are probably aware, the macro environment in terms of the economic environment looks somewhat uncertain; we have seen the latest jobs data report for the month of September which indicate that the US economy has been relatively resilient; however, some reports like the one from the IMF, seem to have reduced its estimate for GDP growth in 2016 to just 1.6% which is down from 2.2% earlier... and of course lower than 2.6% which was there last year, indicating that the economy might be losing some momentum. This along with continued uncertainty in Europe and UK post-Brexit creates a macroeconomic picture which is relatively I would say unstable. So in that background I would like to discuss the company's performance.

You would have seen that our consolidated revenues are up 3.3% sequentially to Rs.6,929 million, which is a 2% growth over the same period last year. In constant currency terms, revenues are up 3.5% sequentially. We have seen that the impact of weaker GDP was offset by hedge gain during the quarter, resulting in net adverse currency impact of 0.2%. Strong growth in western geographies with traction in both our key verticals of BFSI and Travel & Transport has resulted in 4.6% growth in the US, leading to a revenue share of 49% from this geography. In EMEA we had sequential growth of 7.9%, resulting in a revenue share of 33% to total revenues. APAC contributed to 11% of total revenues, whereas business in India declined by

7.2% due to lower revenues from India Government leading to revenue share of 7% for the domestic market.

As I mentioned, we saw traction in the BFSI vertical which grew 3.4% sequentially during the quarter representing a revenue share of 42%. Growth within BFSI was led by Insurance in the US with both existing and new acquired clients scaling well. Travel & Transport registered even stronger growth of 6% resulting in a revenue share of 33% overall revenues. Our share of domestic Government business is now down to 1% and henceforth therefore in our discussions with investors, we would now be clubbing our Government business revenues along with Manufacturing, Media and Others segment, which combined contributes to 22% of our overall revenue. Onsite revenues represented 61% of our total revenues.

We have seen share of our top-5 and top-10 clients grow 3% and 7% respectively during the quarter. Share of top-20 clients has increased to 61% and have registered growth of 7.5% sequentially reflecting a broad-based growth amongst our top clients.

A few comments on the Margin. Operating profits grew 12.8% sequentially to Rs.1145 million. Operating margins improved 139 basis points to 16.5% during the quarter and this is a result of the increase in International revenues and some reduction that we have seen in SG&A in this quarter. Net profits for the quarter are Rs.589 million. Tax rate during the quarter increased to 24.8% of PBT. This is on account of our old facility in our SEZ in the campus moving out of 100% tax subsidy to 50% subsidy on completion of 5 years of operation.

We had strong order intake during the quarter. Fresh business of US\$143 million was secured during the quarter. This includes the firming up of our contract with Morris Communications for a period of 5 years. The total contract value is US\$85 million, of which minimum commitment of US\$22.5 million was secured and reflected in the previous quarter's intake. We also closed a large IMS and AMS total outsourcing engagement with a new insurance client in the UK. We also had an MSA of a major European Travel client renewed for a period of 5 years. We have seen strong business acquisition during this quarter with order intake in the US of US\$85 million, in Europe of US\$45 million, and in the rest of the world of US\$13 million. Three new customers were added during the quarter; two in the EMEA region in the BFSI space and one in the US in the Media space. Order executable over the next 12-months is US\$309 million. We saw firm growth in our Digital business which grew 9% sequentially during the quarter representing 19% of overall revenues. Digital engagements have expanded across all our major segments and a large Travel client in Europe increased the capacity of its mobile solution center by 50%. For a large airline, we secured fresh new business to maintain their website. For a travel distribution company, we are scaling up to create new multi-channel frontend to support agents and end customers. All these contribute to our Digital offering of delivering better digital experience. During the quarter, we have also successfully delivered an On-Demand Web and Mobile Solution for a global ground transport provider. Projects around Data Management and Analytics have been executed for our Insurance clients and these also

include engagements for Cloud enablement and digitizing asset management workflows. So a good amount of activity happening in the Digital space.

In BFS, which is Banking and Financial Services, customer expectations of highly personalized services continue to evolve and the new nimble tech savvy entrants are nibbling at every aspect of the traditional banking business. So while discretionary spends are being curtailed in traditional areas, banks recognize that the future lies in integrating digital into their business. This is the way that we are addressing through our specialized services from Incessant. Revenues in Incessant grew 14% sequentially during the quarter.

