



TRANSCRIPT: NIIT Technologies Ltd Q1 FY2019 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 NIIT Technologies Limited Q1 FY 2019 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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhinandan Singh, Head – Investor Relations and M&A at NIIT Technologies. Thank you and over to you, sir.

Abhinandan Singh: Good afternoon and welcome everyone to our Q1 FY2019 Earnings Conference Call. You would have received our emails with the results already. It is also available at our website www.niit-tech.com.

We will begin today’s forum with opening remarks by our CEO and after that, the floor will be open for questions. Present along with me today on this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our Vice Chairman & Managing Director; and Mr. Sudhir Singh our CEO to whom I would now like to hand over the floor. Over to you, Sudhir.

Sudhir Singh: Thanks a lot. Very good evening to you folks. Before I delve into the quarterly results, a quick note. You might have seen our intimation about Amit Garg who is our CFO, who is leaving the organization to pursue other exciting opportunities. He is present with us in the call today and he has served the organization very well and he was a great success.

His last working day here is the 27 July. And also present on this call with me is the CFO Designate Mr. Sanjay Mal who will take over from Amit as the CFO effective the 27 July.

Sanjay is a commerce graduate from Delhi University and an alumnus of Wharton, having a rich experience of over three decades in finance. He has been associated with the NIIT Group for the past two decades and last held the position of EVP & Head – Group Strategic Finance. His core expertise lies in corporate finance, treasury, investor relations, deal structuring, risk management and corporate governance. I look forward to inducting Sanjay to my leadership team.

So, let me start off with the revenue analysis:

We are pleased to share that the revenue grew 16.4% over the same quarter last year. And it expanded 4.6% sequentially to Rs. 8,249 million. Growth in constant currency is 3.3%. The strong performance comes in what is a traditionally a weak quarter for our firm. In quarter one we have grown organic revenue by 4.6% Quarter-on-Quarter despite the seasonalities in the GIS business and the ramp down of Morris which was expected due to their acquisition by Gatehouse.

What has also been happening is that the revenue growth has been broad based across all three of our major verticals. BFS has expanded 8.8% sequentially and it now contributes 16.8% of the

revenue. Insurance has grown 10% Quarter-on-Quarter and now contributes to 28.5% of revenue and the third segment Travel and Transport has gone up 7.7% Quarter-on-Quarter and it contributes to 27.1% of the revenue. Seven out of the nine new clients that we have added this quarter have also come from these three focus verticals.

The other smaller segments outside these three collectively declined 5.3% Quarter-on-Quarter due to the ramp down of Morris and the seasonal decline in GIS. And they now represent 28% of the overall revenues. Moving on, the Geo based growth cuts also show sustained performance. Americas, which contributes to 50% of our global revenues grew by 8% despite the headwinds in Morris. The growth in the Americas came on the back of the growth in the Travel and the Insurance verticals.

Revenues again expanded 6% sequentially in EMEA which now represents 32% of the revenue mix. And the expansion in revenues in EMEA was on account of growth in Digital engagement specifically in the insurance vertical. APAC contributes 10% to the firm's total revenue. And India contributed only 8% to the firm's total revenue and as contracted by 17% on account of seasonal decline in GIS software product sales. The top 5 clients now contribute only 27% of the total revenue and the Top10 and Top20 contribute 36% and 49% of the total revenue respectively, representing broad based growth.

The number of million dollar clients has expanded to 84 this quarter from 80 last quarter and 72 in Quarter 1 of last year. The revenue trend and revenue quality have both seen a sustained improvement over the past quarters. We believe that the continued reduction in the top client's revenue concentration, the broad-based growth across all three verticals, the decrease in contribution of India to the overall revenue along with the significant acceleration in new logos acquisition and order book generation from the western market has improved the revenue profile of the firm materially. So, that was a quick shot at the revenue analysis.

Moving on to margin analysis:

Operating profit at Rs. 1,306 million represented a 17.9% improvement over the same period last year and a contraction of 7.8% sequentially. Operating margins have increased by 21 basis points in reported terms and 60 basis points in constant currency terms over the same period last year. It reduced by 213 basis points Quarter-on-Quarter to 15.8%. This movement represents the wage hikes, H1B visa fees and the lower GIS revenues.

