



## TRANSCRIPT: NIIT Technologies Ltd Q1FY2016 Results Conference Call

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**FROM NIIT TECH:**

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*(1 crore = 10 million)*

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the NIIT Technologies Q1FY2016 Earning Conference Call. As a reminder, all participants' 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 would now like to hand the conference over to Mr. Abhinandan Singh, Head of Investor Relations at NIIT Technologies. Thank you and over to your Mr. Singh.

**Abhinandan Singh:** Good afternoon everyone, and welcome to our Q1FY16 Earnings Call. Along with me present today at this forum our Chairman Mr. R. S. Pawar; our CEO Mr. Arvind Thakur; our Chief Operating Officer Mr. Sudhir Chaturvedi; and our Interim CFO Mr. Amit Roy. You would have already received our Q1FY16 results which were e-mailed to you earlier today; those are also available at our website [www.niit-tech.com/investors](http://www.niit-tech.com/investors). As usual, we will start the forum today with opening remarks from our leadership team and after that the floor will be open for questions.

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

**Arvind Thakur:** Thank you, Abhinandan. Good afternoon, everybody. I am pleased to share with you our First Quarter Results for the Financial Year '16. As you can see from the results, revenues grew 4.9% sequentially to Rs.6,411 million, representing a 11% growth over the same period last year. This also includes revenues from Incessant Technologies which was integrated during the quarter. Growth excluding Incessant was 1.3% sequentially during the quarter. In constant currency, organic revenue growth would be 1.4%; 0.1% being the revenue loss on account of lower hedge gains in this quarter as compared to the previous quarter. Growth came on the back of international revenues which grew 8.9% sequentially during the quarter. There was a decline in revenues in India which shrank by 19% on account of completion of major programs, I would say going live of some major programs and also a seasonal decline in our GIS business during the quarter. Business in the US grew 7.7% sequentially contributing to 45% of the overall revenues. EMEA grew by 4.7% and contributed to 35% while the revenue share of APAC and India stood at 20%.

Among the industry segments, BFSI grew 15% sequentially as a result of growth in our new Insurance accounts in the US as well as growth in our NITL business in the UK as well as the integration of the Incessant business. BFSI contributes to 36% of

our total revenues, Travel and Transport to 37%, Manufacturing and Distribution to 6%, and Government now contributes to 5% to the revenue mix.

Operating profits for the quarter stood at Rs.1,042 million, which is up 34.5% year-on-year and grew 4.5% sequentially during the quarter. Operating margins improved 284 basis points year-on-year and held steady at 16.3% quarter-on-quarter. The wage hike impact on margins during the quarter were offset by increased business from the international geographies which have better margins than our business in the domestic market and the accretive margins of Incessant. Net profits improved 35.5% year-on-year to Rs.585 million. Tax rate has been 26% of PBT during the quarter.

I will now request Sudhir to share with you the business acquired and the quality of logos that we have acquired during the quarter.

**Sudhir Chaturvedi:**

Thank you, Arvind and Good Afternoon, everybody. The order intake for the quarter was \$97 million; the order intake by Geo was as follows: US 43 million, EMEA 31 million, and Asia Pacific 23 million. The order intake from India Government in this quarter was zero, so the executable order book is \$300 million.

In terms of new logos, we added 17 new logos this quarter, this includes 15 new significant logos from Incessant.

In terms of the Incessant integration, that is proceeding as planned. We have created a joint model for sales with Incessant and we have already won one new joint sales logo. Further, joint deals are in progress, the financial integration is complete, and we are investing in resource addition, training, and facilities to achieve the growth that we have planned for in FY16 for Incessant.

Notable aspect of our growth has been the growth in the Digital Services. So our Go Digital efforts have been rewarded with new wins and strong growth. Digital now accounts for 14% of total revenues, of which Digital Experience is about 50% of our Digital revenues and Analytics and Digital Integration, Digital Integration being our strategic bet with Incessant, today accounting for 40% of Digital revenues.

With this I will hand you over to Arvind.

**Arvind Thakur:**

Thanks, Sudhir. Just to give you a flavor of what has been happening in terms of head count, there has been a net increase of 734 people during the quarter, taking the total headcount to 9,228. This includes 352 people who have been integrated from Incessant. Excluding that, the head count addition within NIIT Technologies is 382.

Utilization stands at 79.5% and we have seen improvement in our attrition. Our attrition is down now to 14.3%.

Talking about a few numbers on the balance sheet: Cash and bank balances now stand at Rs.2,624 million, which is up 673 million over the same period last year, but lower than what it was last quarter at 375 million, primarily on account of the investments that we have made in Incessant. Debtors at the end of the quarter are at 92 days of sales outstanding, which is an improvement of one day over the last quarter.

If I look at the environment, the outlook for the industries in which we are focused on is quite positive. The Airline industry, for example, has announced an upward revision in their 2015 industry outlook where it is expected to see an improvement in profitability with both passenger traffic as well as cargo volumes growing during the year. Banking and Financial Services also indicate continued growth in IT, driven by improvements that we are seeing in the macroeconomic outlook. For Insurance also, we have seen some reports like the one from Celent which has estimated that the total IT spend will grow by 4% CAGR during 2015 to 2017. And a lot of this growth in all these segments is likely to be driven by Digital as customers seek better experience and organizations improve their analytical abilities to differentiate.