There has been a decline in headcount by 154 during the quarter; these have primarily been on account of closure of government contract going to O&M space. Total headcount at the end of quarter was 8,868. Utilization during the quarter improved to 81%. Attrition has reduced to 12.9%.

Cash and bank balances stood at Rs.4,603 million, which is an increase of 239 million over the previous quarter. During the quarter, we also paid out dividend and dividend tax of Rs.714 million. Capex during the quarter was Rs.151 million and we have seen significant improvement in our debtor days which now stand at 73 days of sales outstanding. In this period of currency volatility, we have taken our hedge positions prudently, with outstanding hedges in US dollars 65.4 million at an average rate of Rs.70.57/dollar. In GBP we have 13.05 million, outstanding at Rs.100.09/pound, and in Euros it is 4.5 million at Rs.79.41/Euro.

To give you a little flavor on the outlook, I want to touch upon the segments that we focus on. We are seeing a slight deceleration in global passenger travel with the growth in passenger demand declining to 4.6% in August as compared to what IATA reported of 6.4% in the preceding month. This probably is a lead indicator not of the Travel segment but probably of that of the global economy per se. Now in this segment we have often witnessed client-specific issues at different points of time in the past as our clients have been adjusting to the new realities.

During the quarter, we saw all our major clients expand the business; however, one client in the US has indicated that it would be cutting back on expenses in the October-to-December quarter, which could impact growth in this segment in Q3.

In Insurance we see IT spends continue to grow, and in fact, independent research organizations like Celent have indicated that global IT spend will grow at CAGR of 6.1% between 2016 and '18 mainly as a result of increased premiums in most regions and efforts to stay competitive in the Digital market. We have seen good traction in servicing this segment in the US; however, as indicated earlier in Europe the impact of Brexit has created softness in our UK Insurance business.

In Banking and Capital Markets many areas are facing serious threats and there is uncertainty around what the future will look like as the industry reforms. Add to that are the regulatory challenges which many large banks are facing, including severe penalties on omissions through weak governance. Nevertheless, many traditional players are proactively disrupting their own business models to stay relevant and are focused on integrating digital which we will continue to address through Incessant.

As discussed in the last earning call there has been healthy recovery in both revenues and margins in Q2 and this is coming on the back of pickup in our Travel & Transport clients and continued traction in Insurance. The impact of Brexit is factored in our Insurance business which has bottomed out and this was also shared in our last call that this will continue at the same level for the rest of the year.

Q3 is traditionally a small quarter for the industry with lesser number of working days and many clients advising teams to take furloughs where their engagements are dominantly T&M due to holiday season. We expect Q3 to be soft with growth picking up again in Q4 on the back of the new businesses that we have acquired in the past couple of quarters. Overall, we expect H2 to be better than H1.

So with these comments I would like to now open the conversation for discussion.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: My first question is on the demand environment. Now that the Brexit dates are getting firmed up, have you seen any fresh concerns from UK clients in general and Travel in particular in terms of delay, ramp ups or project cancellation?

Arvind Thakur: We have experienced softness in the UK Insurance space which is what I think we have shared with you and other than that we have not seen any other softness, in fact, we saw strong growth during the quarter with our Travels clients as well. So I do not anticipate other than what we are experiencing in the Insurance space.

Abhishek Kumar: Second question is, we had some of the tailwinds getting into the second quarter like Ofcom deal ramp up, seasonally strong GIS, and others. Now that we have a seasonally soft 3Q and all these tailwinds behind us, what gives us the confidence that second half will be better than first?

Arvind Thakur: I think one of the things that you would have seen is that the intake of fresh business has been strong in the last three quarters. So you basically get revenues off the order intake and new

client acquisitions in Q2 as well which we talked about would transition in Q3 and start delivering revenues in Q4. So all these are factors which will contribute to good growth in Q4.

Abhishek Kumar: Just a clarification; when we say better second half, we are talking about constant currency, right?

Arvind Thakur: Yes, we are talking of constant currency.

Abhishek Kumar: Executable order book has been quite steady despite strong order intake. Just want to understand how much of it is because of the adverse cross currency, so if you can share in constant currency terms what would have been the growth?

Arvind Thakur: So there is I think an impact of about \$5 million on account of currency.

Moderator: Thank you. The next question is from the line of Ritika Jalan from Narnolia Securities. Please go ahead.

