



“NIIT Limited
Q4 FY '24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the NIIT Limited Q4 and FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vijay Thadani, Managing Director and Vice Chairman of NIIT Limited. Thank you, and over to you, sir.

Vijay Thadani: Yes. So I'll repeat for just in case people missed. So first of all, I want to welcome you for this call where we are going to discuss quarter 4 results, quarter 4 and annual results for NIIT Limited and also discuss the way forward. So thank you very much for joining us.

Let me start by saying that before I get into the details about quarter 4, I need to inform you once again that NIIT's business is seasonal in nature. Quarter 4 is a weak quarter because it is in this quarter that we have a reduced consumption of training in both technology and BFSI. BFSI is because of year-end technology because a large amount of work that needs to be finished for year-end puts other pressures.

And even for the consumer segment, as the graduates who are going to graduate are preparing for their exams, there are normal exams at this time. And also to recall that the business saw a sharp decline, much, much larger than normal in volumes in quarter 4 of FY '23, which is 1 year ago.

And that was caused by a near freeze in IT hiring with a sharp compression in spending by IT industry that resulted in our technology part of the training, the training that we used to do for technology segment to be severely affected. And this was predominantly in Tier 1. So we felt it was a temporary impact, but we have to see that, that impact has now lasted for 6 quarters because in the 6 quarters, the technology sector has had an unprecedented reduction in workforce never in 6 consecutive quarter or even during COVID it was only 2 quarters. And therefore, it affected our revenues very significantly in the quarter 4 of FY '23. And then in quarter 1 of FY '24 as well and continued to affect us for the rest of the year.

However, the company divided with 2 ordinate strategies, and I think we moved fairly fast and were able to transform and execute to those strategies. One was the pivoted focus, the company pivoted focus from Tier 1 to Tier 2 GSIs and increased penetration across GCCs. And given the hiring fees, we focus on skilling their existing workforce with advanced technology skills or working professionals. So that was strategy one.

Second was, in BFSI, there was a large demand because they were growing and adding head count numbers. We increased penetration in large private banks, which is the area that we service, as well as Indian enterprises, which were benefiting from the -- or which are the cause of the India consumption story. And there, we broad based our offerings and very recently with generative AI and that has helped us secure a large part of our growth that we see in quarter 4

coming from there. So BFSI has the major thrust, India enterprise story as well as the advanced training and advanced training programs as well as the Tier 2 GSIs and GCCs, that actually has helped us recover from minus 33% that we were in quarter 1 year-on-year to plus 24% in quarter 4, end of the year.

The advantage of this is also that we have now built that capability to address a larger market segment as well and have more openings which I think should hold us in good strength in the coming year and when the technology hiring resumes. At that time, I think we will be beneficiaries will get even a higher benefit because that is our natural strength area. So those are the highlights of the background in which.

So let me just take you through a number. Quarter 4 first. The revenue for quarter 4 was at 743 million which was up 24% Y-o-Y as I mentioned, but down 13% Q-o-Q due to seasonality. As I said, this drop was much lower than what we experienced last year because last year, it was also because of the impact of the freeze.

This year, the freeze was continuing. So therefore, that would not have impacted us more. EBITDA was 13 million as compared to negative 95 million and 78 million in quarter 3, negative 95 million last year was the certain shock that we went through, as well as the fact that part of the business was in the investment phase. This year, we conserved our expenses and also focused on those things which mattered and grow while the investment cycles are still on and will play a role in our future results.

EBITDA margin was 2% versus a negative of 16% last year. Net other income in quarter 4 was 166 million, which includes a treasury income of 139 million. We can talk more about this in case of any other questions. PAT was at 112 million in quarter 4, which is an improvement of 205 million over PAT in quarter 4 last year. In percentage terms, it was up to 219% Y-o-Y, but I think that's not very relevant since the denominator was very small. EPS was INR0.83 per share versus a negative INR0.70 per share, and this is all about quarter 4.