Net profit for the quarter are at Rs. 858 million. They are up by 67.4% Year-on-Year. In Quarter 1, Fiscal Year 19 which was this quarter DDT is recognized in statement of changes in equity as against the charge to the P&L as current tax expense in Quarter 1 Fiscal Year 18. Net of this change that Year-on-Year growth impact is 39.6%. Effective tax rate during the quarter stood at 24.9%.

Moving on to order intake now:

The order intake story remains very strong. We secured fresh business of \$151 million during the quarter. Of this \$151 million order intake this quarter, \$69 million came from the US, \$56 million came from EMEA and \$26 million came from the rest of the world. The trend line of order intake starting from Q1 of last year for five successive quarters now reached at \$110 million in Quarter 1 last fiscal that was followed by \$122 million in-turn followed by \$130 million, last quarter was \$145 million and this quarter is \$151 million as I said. We added 9 new customers during the quarter, 5 of these were in the US, 3 were in EMEA and 1 from the rest of the world. You will remember we had added 7 new customers in last quarter.

The firm also recorded three \$10 million plus contracts through the quarter. These included an award from one of the largest BFS customers to support our client on-boarding and wealth management support expansion exercise for the firm. We secured also the mandate from one of the largest European airlines for work including driving their data and digital transformation initiatives. And furthermore, in addition we secured a product development support mandate from a key travel major.

Importantly the firm's digital business scored some of the largest wins in our history in this quarter. We signed material new contracts with a key client in the UK and with one of the largest banks in Australia. We have also signed our first material off-shore based security operation center contract for one of the world's largest airlines. There was a large cloud migration exercise from an insurance major that was secured as well. So, the order book is receivable over the next 12 months continues to expand and now stands at \$347 million.

This has risen from \$320 million as on the same period last year despite the Morris ramp down. Some color around pipeline. The pipeline continues to strengthen as evidence in the order book number of \$151 million and the order executable number of \$347 million. The pipeline of prospects post the 9 new clients added for this quarter that I just spoke about continues to be robust. We believe that we have now established a new normal of around 8 new clients per quarter from the 4 to 5 new clients per quarter which was around a year back.

We had an active conversation to close an even larger automation contract in the coming quarter with one of the world's largest leasing firms. Across the business we see demand picking up and acknowledgement of our capabilities getting sharper in spaces around cloud, data, digital experience and automation. The vertical industry pivot that we have taken around DFS, Insurance and Travel and Transport has resulted in an almost immediate revenue boost that you have seen. And more importantly a sharper market positioning which is translating to significant widening and deepening of the pipeline fund.

Moving on to Delivery:

We have accelerated our efforts around internal automation and orienting ourselves to a factory-based approach for the backend. Our material portion of the 60-basis points improvement in operating margin in constant currency terms over the same quarter last year has come on the

back of these efforts. We believe this approach will help drive quantum changes in productivity and client satisfaction.

Our efforts through the past few quarters to incubate and drive growth across newly segregated service lines like Cloud and Data/Automation that we have spoken about have also started bearing clear fruits now. Both these service lines are on track to record material growth this year and they have been effective spearheads for opening new clients as well. There is a new CTO, (Chief Technology Officer) organization with a focus on cognitive technologies and Blockchain, which was established last quarter to aggregate our capabilities in these two fast growth areas. We plan to mirror the market and revenue impact that we have achieved in cloud, data and automation spaces in these too, that is cognitive and block chain technologies, as well in the quarters to come.

People metrics: There was an increase in headcount by 341 during the quarter. The total headcount at the end of quarter now stands at 9,764. We have now added close to 670 net new employees over the last two quarters. The utilization this quarter also improved to 80.1%, attrition stands at 10.1%.

From a leadership perspective, the conscious and the aggressive addition of lateral Tier-1 talent continues. I had shared in the last call how we had hired an Accenture Managing Director as our new insurance leader and appointed an Infosys/Capgem leader as the BFS head.

The RPA (Robotic Process Automation) business for us is now headed by a Cognizant veteran, the Cloud business by a Microsoft veteran, the Automation business by an Infosys/TCS veteran and the Australian business by an ex-TCS/Fujitsu veteran. In this quarter, in addition to what I just spoke about, we have effected two key client partner changes in two of our top 10 accounts to ensure that the process of lateral Tier-1 leadership talent induction accelerates. In addition to these two we also hired two industry veterans with around 30 years of experience each across Insurance and BFS in this quarter to act as the transformation consulting leaders reporting into the BFS and Insurance business heads. The Travel business and you would have seen this from the results has rebounded smartly for us and that too has seen recent leadership changes both at the front-end and the backend.