Ritika Jalan: Just a follow-up question on the order book. What kind of revenue visibility does your order book provide?

Arvind Thakur: As I mentioned from the order book if you look at the revenues that you will get over the next 12-months, they are US\$309 million including the currency impact.

Ritika Jalan: If you can just give a breakup of the margin front for the respective businesses, like Morris?

Arvind Thakur: Let me just give you all the details then; for GIS our revenues are Rs.286 million, margin of 20%; for NITL revenues are Rs.356 million, margin of 18%; for Morris revenues are Rs.348 million with the margin of 4%; for Incessant, revenues are Rs.552 million with margin of 26%.

Ritika Jalan: Are you on track to acquire rest of the 49% in Incessant Technologies in FY18?

Arvind Thakur: It will be in....

Ritika Jalan: You have told that it will be acquired in the next 2 years...

Arvind Thakur: That's right.

Ritika Jalan: So we can expect some of the stake can be acquired in FY18?

Arvind Thakur: That's right.

Ritika Jalan: Can you give some of the update in terms of the integration of the Incessant with the sales of the NIIT Tech?

- Arvind Thakur:** Yes, indeed, I think that is working very well, in fact, some of the areas which I talked about in Digital, particularly areas relating to asset management work flow, they are Incessant Solutions that we have enabled to offer into our existing client base, so this is happening extremely well.
- Ritika Jalan:** On Brexit impact, your Insurance business is already impacted. If you can just elaborate a bit, what is actually happening and whether that expectation is likely to be a long-term phenomena or short-term?
- Arvind Thakur:** What Brexit has done really is to create an uncertainty in the marketplace which is making clients hesitant to make large investments. So that is the impact that we have seen. In our Insurance business which is essentially a platform-based business where we sell solutions around our own IT platform, the big transformations that we were expecting are unlikely to happen in the short term and that is the reason why we have tempered down our expectations from that segment for the rest of the financial year.
- Moderator:** Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** I just had a couple of questions: Firstly, on the employee front, we have seen employee strength stagnating for the past 5-6 quarters. I know a part of it is because of the domestic business which we have scaled down. But if you can just give us some color on how the employee strength panned out if we exclude the India business and whether it has grown over the past 4-5 quarters or how is it?
- Arvind Thakur:** I think as you would have seen, our revenues also have stagnated over the last couple of quarters, so we have not seen addition of headcount even if I exclude the India business, but the decline that you have seen is primarily on account of the government contract which actually moved into the operation & maintenance phase and we have let go of all the retainers that were engaged in that activity.
- Dipen Shah:** But any visibility in terms of whether you would like to add employees or still over the next couple of quarters we will look at increasing utilization and if so like what is the level at which we can take the utilization over the next four to six quarters?
- Arvind Thakur:** I think the levels that we are at right now is 81%, Q3 utilizations will drop and improve over Q4.
- Deepen Shah:** Maybe some idea on what are the levels which we can look at on a sustainable basis – is 85% to 86% doable as companies like TCS and all are doing or we think that maybe 81% to 82% or this is a fair level to work with?

- Arvind Thakur:** I think we are touching optimal levels here Dipen, we can expect may be 82%, beyond that we would be pushing the envelope a bit.
- Dipen Shah:** One thing more on the management front; after Sudhir's departure, if you can just give us some insight into what is the thinking about the COO's role in the company and how should we look at things going forward?
- Arvind Thakur:** With Sudhir's departure, as you are aware the post of the COO was created with the intention of driving sales and managing the operations. With his departure that role has been devolved with the business unit heads and myself, and I think that transition has happened quite smoothly as you can see with the results that have reflected in this quarter. So there is no plan to create and induct another COO into the organization.
- Dipen Shah:** Any other changes at the senior management level which the company is looking at?
- Arvind Thakur:** So we are also looking at adding a Digital Services Head. Graham Clark, who was earlier our Digital Services Head, has also left the company, so that is one significant change that we are going to be making in the organization.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja:** I am just trying to prod you further with regards to this client where you are expecting some ramp-downs in North America. So apart from the usual seasonality, should we expect a further ramp-down in terms of revenue scale down here? The second thing is with regards to our margins. In the past you have indicated that you would want to exit FY17 with margins of about 17.5-18%. Does that outlook still hold true for us?
- Arvind Thakur:** As you would have seen we had strong margin growth in this quarter; 139 basis points sequentially. I think we are well on our way to deliver the exit margin of 17.5% that we had talked about and that is our plan. With respect to the client ramp down, it is likely to impact revenues in our Travel segment because they have indicated that they would be ramping down in this quarter because of the excess spend that they have done so far which they need to balance out in the year.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** The first question is in terms of the order book, you said that for the last three quarters, the fresh order intake which is fresh business is bigger and that gives you a confidence to say H2 better than H1, so can you give us a color, is the weightage in this quarter for a fresh business also higher versus the Q4 of last year and Q1 of this year?