Our prime agenda for FY16 is to grow our business in our international geographies and reduce our dependence on domestic government engagements. The Q1 performance reflects this direction with international revenues growing 9%, and, in fact, even if I exclude revenues from Incessant, international revenues would have grown 4.7% sequentially during the quarter, whereas the domestic business has declined by 19%. We expect growth to continue into the subsequent quarters. Margins would further improve because growth of international business would support expanded margins and growth of international business is also being supported by our sharp focus in Digital Services. As Sudhir explained earlier, these include services around Digital Experience, Cloud, Analytics, and Digital Integration. So, we expect our capabilities around Digital Services to improve as we build more partnerships and strengthen our presence in this particular space.

So, with these opening remarks, I will now be happy to open up the call for your questions.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question & Answer session. The first question is from the line of Amar Mourya from India Nivesh. Please go ahead.

**Amar Mourya:** Sir, my first question is if you can give the break up about EBITDA margin, assuming that the integrated business would be having a lower margin as compared to our business, so what was the margin levers so that we were able to maintain the margin of 16.3%? And secondly, about the Transportation vertical, which had been showing a negative growth from last 3 to 4 quarters had actually bounced back. So, what is the overall outlook for Transport and you did allude something back then in terms of the client-specific issues which we were having, I just wanted to know, what is the outlook we have about financial year FY16 for Transportation vertical?

**Arvind Thakur:** First, let me just take up your question on margins. As you know in this quarter we have had a pressure on margins on account of wage hikes. It would have contributed to a dip of about 200 basis points from the previous quarter. Other than that we have seen margin expansion on account of the mix shifting towards international business, that would have contributed to about a claw back of about 130 basis points. Incessant, on the other hand actually has been margin-accretive for the organization, and has contributed to about 70-basis points. So you can see how we have been able to sustain and maintain margins at 16.3% on account of this. Regarding your question on Travel, I will touch upon it and then see if Sudhir would want to expand. We have seen growth in our international accounts in Travel. There is only one place where we saw a decline which was not internationally but domestic, because of the large program that we did for the Airports Authority of India (AAI), so all 10 airports have gone live and so the major portion of that program has got over and now we are in the run phase of that particular program. So I think it is a good improvement in terms of existing accounts growing plus we have added two new logos and so we see a healthy trend as far as Travel is concerned, but I will get Sudhir to expand.

**Sudhir Chaturvedi:** Just to add to that, the client-specific issues that we referred to in previous calls on Travel are now behind us. As Arvind said, we have added new logos and the pipeline in Travel continues to be good. As we saw an uptick in growth in Insurance on the back of stability in existing accounts with some growth and growth in new accounts, we would expect to see a similar trend in Travel going forward.

**Amar Mourya:** You said that 200-basis points impact due to the wage hike and expansion of 30-basis points due to the international business, right?

**Arvind Thakur:** 130.

**Moderator:** The next question from the line of Aishwarya K from Spark Capital, please go ahead.

**Srivathsan:** Srivathsan here. Just wanted to get a sense on the organic growth we have seen 4.5% QoQ in international businesses is very good. What drove this growth – is it something in respect of some of the clients who were ramped up slightly better than what we expect and how do you see the organic piece playing out over maybe next 4-6 quarters?

**Sudhir Chaturvedi:** The organic growth this quarter of 4.5% was primarily led by the US. In US, we saw the Insurance vertical deliver strong growth. This is in the back of three new logos that we had signed in Q3 and Q4 of last year continuing to ramp up significantly. The other element of growth that we are seeing organically is in terms of our existing account base. So our top-20 accounts grew by 4% sequentially. These two factors have contributed to the growth. In addition, in Europe, our NITL business (our ROOM Solutions business) exhibited strong growth on the back of new license wins.

**Srivathsan:** The next one is on overall growth trajectory we have been defocusing on government business for some time. In terms of the impact, do we see it will have on the growth this year, it will be more degrowth of business. So just that 24-months or 36-months perspective, where you see international business, you think that will be the big focus of almost 97-98% of revenue should be from International business, India could just be more incidental business and what the existing have you owned be expanding our portfolio in India?

**Arvind Thakur:** In our India business, there is one element which is a strong good margin business, which is our GIS business. So that will continue to remain strong focus. What we will defocus are on these large government programs, which basically have been not only impacting our margins but also impacting our cash flows because of the high element of receivables that are stuck up in those programs. So going forward yes, our dependence on these government contracts will reduce.

**Srivathsan:** My last question is on the DSO front. There is clear defocus on the India business. It will be helpful if you can just break up what would DSOs be on International business and what would be on the Domestic piece of business, so if that is going to keep going down, so it gives a sense where could DSOs end up maybe 4-6 quarters later?