In product mix terms are BFSI and other, and I alluded to that, that training grew 83% year-on-year and in technology, though we had the rebound coming from advanced technology sector as well -- advanced technology training as well as the Tier 2 GSIs and GCC's focus technology was also up 5% year-on-year.

Our tech BFSI ratio moved from 76:24 to 64:36. Let me move on to the full year, revenue was at INR3,035 million, down 11% year-on-year, and as pointed out, the recovery through the year helped us offset the sharp impact of the hiring freeze that took place and continues to be there. But because we changed our strategy set and that has helped us recover right through minus 33% to plus 24% in the fourth quarter.

Another way to look at it is while H1 was down 23%, H2 was up 4% on a year-on-year basis. We already discussed EBITDA margin was 2% improvement of 129 basis points year-on-year. EBITDA for the year was INR48 million versus INR10 million for FY '23. Net other income was INR594 million versus INR313 million last year, which also includes a large treasury income of INR497 million.

The other income, we had a better-than-expected return on our treasury and that also contributing to that. PAT improved to INR384 million versus INR32 million last year. And EPS is at INR2.85. Based on the results, the Board of Directors met today and recommended a dividend of INR0.75 per share, final dividend of INR0.75 per share versus or this was in addition to the interim dividend of INR0.50 per share, which was paid in October 31 -- on October 31, 2023.

I must point out here that while declaring the interim dividend, the Board are also communicated, that should be treated as a dividend for the year FY '23, which could not be declared because we were in the scheme of arrangement for the demerger of the 2 companies. So overall, from the story, what you can see is that while quarter 4 recovery is very, very strong.

On a year basis, the technology training has declined by 23%, while the BFSI and others have grown up by 39%. So I think this has helped us balance our product mix more in favour of BFSI and others. And we think that when technology training comes back, we will be beneficiaries of that as well, especially for pressures.

So if I were to summarize, the business has shown resilience and agility. We pivoted focus from Tier 1 to Tier 2 GSIs as well as increased penetration in GCCs. We got into advanced technology training skills, and in BFSI, we increased penetration in large private banks and broad-based our offering. We also achieved operational efficiencies and cost structure -- through cost structure rationalization, which led us to margin improvements.

In addition to all this, we are also seeing early signs of success in training on generative AI and in using generative AI for training, both ways, training on generative and AI -- generative AI for training. So the company is investing in new products, in fact, offerings to give our customers with the generative AI skills.

During the year, the company introduced new specialized programs in generative AI for its customers and added generative AI components across its portfolio of programs. Any NIIT program that you go through would typically have an element of generative AI because we think that is a very, very significant play in defining how people get trained and how people get scaled.

Company is also using generative AI in our pedagogy and our platform to improve learning effectiveness and learner experience. We recently conducted fireside chats with senior leaders of Indian enterprises which was very well received and has also contributed to a funnel for growth in FY '25.

Coming to balance sheet. The balance sheet metrics also remain very strong. The DSO was at 46 days as compared to 33 days last year, but that was also because of increased billing and business that we had in quarter 4. capex for the year was at -- capex for the quarter was at INR91 million. Net cash at the end of the quarter was INR7,185 million, and this is a small increase over INR7,179 million last quarter and INR7,157 million last year. This is -- this -- the cash balance is up despite very marginal profit, but also after paying the dividend for the year.

Headcount over the year has reduced by 206 and that's a part of our cost rationalization as well as product risk rationalization that we have been implementing. Coming to our guidance. Our

Tier 1 -- given the fact that Tier 1 GSI stopped hiring last year and have continued to see Q-o-Q decline in headcount, Success with Tier 2 GSIs and GCC penetration, India enterprise and BFSI have led to recovery, cost rationalization and efficiency gains have led to positive EBITDA at a much lower revenue run rate. We expect to maintain and going forward, we expect to maintain this momentum and see sequential growth to sustain barring seasonality impacts across quarters, which will be felt like it is always there.