In this quarter a new compensation philosophy was rolled out as part of the annual compensation review that was concluded. The range of increments basis performance across the organization has been doubled to drive sharper differentiation. On the sales front we have quadrupled the payout for large deals.

And then finally we talked in the last quarterly call around our plans to fundamentally restructure the organization from a geo-based structure to an industry-based model. That change exercise is now complete and it has helped further strengthen and sharpen the client-centricity of the organization.

Balance Sheet key metrics:

Cash and bank balances stood at Rs. 6,849 million which was a decrease of Rs. 1,209 million over the previous quarter and an increase of Rs. 687 million over the previous year. Capex spend during the quarter was Rs. 302 million and debtors at the end of quarter was at 75 days of sales outstanding. Last quarter the number you will remember it was 70 days. The outstanding hedges in USD are \$60.15 million at an average rate of Rs. 67.56 to US Dollar. In British pounds we have £13.05 million outstanding at Rs. 92.38 to the British pound. And in Euro that number is €4.5 million at Rs. 82.51 to the Euro.

Finally circling this out to the outlook:

The macro environment has been relatively stable since we spoke last in May, although there has been some uptrend in oil prices and weakening of the rupee. Recent estimates for the US economic output in the second quarter of 2018 continues to anticipate continued growth. Last month which was June 2018, the IATA (International Air Transport Association), released its revised forecast for the year 2018 where they had expected 2018 to be a healthy growth year for the Airline Industry although it estimates that Industry wise profits might moderate due to rise in costs.

As per the update issued by the IATA last month passenger volumes in RPK which is Revenue Passenger Kilometers, is expected to grow 4.5% during 2018. Insurers too seem to have picked up on the technology investment compared to previous years according to a study by Celent and this is a study called “Life Insurance CIO Pressures and Priorities 2018”, IT budgets in the insurance sector are expected to rise this year with a lot of those dollars going to innovation efforts. The capital markets push in spending to drive revenues and manage the regulatory environment continues.

Coming off last quarter you will recall we had indicated that despite headwinds from Morris and GIS we would expand our revenues on a Quarter-on-Quarter basis. As noted we have delivered our strong Quarter-on-Quarter performance with all the major verticals BFS, Insurance, Travel and Transport showing robust growth in international geos during the quarter. As we look forward we expect the growth momentum and the margins to strengthen further going ahead.

Our confidence in this regard is borne out of multiple factors. They include the broad-based growth we have seen, the sustained deal flow, the significant leadership addition that has been done, the impact that both the hunting and the mining engines are creating for us and the traction that our newer technical capabilities that we spoke about have registered.

So, with those opening remarks I look forward to addressing your questions. Thank you very much.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.
- The first question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir, the top lines have been a bit weak even Quarter-on-Quarter and Year-on-Year. So, what is the reason for that?
- Sudhir Singh:** Quarter 1 for us is a soft quarter but in this quarter, we are actually very pleased with the Topline numbers that we are looking at. We are looking at, as I said 16.4% year-on-year growth. Quarter-on-quarter that number is 4.6% as we talked about. And this was also a quarter, which we talked about last quarter, where the impact of Morris was coming in. It has come in. It is 100% behind us. And these numbers have been registered despite those headwinds.
- Madhu Babu:** The top 5 clients, about the top 5 and top 10, is it mainly driven by Morris or any other client has been weak?
- Sudhir Singh:** It is only driven by Morris and that impact is fully behind us. In all the other Top 5, Top10 clients the relations are absolutely steady and improving.
- Madhu Babu:** Okay, ex-Morris things are looking very much intact?
- Sudhir Singh:** Absolutely no headwinds. Looking very solid, relationship are very, very strong.
- Madhu Babu:** Insurance vertical has seen a superior growth. I think 35% year-on-year growth. So, what is it? Is it the existing client ramp-up or the new deal wins from new clients?
- Sudhir Singh:** Insurance has actually been a mix of both. The existing top clients for us in this segment have expanded. And the new logo acquisition across insurance again continues to accelerate. We talked about 9 new logos that were added. Across the US and across NITL we continue to see traction across the revenue stream and also new logos coming in.
- Madhu Babu:** And just one last question. Last quarter we talked about a new deal win in Infrastructure Management from UK bank. So, how is that ramping up? And are we going to see more deals in the IMS and BPO side on the horizontal lead strategy?
- Sudhir Singh:** That has worked out very well for us. The transition for that engagement is now behind us. The transition was closed on time on budget and with a very positive voice of customer from the client. That has worked out very well. IMS and BPO and within BPO we also house our RPA capability continues to have a materially strong pipeline.
- Moderator:** Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