- Arvind Thakur:** Our overall DSO is 92 days, but our International DSO is 60 days, so you can see that it is the domestic DSOs which are quite significant that have contributed to that high DSO. Over a period of time, we intend to bring it down; our intent is that we bring it down to 85 days by the end of the year.
- Moderator:** Thank you. The next question from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Just the first question is how do we see the growth prospects in Transportation because even the growth in this quarter looks like slightly lower than the company average though it has been better versus the last few quarters, but do we see that the growth from the existing accounts will bounce back or it will be growth largely through new logos which got added?
- Arvind Thakur:** As I explained earlier, we have seen growth in all our International accounts. The reason why you are seeing somewhat tepid growth is because in Airport Authority, those revenues have come down, so like I said earlier, Domestic revenues have come down, but our International business has grown, so if I look at just TTL, International growth it would be upwards of 4% sequentially.
- Sandeep Shah:** And we expect this momentum to continue in the international Transportation vertical?
- Sudhir Chaturvedi:** Yes we do, and as I mentioned earlier we have signed two new logos this quarter, we have some more in the final stages in Q2, so we expect that to be added going forward.
- Sandeep Shah:** These logos are in the Asia Pacific or is it the US, Europe because our cross-selling of transportation in the US has not been as strong as in the rest of the region?
- Sudhir Chaturvedi:** The logo additions are happening in US and Europe, the two additions; one was in the US and one was in the Asia Pacific this quarter, but the outlook in Q2 for new logos is in US and Europe.
- Sandeep Shah:** Second, I think Incessant, if we look at the revenue addition in this quarter is \$3.5 million. So if I look at the quarterly run rate for the full quarter basis, could be upwards of \$5 million. So it looks like the growth here is upwards of 20%. So, is it largely like even expect that the kind of growth momentum in Incessant to continue?
- Arvind Thakur:** Yes, I think that is a good assumption.

- Sandeep Shah:** What is the outlook in the top-6 to top-10 accounts like that the growth has slightly been tapered here also?
- Sudhir Chaturvedi:** As I mentioned, the top-20 have grown by 4% and we are focusing on that segment for continued growth. The key thing is that we do not see any issues in terms of any of these major accounts. So the focus on growing the top-20 and adding must-have accounts which we have explained in previous calls are new logo strategy that will continue and that will drive growth going forward.
- Sandeep Shah:** Just on the synergy you already said that there are two logos been one along with the joint selling with the Incessant, so is it largely in the BFSI or is it outside the BFSI?
- Arvind Thakur:** It's only one logo, and that's in Travel.
- Sandeep Shah:** On the margins, we have commented that going forward because the wage inflation is largely behind. So is it fair to say that with the growth momentum picking up, margins should improve from here on in the coming quarters?
- Arvind Thakur:** That is a correct assumption.
- Sandeep Shah:** Two things on the capex and the hedge details if you can give along with the OCI positions?
- Amit Roy:** OCI is Rs 116 million. Capex is Rs 154 crore but after excluding 106 crore of goodwill for Incessant, actual capex is 48 crore and of that 20 crore is towards the Greater Noida campus while the rest 28 crore is ongoing-business related capex.
- Sandeep Shah:** My question was for the full year, what would be the capex guidance and I assume for the Phase-2 of Greater Noida, this would be the last year of substantial investments?
- Arvind Thakur:** For the phase-2 yes, it will be the last year of substantial investment, and if I am not mistaken for the year about Rs.175 crores.
- Amit Roy:** So 1,750 million.
- Sandeep Shah:** So, Rs.175 crore is what we are looking at?
- Amit Roy:** Yes.



- Moderator:** Thank you. We have the next question from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja:** Just broadly with regards to the strategy that we adopted in the last 12-15-months, would it be fair to assume that going forward similar to what we have seen in the current quarter one should start seeing results of the interventions that we have made across different parts of our business? Second question was with regards to new logo additions in US. If you could give some sense of are these new logo additions happening in the Travel area or the BFSI and the outlook on business from your top accounts?
- Arvind Thakur:** Sudhir, do you want to handle the second part?
- Sudhir Chaturvedi:** The new logo additions in the US was one this quarter, this is ex-Incessant, and that was in Travel. We are in as I mentioned earlier in the final stages of a few new logo additions, which we will see in Q2 being closed, and these are across Travel and Insurance. So US overall outlook in terms of both existing accounts and new logo is in line with the current quarter growth. So we expect that trend to continue.
- Arvind Thakur:** And as far as the strategy is concerned, as I explained, a very clear corporate direction is to grow in scale our International business and grow in scale our business in Digital Services and I think we will continue to see expansion in revenues in both these areas.
- Manik Taneja:** We have actually seen a decline in a number of \$10 million-plus customers over the past couple of quarters. What could be driving that? Is this government-related?
- Arvind Thakur:** Yes, there was Airport Authority, which was a large client, so obviously because that is over, now it is on its O&M phase.
- Manik Taneja:** Because about 5-6 quarters back, we had about 9 \$10 million-plus customers, that has come down to about 5 as of now. So we have seen some decline in International customers as well who account for less than \$10 million business now?
- Sudhir Chaturvedi:** As Arvind said, the decline in the Government business which has led to some decline, and in the past we had some client-specific issues that we talked about, which led to a decline in the top-10, but what we will see going forward is that that number will be inching up.

**Moderator:** Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

**Dipen Shah:** I had a couple of questions; firstly, I do not have the number for GIS revenues in the last quarter as well as in the current quarter. And the other part which I wanted to just understand is that I actually was not there in the earlier part of the call but say in terms of Incessant revenues we have had 30% margins and revenues which are about Rs.30-35 crores on a quarterly basis. Is there any one-off therein, was there a project completion which may not be repeated in the next quarter, anything one-off in that or this is a trend which we should look at going ahead?

**Arvind Thakur:** GIS revenues are Rs 234 million, last quarter was Rs 356 million. As far as Incessant is concerned there is nothing one-off over there. So they are a healthy business which is growing.

**Moderator:** Thank you. We have the next question from the line of Deepan Kapadia from PhillipCapital. Please go ahead.

**Deepan Kapadia:** First, a couple of book-keeping questions: Revenue for Morris, NITL and Proyecta and margins? Second, if you could throw some light on how we plan to get more business from US especially because although the account wins have been good, the executable order book is not growing at the same pace, so is it the Government business that we have been losing is coming to an end or when do you think that will be coming to an end?