But I think overall, the curve is pointing, the arrow is pointing upwards. There are new products and new initiatives that we have cost, which will lead us to acceleration next year. We expect the revenue next year to be in the range of INR380 crores to INR400 crores. The reason I'm giving a range is that it is also dependent on the recovery of recruitment or hiring in Tier 1 GSIs.

And we expect to have still very thin margins, which are not reflective of our steady-state margins. because there is 1 part of the business, which is the enterprise go-to-market, which is fairly profitable. But the consumer go-to-market part of the business is still in that investment mode. So the overall impact will be in low single-digit margins.

Over the longer term, we see a larger opportunity for us. NIIT has been a strong and trusted brand, and we realized how strong and trusted we were by the response that we received in these fireside chats, when we got corporate leaders together. We also see that as we set up these new learner hubs where individuals walk in and tell us so nice to see an NIIT retrain, and the differentiated deep skilling methodology that we have delivered over a scalable delivery platform has given proven outcomes, I think, is another positive.

We have 200-plus corporate partnerships. We have more than 30 OEM relationships and strong balance sheet to invest in innovation and growth. So now that much of the irrationality that was prevailing in the market due to startups willing to burn cash or customer acquisition and the funding pressure has died down I think it creates a healthier environment for us to now invest on building the NIIT brand, and we are looking forward to that in terms of the significant business transformation cycle which lies ahead of us. And the focused entity that we are now will allow us to be nimble and agile to address this market.

So we will continue to look for both organic and inorganic growth opportunities. Just as a last line of briefing, I also wanted to mention that we recently announced the appointment of a new CEO, who will take over from 1st of July. And I think that release is already with you, in case you have questions on that, we'll be happy to answer. I gave a slightly longer than normal brief, but I did want to explain the environment in greater detail, which will I hope save us a few questions, but I'm -- we are now open to questions and -- I mean so this -- thank you. Thank you very much.

Moderator:

The first question is from the line of Ganesh Shetty, who is an investor.

Ganesh Shetty:

Just I have 1 question regarding the details of diversification into other sectors for talent training, which was work in progress. Can you please highlight some of the progress during this quarter or during the year FY '24?

Vijay Thadani:

So as I said, both other sectors as well as other offerings, both have a role to play. So 1 of the sectors that I think there is a stronger focus on is the overall India enterprise segment. The India Enterprise segment, which is consuming technology. We believe that it is consuming less technology. There is some static statistics recently that we've spent on technology compared to global metrics is just half on a per capita basis in an organization and significant amount of digital transformation is required in these enterprises. That opens up a huge training area.

People have been hesitating to make these investments. But I think Generative AI is a very easy way by which they can see how organizations can benefit. I refer to the fireside chats we had. And I think that's our takeaway from those chats as well that organizations are looking to improve their capability in handling generative in a manner that can make them more competitive and grow faster. That definitely is one -- if I may use the word sector, though it is a customer segment.

The second is, I think, the whole manufacturing and Industry 4.0 and TR&D. These are sectors where some work is happening but we don't have something specific to share as we speak. The third area, which is in still longer term is the whole energy transition that is happening and the renewable energy space and the skills those that will be required. And we have talked about this before, are another area that we are working on. But that's too early to talk about some of these things some of these longer-term areas now, but those are the focus areas that the company is looking at.

Ganesh Shetty:

Sir, my second question is regarding the NIIT Confluence, which we had recently in Goa. This is a yearly Conference Confluence, which we have. And will you please give some the highlights of this event and how this is helping us to building brand and onboarding future customers, can you please throw some light on this?

Vijay Thadani:

Okay, thank you for that question. We have -- we hold this event. Actually, this tradition started in our U.S. operations first many years ago. And we found that L&D professionals who are our customers or L&D leaders who are our customers do not have enough platforms to share their own ideas and their own achievements with others in that fraternity. And that led us to getting them together, not with an intention to sell them more. But for them to share their experiences and the process of sharing their experiences and specific pursuits.