- Pankaj Kapoor:** My first question is on the executable order book which seems to have grown at about 8% to 9%. Your revenue growth obviously is trending ahead of this. So, I presume that maybe because of some short term digital project which came in and get executed between the quarter so first if you could correct me if I am wrong.
- And second is if that is the case why we are not seeing the kind of increase in longer duration digital projects? You did mention some projects in your opening comments. So, if those are going to come in with the pace that you are talking about then should we expect that the revenue growth can possibly a bit slow down going forward?
- Sudhir Singh:** Thanks for your initial comments. Your analysis is correct. While order intake continues to accelerate on a quarter-on-quarter basis, as I said it was \$110 million same quarter last year and it is \$151 million in Quarter 1 of this year. The proportion of digital business for us has gone up materially. Our digital business in this quarter is about 150% of what it was in the same quarter last year. The point that you said around digital business and digital wins being short sighted is absolutely correct.
- They tend to be shorter cycle. They tend to be slightly higher margin, materially higher margin in some cases. And that is what is ensuring that the executables growth is not on the same sharp gradient that the order intake growth is. So, that is an absolutely fair assessment from your point of view.
- Pankaj Kapoor:** So, going forward with the kind of deal wins that you mentioned in the opening comments how should we see the movement happening in the executable order book or as well as in the revenue outlook?
- Sudhir Singh:** I think the revenue outlook, given what you have seen in this quarter and I said this earlier, this was supposed to be a soft quarter for us, we feel very confident around the future outlook. Moving forward we expect the momentum to accelerate beyond what we have seen. That is order book and executables again we expect to see that continuing to ramp up.
- Pankaj Kapoor:** If you can quantify the incremental impact of Morris and is it right that this is probably the last quarter and the impact possibly would have bottomed out in this quarter?
- Sudhir Singh:** So, Morris in this quarter and we do report, or we do share our segment wise details with you for the quarter. We have recorded Rs. 146 million by the way of revenue of the JV. So, that is how we see it. Moving forward we see absolutely no further negative contraction happening because of the Morris buyout by Gatehouse.
- Pankaj Kapoor:** And just lastly, if you can help me with the operating cash flow that we had in this quarter and also on the tax rate I think if you can just re-explain why it was lower in this quarter and what could be the likely tax rate we should build in our model for this year?

- Amit Garg:** We believe we will be closing at around 25% as the year end effective tax rate for the company. What you are seeing is a lower tax rate versus previous year's same quarter. Any tax expense that we used to take for dividends that we received from our subsidiaries, was treated as tax expense. Now there is a circular from the institute which allows us to set it off against our DDT liability in the balance sheet. Accordingly, the company has adopted that practice and that is why you are seeing tax rate to be lower and that has been disclosed in our financial statements also.
- Pankaj Kapoor:** And Amit what was the operating cash flow for us in the quarter?
- Amit Garg:** The operating cash flow was around Rs. 691 million.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead.
- Sandeep Shah:** The first question is, if you look at the onsite revenue mix it has gone up from 61% to 64% but however it looks like it has not impacted the margin. So, Sudhir, is it fair to say that this business is actually coming at a higher billing rate for onsite rather than a higher onsite effort which has led to a shift to the onsite revenue mix?
- Sudhir Singh:** That is correct. So, the shift that you are talked about from 61% to 64% is coming largely because the digital engagements tend to be onsite heavy. And to the second part of your question, these engagements, even though they have a higher onsite footprint, are high margin. That is how the interplays happens.
- Sandeep Shah:** And the increase in the digital deals are you seeing broad-based across verticals or the focus verticals, where you are seeing?
- Sudhir Singh:** We are seeing in across all the three verticals, so we have seen it across Insurance, BFS and Travel & Transport, all three.
- Sandeep Shah:** And in this quarter when you say three deals of more than \$10 million, largely these are digital related deals or largely a new business?
- Sudhir Singh:** It is a mix in terms of digital deals, in some of these cases part of the \$10 million plus portion of the order has a digital component to it but it also is a mix of the more traditional service lines like Data, ADM, Infrastructure, BPO that we have.
- Sandeep Shah:** And you said that one of your targets is to keep adding close to at least 2 large deals. I do agree that this quarter you had many deals but slightly lower than \$20 million but how do you see the pipeline and the winning of the large deals which you define as more than \$20 million?
- Sudhir Singh:** So, large deals, we have actually constructed an organization that is dedicated to large deals. We have quadrupled the bonus and the commission that people get for getting large deals and I expect the Quarter 2 to clock in at least two large deals which is the guidance we have given.