**Arvind Thakur:** Let me give you the housekeeping questions first; NITL is 467 million; Morris is 461 million and Proyecta is 142 million. Margins are 27% for NITL, 10% for Morris, and flat for Proyecta. On the order book, I will just give a comment and then maybe Sudhir can add to that; I think a few things that we are observing in the marketplace is particularly when we are looking at clients growing around Digital revenues, Digital business is not business which is for large engagement. There are many little, little projects which get executed within the quarter itself. That is the nature of that business. So I think we are seeing a shift from large deals to smaller engagements, particularly, as we focus more on the Digital side. That is one observation that we are seeing. It seems to be consistent across many of our industry peers as well when we are looking at this kind of business. But, Sudhir, can expand a little more.

**Sudhir Chaturvedi:** In the \$ 97 million intake, as you know 43 million was from the US, 31 million from EMEA, so that is 74 million, so about 75% is from Europe and US. What I also

mentioned in my commentary was that our India Government order intake was zero, where there tends to be sort of large orders. So as Arvind said, we are focusing on geographies where order intake is going to be almost in line with revenues looking forward. Having said this, we have some deals in the pipeline, which are above \$20 million. So depending on the win ratio we could see an increase, but essentially order intake will be in line with revenues.

**Deepan Kapadia:** My other part of the question is when do you think the degrowth in the India business would be coming to an end because the large chunk has come down already from 15% to roughly 6%, so there would be a point of time where it would be coming to an end and then because there is no degrowth on the India business we will see the executable order book expanding?

**Arvind Thakur:** I think in the India business there is an element of purchase for resale, which is coming down steadily. So if you look at last quarter, we had Rs.24 crores, which was the hardware, this quarter it is only Rs.16 crores, next quarter it will probably be around Rs.6 or 7 crores. So that is the decline. That is happening in terms of the execution and revenues in the India business. So after Q3, we will probably see it kind of stable at those levels.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

**Rahul Jain:** First of all, if you could tell us the Incessant revenue and the constant currency growth overall?

**Arvind Thakur:** Incessant revenue is Rs 221 million and constant currency growth overall for the company is 5%.

**Rahul Jain:** If you could tell more about the strong client addition which we had in terms of how maybe any color which you could give on the qualitative front?

**Sudhir Chaturvedi:** As I mentioned, we have added 17 new logos, of which 15 logos came from the Incessant portfolio. In these as I mentioned that we have a joint sales model with Incessant and this includes a model for new logo as well as a model for cross sales into existing accounts, with NITL Services into Incessant account and Incessant services into NITL account. So the good thing is that we have moved quickly on this and put this in place, and as a result we are already seeing good traction in the market with one win already under our belt.

- Rahul Jain:** So out of 15 in the BFSI, 1 is what you said is a joint effort, but the other 14 if you could give more thoughts on that?
- Sudhir Chaturvedi:** Those are 15 Incessant accounts, 1 would be the additional account which will be...
- Rahul Jain:** And if you could give the minority interest breakup?
- Amit Roy:** Minority interest breakup is, in the profit and loss it is 40, which includes 27 from Incessant, and 12 from Morris.
- Rahul Jain:** And Morris margin QoQ it is flat?
- Arvind Thakur:** Morris is 10%.
- Moderator:** The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.
- Dipesh Mehta:** A couple of questions; first, just to get margin for GIS business; second is about employee headcount addition, if we see organically we added around 817 employees over the last two quarters which is roughly 10 percentage of the base two quarters back as compared to that I think our organic revenue is not showing similar kind of. So if you can help us understand where we are adding capabilities and how we see those businesses panning out for us, so kind of understanding, how the growth would shape up in which kind of pockets and which geographies...I think geography partly addressed but if you can help us in which service line or something of that sort? Last question is about fixed price mix declined this quarter by 2% odd. Any specific reason behind it?
- Arvind Thakur:** Just housekeeping first; GIS margins this quarter is 13%, and as far as employee additions are concerned, as I explained to you, growth is happening in international geographies and that is on account of really the Services business, and where growth is declining is in the Domestic business and that is nearly on account of reduced hardware in those programs and projects which have come to a halt. So, what you are seeing is that the hole which is being created by the domestic business is getting occupied and of course growth beyond that through the Services business and that is the reason why the headcount addition that you are seeing is not proportionate to the revenue increase that you are seeing in the business. Does that answer your question?
- Dipesh Mehta:** It answers, but why I ask very specifically is about if I look our direct cost, because we do not share employee expenses every quarter, but if I look direct cost it increased

only by Rs.15 crores QoQ perspective, in that we have rupee depreciation, we have Incessant integration as well as we have wage hike. So, if you can help us understand because you said international business has led to 130 basis points positive impact, at the same time we have seen wage hike also. So if I look from like-to-like, we have seen 350 basis points kind of swing. So if you can help us understand what factor is driving that big shift for us in margins?

**Arvind Thakur:** I think what you are not seeing is that the purchase for resale (PFR) cost is going down, right, which is ...

**Dipesh Mehta:** This is only Rs.10 crores, you said Rs.24 crores was last quarter, this quarter it is Rs.16 crores.

**Arvind Thakur:** Correct, so that is Rs.8 crores down, which is quite significant.

**Dipesh Mehta:** That would explain I think a very little about the swing what we are seeing in margin, because correspondingly, revenue is growing, so correspondingly employee cost would also be there which would mitigate part out of this Rs.8 crores swing?