Arvind Thakur: I do not have that breakup, but all I am saying is if you look at last year, our intake if I am not mistaken was \$90 million in the same quarter, because last year our intake used to be anywhere between \$80 million to \$100 million, this year we have seen our intake to be between \$100 million and \$120 million per quarter... of course this quarter \$143 million. So it is at a much higher rate. I think we have upped the levels at which we are now acquiring business and that is what gives the confidence of growth.

Sandeep Shah: Let me ask in a different fashion; out of \$143 million, I think you said \$85 million is coming out of Morris, so of the balance close to around \$60 million, is it fair to say the new business TCV is bigger in that \$60 million?

Arvind Thakur: So let me first correct you; it is not \$85 million as I mentioned, \$22.5 million was secured in the last quarter, so the total contract value is \$85 million, in this quarter it would be \$63 million, so therefore \$80-odd-million is coming from business other than Morris which actually was total intake that we had in the same quarter last year, so it is much better than the same quarter last year.

Sandeep Shah: Arvind, in terms of BFS even in this quarter, there was a sluggish growth and your commentary also suggests that the growth is unlikely to recover soon. So is it more to do with the client-specific issues and do you believe that this will give us some kind of turnaround in FY18 or you believe that specific issues maybe bigger with Brexit as well as macro issues?

Arvind Thakur: BFS is little more structural and I think that is the commentary we are hearing from some of our peers as well, where I think two things are impacting them -- one is that the industry itself is going through transformation with a whole host of new players coming in and Fintech evolving the way it is evolving. Also, the regulatory pressures and challenges are becoming more intense particularly with some of the larger banks showing weaknesses in governance and being dealt with some harsh penalties. So if I look at the whole BFSI space I think BFS is challenged; however in Insurance, which is where we operate mainly, that remains quite good. We continue to see good growth and positive outlook in the Insurance side. At the same time in BFS, unlike our peers who are operating in traditional areas, our engagement with BFS is in the Digital Integration space and that is what we are doing essentially through Incessant which is the new wave of investment that Banking and Financial Services companies have to do to remain competitive in the new transformed environment. So to answer your question BFS overall structurally, yes, I believe it is weakening, but for us given our focused position and we are not broad-based across BFS, I think we will benefit by servicing that industry segment.

Sandeep Shah: Generally for NIIT Tech, I think 3Q sequentially in constant currency terms has declined on QoQ basis in terms of revenue. So similar trends can be expected here or are you saying that it will grow but the growth rates would be lower than second quarter?

Arvind Thakur: That is why what I am saying is, it is going to be soft, we do not expect it to degrow.

- Sandeep Shah:** On Other Income, I think in last few quarters there has been a consistent decrease in DSO as well as increase in the treasury, but the corresponding increase in other income does not seem to be that high. So can you give us color because earlier we said that material portion of the treasury is still sitting outside India. So what is the planning there?
- Amit Garg:** If you look at our returns on our invested funds, we are doing fine, but definitely because of our subsidiary structure, we do continue to still hold funds outside the country which we are trying to see through a review mechanism how do we structure ourselves for future as we see our cash balances growing. So we are under review for that, but for some time it will continue the way it is till we get the right structure for ourselves. But we are largely impacted because of I would say roughly 35% to 40% of our funds sitting outside the country.
- Sandeep Shah:** Arvind, is it fair to say that the capex going forward is unlikely to increase materially and there could be no dividend payment in the future quarters, the FCF generation could be even stronger in the coming quarters?
- Amit Garg:** Yes, it would be stronger and capex would be the same like what we are investing now for last two quarters.
- Sandeep Shah:** Any change of plans in terms of distribution of cash in this year or would like to conserve for acquisitions?
- Arvind Thakur:** I think you are absolutely right, the industry is transforming, we are transforming. I think we have taken the lead in that transformation as you can see the way our Digital revenues are growing. We would certainly like to conserve our cash to make sure that we do the right investments in integrating the right assets to hasten the pace of this transformation.
- Sandeep Shah:** With two heads like Sudhir as well as the Head of Digital leaving, how are we making sure that we have a strong defense in the second line management and the impact would be minimal and how we are looking to improve the structure that each time instead of looking for leadership from outside, we can actually promote internal skill?
- Arvind Thakur:** Digital is a new area and I think it is good to acquire capabilities from outside who can guide and direct the organization because the skill sets required to address that marketplace is the area that we are looking at transformation and that is the reason why we are looking externally. As I mentioned earlier, as far as Sudhir is concerned, those responsibilities have been very effectively devolved within the rest of the organization and you can see those results in our Q2 results.
- Moderator:** Thank you The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