Quarter 1 being Quarter 1, a softer quarter we are actually very pleased with the three \$10 million plus deals that we have signed.

Sandeep Shah:

And when you say the future outlook and the growth momentum to accelerate, this is based on the order book which you have or you anticipate few more deals to be closed and that will give you acceleration in 2Q to 4Q?

Sudhir Singh:

I expect it to accelerate because I see no headwinds, material headwinds, moving forward. I see most of the headwinds behind us now over the last 2 or 3 quarters. Second, I expect it to accelerate because the order book, the order intake has been accelerating. Third, the large deals pipeline is looking robust from our point of view and fourth, the team seems to have settled down very well plus the restructuring/verticalization centric exercise has gone off very well for us.

And sixth, the large clients, the material clients for us, the relationship is very solid. So, it is an interplay of these factors that gives us the confidence that growth and margins will actually not just stay here but will accelerate from here.

Sandeep Shah:

And after many quarters, I think this time also again the export revenues ex of Incessant and the Morris has also been almost in dollar terms is like a 6% QonQ growth. So, you believe that even the momentum has been strong outside the Incessant related deals?

Sudhir Singh:

I think that is a very good observation and that is something that we have observed as well and that actually ties back to the earlier question that you had around why we expect momentum to accelerate around growth and margins. That is largely because all engines across the firm are firing. And as I said the verticals are firing, Incessant is firing, it is as broad based as one can imagine growth across all BUs.

Sandeep Shah:

So, is it fair to say like typically we have 2Q to 4Q is good both in terms of revenue and margin even this year that seasonality will continue where 2Q to 4Q are good both in terms of revenue and margins?

Sudhir Singh:

So, you know we do not give a guidance, but I can just share our plans with you as we have every quarter when we caught up. Given where we right now, given the factors that I just talked about we think Q2 to Q4 should definitely be very strong quarters moving forward.

Sandeep Shah:

Cash in bank, generally we repatriate some additional cash from the overseas subsidiary, Is there a figure this time we have done because we started from 1Q of last year. Is it the same thing happened this quarter?

Amit Garg:

Yes, this quarter we got money from our subsidiaries and that momentum continues.

Sandeep Shah:

Can you quantify?

- Amit Garg:** It is Rs. 92 crore, so Rs. 920 million
- Sandeep Shah:** So, last year was Rs. 55 crore or Rs. 56 crore, this time it is Rs. 92 crore?
- Amit Garg:** Yes.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.
- Dipesh Mehta:** Couple of questions. Just to start with data related thing. Can you help us understand the typical segmental breakup which we give for Morris, GIS, Insurance subsidiaries and then Incessant?
- Sudhir Singh:** Absolutely Dipesh. Let me just take a quick stab at it. And I am going to talk about revenue in Indian rupee terms and the operating margins. GIS Rs. 245 million, operating margin 8%, NITL Rs. 479 million, operating margin 27%, Incessant and RuleTek together Rs. 1,140 million, operating margin 24%, Morris Rs. 146 million, breakeven in terms of margin because of the exit costs and Proyecta Rs. 210 million at an operating margin of 14.5%.
- Dipesh Mehta:** Sure, the second question is about the revenue growth as well as overall demand outlook. You were indicating about acceleration in growth momentum. So, let us have one look at the YoY trend what we are witnessing from mid-single-digit kind of trajectory of last year Q1 we are now mid-teens kind of growth momentum. So, do you indicating we will see acceleration from mid teen to even higher by exit of this year, which would set very good base for FY20 kind of outlook?
- And second question related to that about margin. How one looks this rupee depreciation to have implication on margin, because earlier we expected when rupee was at different level, margin to improve from YoY perspective, now considering where rupees is how one should look margin expansion trajectory?
- Sudhir Singh:** So, Dipesh, first I will take the issue around guidance. As you will recall, we shared our plans at the beginning of the year where we said that we will target at least constant currency double-digit growth. Quarter 1 of course has been a very solid quarter for us. So, moving forward we feel absolutely confident about that minimum threshold that we had set for ourselves, as you can imagine. We do not share guidance. The intent is to really make sure that we keep ramping up the plans as quarters like this go behind us. So, while I cannot give you a guidance, the plan that we shared, I think you can see from this quarter's numbers that we have more or less secured it in terms of continuing momentum. Acceleration will hopefully take us beyond it. That is how we see this. I going to request our CFO to talk about the depreciation question being a rupee question that you have.
- Amit Garg:** So, Dipesh, what we do as you know is follow our hedge policy. And we have cross currency across Euro, GBP and Dollar. We do not see any significant benefits coming from that because