**Arvind Thakur:** Okay, maybe we can take this offline so that we can understand your calculation a little better.

**Dipesh Mehta:** And last part is about APPI I think it's remained unanswered?

**Arvind Thakur:** The reason why that is down is because most of the business from Incessant is T&M.

**Moderator:** Thank you. We have the next question from the line of Shradha Agrawal from Asian Markets. Please go ahead.

**Shradha Agrawal:** I think we have gone live on all the 10 airports. Are we looking at incrementally adding more airports on that AAI deal?

**Arvind Thakur:** Yes, in fact, contract provides for ability to include more airports. So as and when those discussions fructify we will be adding those.

**Shradha Agrawal:** And those airports would also involve a good component of hardware?

**Arvind Thakur:** No, it will involve some investments in infrastructure appropriate to that airport.

**Shradha Agrawal:** By when do you think we can be in a position to add?

- Arvind Thakur:** I think maybe end of this quarter or next quarter.
- Shradha Agrawal:** I think this is for the first time you have kind of given us that the number on the contribution of digital to your overall revenue. So, could you broadly highlight as to what all do you include in Digital and what was the contribution organically and what has been added through Incessant in this?
- Arvind Thakur:** So there are three elements to this – one is Digital Experience, which as Sudhir said is 50% of that 14%. Digital Experience has to do with all the work that we do for multichannel engagements, mobility and so on. That is what is the element. The second is Analytics which is all the work that we do in predictive analytics and all the solutions that we offer to the insurance business around our products in Analytics. That is a second piece. And the third is Digital Integration which is the revenues from Incessant. So these are the three elements.
- Shradha Agrawal:** What would have been the growth rate of Digital business organically, sequentially if you could give us some indication of that number?
- Arvind Thakur:** You will have to do some calculations. I think last quarter if I am not mistaken, it was about 9% of revenues, now it is 14%. So if you can just do a little calculation you will see what the growth is. About 3.5% probably is Incessant, so 10.5%. I think if you do a little mathematics you will get that number.
- Moderator:** Thank you. The next question is from the line of Omkar Hadkar from Edelweiss. Please go ahead.
- Sandip:** Sandip here. I have two observations – one, on the client metrics, I do not know why that there is a change if you see in the number of clients in different categories. So the client number has come down in the 10 million category by one from 6 to 5, but there is no such increase in the second category. So, with the total we have lost one client, basically 10 million it has come down from 6 to 5 but between 5 to 10 remains at 12 and between 1 to 5 is 54. So, is it a cascading effect like 10 million reduced and got into 5 to 10 has gone into 1 to 5.
- Arvind Thakur:** As I explained to you, the client which has gone out of 10 million is Airport Authority. That is a large program which was upfront had high revenues, but in the O&M phase will have low revenues.
- Sandip:** So, it is now sitting in which category, like it is 1 to 5 or...?

- Arvind Thakur:** It is in 5 to 10, the next category.
- Sandip:** Second thing, on the BFSI side, if you see this quarter obviously there was a huge growth, but barring Insurance, what is driving the growth? And, is it really some early sign of strong demand which you are sensing can happen here or what is it? And secondly, also, on the composition side, the Insurance has gone to 20%. So, it is just growth driven percentage change or is it something else? And also finally, ADM has gone up to 63% of business and I do not think there will be Incessant here. So can you explain those things?
- Arvind Thakur:** Just to answer your last question, yes, Incessant is very much there. So, all Digital revenues for example are coming as part of the ADM at this point in time because you are building applications for your clients. So, that is also over there. And as far as BFSI is concerned, Sudhir do you want to comment on it?
- Sudhir Chaturvedi:** Yes, you are right, that the primary growth has come from Insurance, but in Banking, the growth has come because of Incessant's strong presence in Banking as well as some growth that we are seeing in existing accounts in Banking.
- Sandip:** Incessant, right now, if you see in the integration part, like it is a quarter thing but you do not think that any of the clients would have got like 50 new logos you have added, they are not falling into the category of between 5 to 10 and 10 and above. That is, what is the case right now?
- Arvind Thakur:** That is right, they are basically a million dollar clients.
- Abhishek:** This is Abhishek from ICICI Direct. If we adjust the contribution of Incessant, the organic number seems to have declined of 0.4%. Could you just break that number into what is the growth in International business and what is the decline in the Domestic business?
- Arvind Thakur:** I do not know where you have done your calculations, but our growth excluding Incessant is 1.3%; 4.7% is growth in International and 19% is decline in Domestic.
- Moderator:** Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Just a couple of questions on the Digital front: Could you please help us in understanding what percentage of the incremental spend of top-20 clients are coming from Digital? And is there any change in the set of vendors who you see is

competition on those kind of deals? And lastly, what is happening on the non-Digital or the traditional business, is there any shrinkage because of the new technologies like Cloud and all those kind of things which maybe driving the growth rates?

**Sudhir Chaturvedi:** As I mentioned in the top-20 we have grown 4% sequentially and a significant part of that growth comes from Digital engagements and testing. Those are the two service lines that have been driving the growth in the existing business. Second, in Digital Services, what we see is that there are some global majors that are quite active in that space. But we also see certain boutique operators in that space as some who have strong sort of creative skills. So we see competition on both sides. That is in the Digital Experience space, but in the Digital Integration space, where there is a need for deep understanding of technology and domain in order to integrate legacy, back-ends with digital front-ends, that is an area where we see more traditional competition and with our investment in Incessant we think we have an edge over players in that space.