- Vibhor Singhal:** Sir, just wanted to get a color on the subsidiaries specifically NITL. So over the past four quarters we have seen the revenues come down from Rs.520 million to Rs.350 million. What I am looking at is that are we seeing a bottom in sight? Because of Brexit happening and the other weaknesses in the Insurance segment, when do you see probably potentially the revenues for this subsidiary might start bottoming out and we might see some sort of growth in this?
- Arvind Thakur:** In my opening remarks I did mention that we have seen NITL has bottomed out, maybe there is a slight improvement over last quarter. So this is a level at which it is going to remain till the end of the year.
- Vibhor Singhal:** Only thereafter can we see some kind of growth because I think second half you probably expect more weakness because of Brexit as well?
- Arvind Thakur:** Like I mentioned, when there is softness in the market then there is hesitation for people to make investments in any kind of large transformation projects. In fact, if you look at last year's first two quarters, we saw very good growth in NITL because we were able to position our new platform and get some of our customers to move into that platform. But thereafter with the uncertainty around Brexit they started backing out. So we will find the going to be little soft and we expect that to turn the corner at the end of the financial year.
- Vibhor Singhal:** Would you say the same for GIS that we probably bottomed out last quarter? We saw some kind of growth in this quarter. Would you think that trend may continue?
- Arvind Thakur:** Yes, in fact, we will see GIS perform better in Q3.
- Vibhor Singhal:** On an overall level, I think given that this is the first quarter of the last three quarters in which we finally managed to report some sort of positive growth on the top line front, I think even if we do strong numbers in the second half as you had mentioned, our overall growth for the full year in terms of revenue growth might not actually exceed 5% or may be less than that. Do you see a much better picture emerging in FY18 onwards or maybe it is too early to call?
- Arvind Thakur:** In fact, I think that is what I had also guided in my last call at those levels for the full financial year.
- Vibhor Singhal:** So, we basically maintain that call we had called out last quarter?
- Arvind Thakur:** That is right.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.
- Dipesh Mehta:** Just on gross margins, if I look at our gross margin, it declined 200 basis points YoY in a period where we have seen better international revenue coming and the currency is also

favorable. So can you help us understand in gross margin why we are not seeing any improvement despite revenue mix change?

Arvind Thakur: I think it is related to the earlier question around NITL. If you look at our NITL revenues in the same quarter last year, probably 30% more than what we see in this quarter. NITL is a high margin business for us because it is an IP-based, platform-based business. So when a high margin business declines, it impacts gross margin. So that is primarily the main contributor if you look at the YoY picture.

Dipesh Mehta: If I look the same NITL, now revenues continue to remain soft, but I think this time we have shown a significant improvement in the NITL margin. So what factor is playing out there – whether any operational efficiency related things we are taking there to make better margin, if you can help us understand that part?

Arvind Thakur: If I am not mistaken, last quarter there was a currency impact which brought down the margin and this quarter we had currency impact which brought down the revenues. So there is a currency play which is fluctuating the margins in NITL.

Dipesh Mehta: 500 basis points expansion what we are saying is largely related with currency. Otherwise business wise last quarter was also around 18% for us?

Arvind Thakur: There is also a slight increase in revenue that you will see in GBP terms, if you really look in GBP terms, this quarter would be about £4 million, last quarter was £3.8 million.

Dipesh Mehta: About the Morris business, whether revenue is largely stabilizing here because revenue is showing some kind of weakness for Morris if I look last six quarters? So now with the \$85 million we have renewed the deal, this would be the bottom or we expect some kind of weakness to persist in near-term and similarly on margin front for Morris?