They also mentioned NIIT, and obviously, because they are our partners. And in that process, indirectly there is overall learning, which takes place for everyone because as you learn from each other. But I think also it strengthens the belief that they are working with the right partner as well as discover newer ideas that happens. So we typically keep it a restricted gathering, 60 to 80 people. We meet in a closed door environment, people exchange their notes freely, they look at impact of, for example, generative AI and how that will contribute to learning and development. We pitch in and tell them what we are getting ready with and they repeat it, they give us feedback. That helps us also refine our products. So it's a great learning experience for any L&D leader who is participating, but it's also equally educative for us and helps us plan our strategy as well as our offerings going forward.

Typically, these events lead us to open some new doors because we would offer -- we would get about 80% of our existing customers and we will get 20% of those who show interest in events like this who are not yet our customers. Those 20% definitely go back much more motivated to work with us and that does result in a positive impact. Even the existing customers go back and look at other offerings, which they may not be using from NIIT.

So overall, it's a very, very positive thing, and it explains it helps us position NIIT as a thought leader in a few areas. Everybody understand that NIIT is the thought leader in training space. But to get thought leadership in newer ways of training, I think is a rather interesting opportunity. In this Confluence we had generative AI. And I think some of the stuff which people shared as well as what we shared with them, I think, did cause a lot of positive momentum, impact of which we will see during the year. I hope that answers your question.

Vijay Thadani:

While you are waiting for questions, I can ask Mr. Pawar to talk about generative AI because he's personally leading this initiative across the organization and in establishing and as the thought leader. So Raj do you want to share something?

Rajendra Pawar:

I think I'm sure everybody on this call is quite excited about GenAI without knowing too much or by knowing too much, but I think it could be said that this is the beginning of something that is significant. And since it processes language rather than data, and there is nobody who doesn't deal with language, I'm giving a very high-level abstraction, it is going to affect each and every person and hopefully in a positive way. So we see that we are almost in a position where we were in the '80s that we were trying to teach IT to people who didn't know. It is almost as fundamental as that except that people now have digital literacy at peaks.

So at 1 level, there is a task for us to look at building appreciation and awareness and basic skills on GenAI at scale. And that's an opportunity that we are working upon. The second is, of course, a more serious one that how do organizations take create advantage from GenAI. And there, we currently see some confusion in the marketplace given the uncertainties of the risks that GenAI may put. So that creates the need for more technical understanding of this technology and a need to build architecture which protect organizations against possible risk.

And so those have been deeper training programs, which will get people to have an understanding of how their language-based interaction with the corporate data and the data outside. How will that be done in a secured fashion, how will that be done without violating principles of privacy and so on. So right from the basic part, you see all the way down to fairly detailed technical work which needs an understanding of data, understanding of analytics, understanding of cybersecurity, discipline that we deal with otherwise. So there's a range of programs that we are putting together. That is 1 dimension just on the curricular side.

The other side, and we just alluded to that is how we learn. I think GenAI holds great promise not fully realized yet, but great promise of working towards customizing learning to a market of one. It has been a dream for the world, but we are reaching a position where pedagogically, it will be possible to deal with each learner in a more unique fashion. And we have already

reasonable understanding of how to do that, and we will be rolling that out during the course of the year so that we can get much more effectiveness in learning from each learn.

Needless to say, the extent of change is happening in digital transformation at one level and which I again alluded to the increase. We see the role of Chief Digital Officer becoming quite common in companies in addition to a Chief Information Officer. And so these are very often not technology folks, they have business folks who are being challenged to see how to induct technology into their real work.

I think this will spread technology deeper and wider, and we are looking at ways to make it faster and quicker using GenAI. I'm giving you just the drivers of our strategy on GenAI. And we have, as an organization, embarked an ambitious plan that started many quarters ago, but we are bringing -- are beginning to bring it to the market, and we expect that this should give us a kind of recognition and brand salience for more and more than us at every level in every sector of the economy. That's with the agenda statement.