**Gaurav Rateria:** Lastly, on the shrinkage in some parts of the non-Digital business, because of Cloud and those technologies which maybe dragging down the growth rates?

**Sudhir Chaturvedi:** Actually, as of now in Cloud is, the cloud deployments in enterprises are increasing, but at this point in time, what we are saying is that the budget growth that we are saying in terms of spend from clients is primarily in the Digital Services space. What we see on the traditional ADM and traditional Infrastructure Management is the continuing expectation of continuous improvement as in some reduction in year-on-year cost, which is being done through a combination of essentially of automation as well as reduction of volume. So those are the kind of things that people are focusing on. And Cloud will become a more important part but it is actually leading to the estate, it is not necessarily leading to a big change in the estate, because most of our clients are also on a growth path themselves.

**Moderator:** Thank you. The next question is from the line of Karan Uppal from Equirus Capital. Please go ahead.

**Karan Uppal:** How much growth are you expecting from Incessant for FY16?

**Arvind Thakur:** I think there was an estimate which somebody earlier made where he was computing what was the likely growth, around 20% is what he had estimated.



**Moderator:** Thank you. The next question is from the line of Ashish Aggarwal from Antique Stock Broking. Please go ahead.

**Ashish Aggarwal:** Sir, I have actually two questions; first of all, on your deal signings, your deal signings of \$97 million in this quarter looks pretty low and I understand you have already clarified on the executable order book, but this executable order book will also consist some parts coming from Incessant. So just wanted to understand, why the low deal signings which I think will also be adding up the Digital deals which are coming in? So first question is around that. And second question is majorly around margins. If I look at your FY15 over and above the Rs.80 crores provision which you have created on account of the problem in one of the accounts, there have also been provisions created I think this is on account of the domestic account, that is what I understand, so is that going to continue in FY16 or this could help you around 2% on your margins?

**Arvind Thakur:** Let me take the first question first; I think I did explain earlier that the new business that we are acquiring particularly in the Digital Services space, they tend to be small contracts, they are not large long-term contracts, but there is a run rate which is maintained as an account of engagement in that space. So, these programs typically they wind up within two months of starting. Digital really are all about short cycle implementation of very quick applications. So, I think Sudhir also commented that an intake would typically be around your revenue run rate in this situation because whatever revenues you earn is the intake for the Digital kind of business would be the revenues you earn in that quarter. Regarding your other question on provisions, they are being continuously and in this case we are looking at the major programs in India government which have gone live and they are going live in FY15 and FY16 and these are regularly reviewed in terms of there are any delays and then you evaluate those deliveries contribute to for example losses on account of gap warranty. So you may have acquired hardware for the client, but because the program has got delayed, the warranty will actually start only after it goes live but you continue to pay warranties to your OEMs. So you make an assessment of that and take a provision of that or sometimes if there is a delay then there could be provisions that you may need to take for liquidity damages. There are also times when if there is a delay you have to estimate what will be the cost to complete and then you have to provide for that in the same year. So these are some of the provisions which have been taken on a large government programs and they have been taken based on our assessment of what the realities likely to be.

- Ashish Aggarwal:** But since most of these government projects have already gone live in FY15, will we see a similar kind of provisions in FY16 then?
- Arvind Thakur:** No, you would not see similar kind of provisions, but there are still some government projects which are going on, which you have to continuously keep estimating. So only to that extent is where you will see provisioning.
- Ashish Aggarwal:** Can we safely assume some part of margin gain would have also come from these provisions and not being there in last two quarters...I am not taking about Q1?
- Arvind Thakur:** No, as long as these government projects are there, you have to prudently keep making those estimates.
- Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.
- Ravi Menon:** Two questions here; one, on your break up of onsite and offshore billable personnel, how much is from Incessant and how much is your addition?
- Arvind Thakur:** In Incessant, out of 352, 70 are onsite.
- Ravi Menon:** So practically, all the increase in onsite personnel come from Incessant?
- Arvind Thakur:** Yeah.
- Ravi Menon:** Secondly, your attrition rate has actually come off year-on-year and since you are involved a lot of the work that is coming up is Digital. How do you expect that, you should see a little bit of high attrition because the talent pool is in short supply. So, can you help us understand why your attrition is actually down year-on-year?
- Arvind Thakur:** Attrition depends on various factors. I think what it has to do is it has to do with the policies of the organization. One of the things is that we are always benchmarking ourselves with respect to the industry on compensation. And we have given a compensation on time, we have not kept anything ambiguous, as usually first quarter is a period in which a lot of attrition happens because people get the increment and then decide whether to stay or move on. I think that whole process has been handled well in the organization. Also, there could be some base effect because the number of people that we have added is significantly more. So, if there is a higher number of attrition it would be over a larger denominator.