Arvind Thakur: If you look at Morris and if I take you back five years ago, the deal that we have signed with Morris was for \$85 million, the deal that we have signed now with Morris also is \$85 million. Over the five years, revenues in Morris have grown on the back of projects which are discretionary that we have been doing. So what we have seen is because of the reduction in transactions that we have seen in this particular account, they are holding back on discretionary spend, so projects are on hold. So therefore this is a level at which we should be looking at Morris going forward.

Dipesh Mehta: Can you share the numbers for Proyecta revenue and margin?

Arvind Thakur: Revenue is 134 million and margins are negative 12%.

- Dipesh Mehta:** Considering the ETR increase what we have seen in this quarter, how one should expect effective tax rate for the year?
- Amit Garg:** Effective tax rate would be around 24.5% and it will remain around that because Unit-1 where we used to get 100% tax exemption has now come to 50% tax exemption bracket for next 5 years and we are seeing impact of that flowing into our tax rate now.
- Dipesh Mehta:** So it would be somewhere around 24% to 25% for the remaining second half?
- Amit Garg:** Yes.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.
- Rahul Jain:** Just want to try and understand little bit more in terms of how we should read this order book growth because if I have seen the first half average is around 120 per quarter versus 105 kind of a full year quarterly average that we have in last fiscal. So can we say that we are moving in the upward of 10%, 15% kind of growth build-up eventually as in this order comes into the book?
- Arvind Thakur:** The indication of growth is the order executable over the next 12-months. That is what is the visibility of how these orders are going to be executed. There is some impact as we just saw of currency on that. So I think going forward we are looking at much better position than what we did when we entered into this financial year for precisely the same reasons as we just talked about, average intake moving from less than 100 per quarter now to 120 per quarter. So I think the direction and the trend is very positive.
- Rahul Jain:** We have shared quite a bit of mixed thought in terms of the outlook in the industry from the macro perspective or even from the client perspective and at the same time we have little positive wins in terms of better order intake and some of the work we are doing on the Incessant side. So if you have to sum up everything and say not just for let us say six months but maybe a little two year to three year kind of view, what are the bigger picture positive you are seeing based on the total situation?
- Arvind Thakur:** So if I were to summarize, I would say that the entire industry is in the phase of transformation where we are all working on our business models with just the opportunities that we see in Digital and embracing new methods and technologies relating to automation. I think essentially the industry is changing gears, we are also changing gears and as you know when you are driving a car, when you are changing gears it will slow down and then it picks up again. So, I would say that would be the right analogy and summary of where we are and where the industry is.

- Rahul Jain:** Given that what all progress we have done in those respective areas where we see potential opportunity how much we would say we have achieved in terms of the capability wise?
- Arvind Thakur:** I think we have moved well. As you can see our Digital revenues have increased from almost nothing couple of years ago to now 19% of our revenues. We have done that both organically as well as inorganically. So I think we have moved swiftly in the marketplace to acquire the right assets to position ourselves well in that space and that is the journey that we will continue, to bring about transformation in the organization.
- Moderator:** Thank you The next question is from the line of Aniket Pandey from Elara Capital. Please go ahead.
- Aniket Pandey:** Can you please provide me the growth trajectory for your Travel & Transportation business and also for your Insurance business in next coming two or three years?
- Arvind Thakur:** That is a difficult question to answer at this point in time for the reasons that I just stated; the environment is quite uncertain. There is definitely going to be growth but to what extent will the growth be, I am not able to comment at this point in time.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.
- Dipesh Mehta:** In your earlier comment, you mentioned about Incessant the remaining 49% to be acquired by FY18-end. Can you help us understand timeline and quantum of payment or any part of the deal, what is the kind of payment we might have to make?
- Arvind Thakur:** So far we have acquired 51% of that organization, the balance would be acquired in two stages – one would be in May 2017 and the other would be in May 2018. The extent of investment is performance-linked. So it will depend upon how the business has performed at that point in time because there is an earn-out associated with the transaction.
- Dipesh Mehta:** When you say performance-linked, there would be some kind of broad range, right? So depending on some kind of threshold, because May 2017 is almost now 8-months away from where we are today, can you help us provide some kind of broad colors about the performance linked earn-out?
- Arvind Thakur:** I would not be able to share that with you. I think the contours of what I have shared is all that I can share with you as far as the contract is concerned.
- Moderator:** Thank you. The next question is a follow up from the line of Sandeep Shah from CIMB. Please go ahead.