Vijay Thadani: Okay. meanwhile, do we have any questions?

Moderator: We have a question from the line of Rahil Shah from Crown Capital.

Rahil Shah: With this guidance you've given INR380 crores to INR400 crores, is it next year? So that -- you mean FY '25, correct?

Vijay Thadani: Yes.

Rahil Shah: Okay. And so to go along with it, what is the margin guidance -- EBITDA margin expectations?

Vijay Thadani: Margin expectations. Going forward. FY '25? Yes. As I mentioned that we are in an investment mode in 1 part of the business, while the enterprise go-to-market has a very decent 15% plus/minus margin. The consumer go-to-market is an investment phase. And therefore, balancing the 2, we expect to see a 3% to 5% margin as we complete the year. I think we will start the year on a breakeven or slightly lower than breakeven basis. But I think over the year, we will gradually make up because the larger investments are in the first part of the year and the returns will accumulate as we come through the year.

Rahil Shah: Okay. So 3% to 5% is what we're expecting. Okay. And sir, earlier, you mentioned in one of the calls that the company's long-term vision is reaching revenues of INR1,200 crores by FY '28. So what are your views on that now given the landscape of the industry that you see and witness? And along with that, what will be the margin trajectory to go as it progress through these years? So just your thoughts on that now.

Vijay Thadani: So on an organic growth, this is, I think, the kind of growth that we are seeking next year will match well with the trajectory that we have tasked for ourselves. Of course, one precursor to that, is that we do expect that in the second half, the hiring resumption by large GSIs because they continue to remain the largest beneficiaries of our offerings as well as the largest employers of our technology workforce.

Having said that, as we have diversified our portfolio, I think our dependence on that is reducing because now the advanced skills as well as BFSI and India Enterprise are beginning to be a larger percentage, but we still need that element. We do believe that, that will happen, and will continue at a reasonable pace over the years. So if we do that organic growth, I think we will be on the right trajectory at 30%-odd on a year-on-year basis. But as far as inorganic is concerned, that is an important component of that. And I think of our INR1,200 crores story because we have corpus available to invest on inorganic growth.

We are looking for suitable targets. We have been in a number of discussions, having concluded yet any one of them to a level where we can share the details. But I think at an appropriate time, that will happen. The number of targets should increase because there is a lot of turmoil in the industry and there may be good organizations available or good setups available match with our value systems as well as our vision.

Having said that, there is a lot of destruction, I should say, value destruction, which has taken place in the tech sector, and therefore, one has to be careful that we don't make wrong choices. So it is in that context is that I would like to see. So if you add both of them, I think we would be on the on the trajectory that we had set on INR1,200 crores by FY '25.

Rahil Shah: And on the margins by then, that will also gradually function similarly?

Vijay Thadani: I think margin will improve as soon as we achieve critical mass, margins will start improving. And once margin improve, we -- as we mentioned, we do expect a 15% to 20% margin. This is a business which should be 15% to 20% margin with the business mix that we have and the continued investments that we require. So I think that should also happen as we go forward.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Vijay Thadani: Okay. Thank you very much, everyone. I truly appreciate you joining this call. This is a busy results season. And for you to spare your time for us. We truly appreciate. We did discuss and clarify all that we wanted to clarify. In case there are any further questions or follow-up questions, Kapil Saurabh will be -- Kapil Saurabh, our colleague from who handles Investor Relations in addition to other responsibilities, he and all of us will be very happy to answer those questions.

Next week, we intend to be in Mumbai and would have an opportunity to meet some of you, we would also be at an investor meet next week. So that should give us an opportunity as well. So looking forward to meet you in person and answer more of your questions and have a debate and get some guidance on the future. Thank you very much once again for your interest in NIIT. Wishing you the very best.

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