- Ravi Menon:** If I could have one more follow up, what sort of people do you think you would recruit over these... would it be a lot of fresh graduates or more laterals, a rough proportion of that would be helpful?
- Arvind Thakur:** Actually, when we look at Digital Services, there is a tendency to have more experienced people because the capability required is more in terms of being able to understand the customers' requirements and engagement. And as I mentioned earlier, the programs are very short cycle. So, there would be a tendency to bring in experienced people into the organization to support the Digital business.
- Ravi Menon:** Would you see that more of these hires would be onsite as well and would you say are you adding more business analysts too?
- Arvind Thakur:** As Sudhir gave a breakup of the Digital business, when you are looking at Digital Experience, we are looking at more onsite people getting added, if you are looking at Analytics, yes, you are looking at adding data scientists and those kind of capabilities and a lot of that is likely to be onsite, when you are looking at Digital integration, that is where you are connecting the front end with the back end, that is where you will see more additions in offshore.
- Ravi Menon:** On the business analysts, roughly, how many business analysts would you have in your company right now and what do you see that number maybe end of this year?
- Arvind Thakur:** I do not have that number really to share with you.
- Sudhir Chaturvedi:** Get back to you on that.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** I would like to know where you see Digital revenue which is at around 14% over next 2-years, if you can give us any ballpark figure as a trend?
- Arvind Thakur:** Cannot give you a ballpark figure, I can only say it is going to improve quite dramatically.
- Vipul Shah:** Can it reach 20% within 2-years?
- Arvind Thakur:** It is possible, yes.

- Vipul Shah:** When I see this standalone result, the profit is Rs.72 crores and consolidated it is Rs.58 crores. So, am I missing something or these figures are correct? So, why is there a difference of Rs.14 crores between standalone and consolidated profit?
- Amit Roy:** This includes actually a dividend from 90% subsidiary which is GIS, the dividend is included in the income, hence it is up....in the standalone.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Just on the order book, the executable order book should have gone up by the annual revenue size of the Incessant. So, is it fair to say why it has just gone up by \$5 million?
- Arvind Thakur:** I just explained to you that Digital business does not have large intake. So what happens is even if you look at Incessant, they have MSAs which run into multiple years, but they execute on SOWs which are short engagement. So you cannot really take an intake for 3-years, you can only take the intake for the quarter in which we execute.
- Sudhir Chaturvedi:** On the executable, because our government business is declining and we are not doing new deals, that also has an effect on the reduction, there is a reduction in executable because of that.
- Sandeep Shah:** What I meant was last quarter was 295 and if we assume annual revenue size of \$20 million from Incessant, plus some decline through domestic, then the difference is just a \$5 million which we reported as \$300 million. So, you are trying to say that for Incessant we may not be including the whole 12-months...?
- Arvind Thakur:** Exactly, probably only 4 million out of that 20 million as intake.
- Sandeep Shah:** Sudhir, just the question is in terms of order intake in this quarter. So are you happy versus what you anticipated at the start of the quarter or are there some misses or delays in the same?
- Sudhir Chaturvedi:** I am focusing on essentially our growth in our top-20 accounts as well as the overall pipeline in the business. That is the lead indicator for order intake for both of these aspects. So in existing accounts, we will continue to see the discretionary spend... the growth will come from the discretionary spend. I think there was an answer to a previous question also on Digital Services. So, the discretionary spend in Application

Development is primarily Digital and that is where the growth is coming from. So that will be in line with quarterly revenues. In terms of the pipeline, there it is a focus on Digital plus larger sort of deals...\$20 million plus deals. So we actually have some reasonable amount of deals which are in the \$10 million plus and \$20 million plus category. So that is what we will focus on here in top-20 growth as well as converting some of these larger opportunities that we have in the pipeline.

**Sandeep Shah:** Just last book-keeping is, as others as vertical, if I am not wrong, I think there are two things which are material – one is GIS and second is Morris – so, the decline in GIS is larger than the increase in Morris but despite that the others contribution has moved up from 14.4% to 16%. So, what has led to this?

**Arvind Thakur:** Besides Morris, we have other also media clients.

**Sandeep Shah:** Anything to read about the IMS, is it largely because of the Airport Authority deal or...?

**Arvind Thakur:** Basically it is because of that.

**Sandeep Shah:** So excluding that, the IMS how is the outlook because we had an attempt to cross-sell this to the whole lot of white space which we have identified earlier?

**Sudhir Chaturvedi:** Correct, in fact, the pipeline that I mentioned to you which is above \$10 million and \$20 million, there is a significant IMS portion in that and the good thing is that this is an international geography.

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

**Dipesh Mehta:** Just about Incessant, I think you suggested revenue for the quarter is around 221 million. Is the number right or I understood it wrong?

**Arvind Thakur:** 221 million is right.

**Dipesh Mehta:** What was the margin there reported in terms of EBITDA?

**Arvind Thakur:** 30%.

**Dipesh Mehta:** Does that entity operate at similar kind of depreciation rate or it has something different than what our business is?

- Arvind Thakur:** Policy is same.
- Dipesh Mehta:** Not policy, in absolute number, because our depreciation has largely increased, because of organic or some contribution came from Incessant also?
- Arvind Thakur:** Some contribution from Incessant as well.
- Dipesh Mehta:** Second question is about unbilled revenue. I think last year we saw significant improvement in unbilled.
- Amit Roy:** 722 million to 926 million , it has an increase of 204 million this quarter but we are maintaining the same 50 million less than 180-days.
- Dipesh Mehta:** What is the absolute number you suggested at the end of the quarter?
- Amit Roy:** 926 million.
- Dipesh Mehta:** What was that in Q4 end?
- Amit Roy:** 722 million.
- Dipesh Mehta:** Can you share free cash flows (FCF) generation during the quarter excluding Incessant payment?
- Arvind Thakur:** I think that we will need to just compute and get back to you.
- Moderator:** Thank you. The next question is from the line of Amar Mourya from India Nivesh. Please go ahead.
- Amar Mourya:** Sir, my question is broadly on the revenue growth front. If I saw and articulate the two strategies which we are talking about is one is the cross-selling of the Digital opportunity, and secondly, growing from the traditional business. So, if I see today, from Incessant 15-clients which we got are small clients. So, do we have the opportunity to cross-sell this kind of clients to steady state average client run rate from to an NIIT Tech level is that or Incessant services are going to be cross-sell to our existing clients, how is it going to happen?
- Arvind Thakur:** First, let me just correct your perception, Incessant clients are not small clients, have a very large financial institution, but since they operate in a very specialized area, their revenues are at a run rate of million, etc., So they have a very large clients and

in fact, gives us an opportunity to cross-sell to those large clients. But, on the others, Sudhir, do you want to...?