- Sandeep Shah:** Just a book-keeping question, I think, we have shared the IndAS balance sheet and it looks like there have been changes in terms of the goodwill and the intangible assets. Can you throw some light this is more to do with the Incessant and what have been the changes related to this?
- Amit Garg:** You are very right, it is related to Incessant only where we have to account the valuation process as per IndAS and accordingly customer relationships and non-compete agreements have been valued by our valuer and accordingly you have the balance sheet.
- Sandeep Shah:** Can you give us some color how the valuation has moved up now versus when we acquired?
- Amit Garg:** There is no change in valuation, it is just from the IndAS perspective that we have done a fair valuation of the assets of the Incessant.
- Sandeep Shah:** Is there any major change in the balance sheet items?
- Amit Garg:** No, there are not any significant changes for us beyond intangible assets.
- Moderator:** Thank you. The next question is from the line of Ritika Jalan from Narnolia Securities. Please go ahead.
- Ritika Jalan:** Just I want to clarify that you have mentioned that global Transportation & Travel business will be a focus in third quarter. So, can you give a color on the revenue guidance regarding that Travel business too?
- Arvind Thakur:** Ritika, as a company we have a policy of not giving any guidance.
- Moderator:** Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.
- Sandip Agarwal:** Just wanted to understand Mr. Thakur, when you are saying second half looks slightly muted because of Brexit and uncertainty. How bad it is looking right now – are you really seeing some sign which will impact you for sure or you are just in an uncertain phase where you want to remain non-committal on that front because there is a lot of uncertainty, so how do we read this?
- Arvind Thakur:** So first let me just correct you; for us second half is going to be better than the first half. The comment on Brexit was only on one part of our business which is the Insurance business in the UK which we expect to remain at the same levels as we have in this quarter for the rest of the year.
- Sandip Agarwal:** I understand that ...I heard you there but I remember you also said that third quarter will be little weak, right?

- Arvind Thakur:** That is because seasonally for the industry the third quarter is weak because in the third quarter you have many holidays and customers also advise people to take furloughs so that they coincide the period when the Christmas holidays and other things take place. So the number of billable days reduce.
- Sandip Agarwal:** I understand that and I appreciate your clarification on that, but my question is that if you see this quarter was the quarter where we have robust performance and if third quarter for whatever reason is looking weak, in the sense of seasonality, then how do we maintain that H2 will be better than H1? That means you are saying that Q4 will see a very strong come back or something?
- Arvind Thakur:** H2 is revenue of Q3 and Q4, and H1 is revenue of Q1 and Q2. What we are saying is Q3 plus Q4 will be better than Q1 plus Q2.
- Sandip Agarwal:** So you are basically indirectly saying that Q3 is slightly better than Q1, that is the way you are putting... that is what mathematically works, right?
- Arvind Thakur:** Yes.
- Moderator:** Thank you. The next question is a follow up from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Just one question on Morris. I think the quarterly run rate which we are sharing is close to around US\$6-6.5 million, so annual run rate comes out to be US\$24-25 and assuming a 5-year contract it turns out to be close to \$100 million or upwards of \$100 million, while you said the renewal is close to \$85 million, so looks like the quarterly run rate would be now less than \$6 million. So can you actually explain how this has reduced or I am wrong in terms of assuming the 5-year tenure?
- Arvind Thakur:** As I explained to you, the quarterly run rate includes discretionary projects which we keep executing every quarter. So what the renewal that we are talking about does not include the discretionary projects.
- Sandeep Shah:** Is there any kind of a surprise or this may continue going forward or you believe even Morris maybe slightly more conservative in terms of the discretionary spend?
- Arvind Thakur:** Yes, as I indicated, they would be conservative over their discretionary spend.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Arvind Thakur, CEO, NIIT Technologies Ltd, for closing comments.
- Arvind Thakur:** Thank you very much for joining us in this conference. Appreciate the time that you have taken to be with us and perhaps spend the time over the weekend to review our results. As you

would have seen, we have delivered good performance in this quarter and other than the seasonality that we are seeing in the next quarter, we hope to have a better H2 versus H1. Look forward to talking to you again.

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

Note:

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