**Sudhir Chaturvedi:** As Arvind said, similarly, if you look at our clients' base across BFSI and Travel, we have a significant number of customers with... Incessant provided us a capability which was a net new capability, no overlap here, and is the other area that we are taking them to and that is the joint sales model.

**Amar Mourya:** So the recent deal which we had won primarily the joint deal model, does that deal includes a lot of traditional business?

**Sudhir Chaturvedi:** That is a new logo win that we have got with the travel client. Travel is one of our strengths areas. So that was part of our must-have account strategy, and we have opened that account jointly with Incessant. The contractors with NIIT Technologies and there are going to be cross-sell opportunities going forward.

**Amar Mourya:** What I am trying to understand here is that if I see the overall cross-sell opportunity between these two acquisitions, what was the quantum which we see over a period of time? Why I am asking this to you sir because I think the last acquisition of Sabre which we did in Travel and Transportation did not work the way it has to work for us.

**Arvind Thakur:** Why do you say that? I think it worked quite well, it got us annuity business from Sabre, it helped us establish a presence in Manila which we did not have, as a result of which we have acquired new clients in that facility. So I think it has worked well for us. As far as Incessant is concerned, as Sudhir has pointed out, it gives us a capability which we do not have in the organization and that allows us to gain access to customers and clients which we did not have earlier. So if I look at the overall positioning of NIIT Technologies, we are very strong in Travel and Transport. I think that is where we have very strong brand presence and critical size. I would say we also are very strong in the Insurance space, we even have our intellectual property in that particular space. But in the BFS space, we are somewhat undifferentiated. But now the Incessant, really, we have a specialization which are very few of our competitors can match. And I think that is what we are going to leverage to scale our business with these large financial institutions. So, we enter with Incessant and then we see how we do other business in those accounts.

**Amar Mourya:** I believe Incessant has a lot of BFSI clients, right?

- Arvind Thakur:** Yes, they have only BFSI.
- Amar Mourya:** So you see a lot of cross-selling which is going to go from the NIIT level to the Incessant's clients, right?
- Arvind Thakur:** As well.
- Moderator:** Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Sudhir, just taking off from where you left on the Digital part, what do you think is the bigger market opportunities – is it the Digital Experience or the Digital Integration and are these two completely separate streams of revenues or do you think one leads to the other?
- Sudhir Chaturvedi:** A good question, actually, these are linked, so Digital Experience is where people are leading with because they are catering to the market demand right now which is to create better Digital Experience for their customers, so it will lead with Digital Experience, but for that experience to be seamless, it has to be integrated with legacy back ends at least as far as the Fortune 1000 to Fortune 2000 companies are concerned. So, one will lead to the other. Now, in terms of the data that is there, in terms of the projections that people have made, what we are seeing is that the ratio of Digital Experience to Digital Integration could be anywhere from 1:1 to 1:4. There is a much larger opportunity in Digital Integration. But for that opportunity you need to have a very specific skills both technology as well as services and more importantly very deep domain knowledge. Because that is where it kicks in as in your ability to understand how do you integrate in a Digital front end with a legacy back end. I think that is where our focus on Travel, BFSI, have sharp vertical focus as well as some of the technology capability that we have acquired through Incessant, as well as some of the new capabilities that we are looking to basically partner with, there are other companies that we are also looking to partner within that space. We feel that gives us an edge in the market and we will continue to focus on that.
- Gaurav Rateria:** So Digital Integration is likely to be a bigger market opportunity and the recent acquisition also gives you some differentiated capabilities but if it is going to be led from Digital Experience, then do you not think Digital Experience is going to be your area where differentiation is going to become even more important from vendors point of view? And if that is the case then what is the differentiation you will have compared to any other vendor who you are competing with right now?



- Arvind Thakur:** Actually, these are somewhat mutually exclusive. So, Digital Experience in fact requires a lot of front end creative capabilities. One of the reasons why you are seeing the likes of Accenture performing better than some of the Indian peers is because they have strong front end capabilities to be able to engage in the Digital Experience space. Digital Integration is actually more up our ally. It is basically these platforms which are created need to be integrated with the back end. So for Indian IT offshore providers, that is a bigger opportunity. And I think we have sensed it and we have recognized it and that is the reason why we have made the investments to strongly position ourselves and leapfrog the company in this particular space.
- Gaurav Rateria:** If Digital keeps on increasing as percentage of revenues, will it be net-net margin-accretive to the company or do you think in the initial years that could have a negative impact on the margins?
- Arvind Thakur:** No, as a matter of fact, as we are just seeing even now, it is accretive.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the conference to Mr. Arvind Thakur, CEO, NIIT Technologies for his closing comments. Over to you, sir.
- Arvind Thakur:** Okay, thank you very much for joining in this call. I think we exceeded our time by about 20-odd minutes, but it was a wonderful interacting with you and getting your views. Take care.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of NIIT Technologies, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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