of such transactions that we have. Definitely there will be impact from unhedged transactions which would negate that, but I would not say it will make a significant impact on margins.

Dipesh Mehta:

And the last question is so broadly what you are indicating is there is no change in the margin guidance kind of thing than what you earlier indicated considering the way we book hedges into revenue line item kind of thing. And there would be some mark-to-market losses likely to happen?

Sudhir Singh:

So, I think what we are saying Dipesh here is, there are two things. Do we expect margin to improve, the answer is a very definite yes right, and that is what I said. We expect margin to improve significantly from where we are. The question our CFO was answering was on how is rupee depreciation going to play into it, and he was saying given the forward hedges that we have we do not expect it to play a role in it. So, two different questions; the answer is margins we do expect it to improve, but not because of the rupee depreciation.

Dipesh Mehta:

And last question is can you help us I think this quarter we have increased stake in Incessant and RuleTek. What would be the stake now, if you can help us?

Sudhir Singh:

So, at this stage Incessant we have a 90% stake and we have a 67.5% stake in RuleTek through Incessant.

Dipesh Mehta:

So, Incessant I think last quarter we indicated remaining 10% would be at the end of next anniversary. So, one year down the line. What about RuleTek remaining stake?

Sudhir Singh:

When we take the remaining 10% from Incessant in May of 2019 we will acquire another 12.5% from RuleTek at that point in time as well, in addition to what we carry of course.

Dipesh Mehta:

Okay and then remaining would be from RuleTek perspective?

Sudhir Singh:

Different year same month, the following year.

Moderator:

Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal:

I just had a couple of questions. So, one is on the Travel & Transport segment. We have seen the growth come back in this quarter and you also mentioned a couple of large deals that we basically signed in the Travel space. I just wanted to basically step aside a bit and just ask you on a broader level, with crude prices being so volatile and going high up and then probably now coming down a bit. Do you see an inherent trend towards Travel and Transport growth maybe a quarter down the line or two quarters down the line, because we have generally seen that the IT spend of these travel companies tends to come with the lag of a couple of quarters even on a positive or a negative side. So, does that worry you at this point of time or do you think there is enough pipeline in the market for us to be insulated against these volatilities?

Sudhir Singh:

So, Vibhor, great question for us. Travel is not just airlines which is a segment that normally gets impacted by price increases. Travel for us is hotel & hospitality. Travel for us is travel technology firms which are proliferating and the budgets there are going through the roof. So, if I look at the entirety of what Travel and Transport means to us, in the aggregate scenario we feel very confident that the rebound that we have been speaking about for a couple of quarters now which has got exemplified in the 7.7% quarter-on-quarter growth this quarter is going to continue moving forward. We do not really see a material risk moving ahead.

Vibhor Singhal:

Okay so maybe just to drill down that a bit further, do you see a risk to that airlines part of the travel and transportation domain and that could be mitigated more than enough by the other segments or do you believe the airlines could also continue to do well?

Sudhir Singh:

See the way we look at the airline space right now is we are looking at the IATA guidance. The IATA guidance actually expects the revenue passenger kilometers this year to go up by 4.5% which for the airline industry is a material jump. Basis that and given how the economies are faring across the world, how employment and unemployment numbers are trending we feel confident about where the airlines are headed. The airline clients that we work with, and we work with as you know some of the largest clients in the world, also seem to be reasonably confident about the medium to long term outlook.

Vibhor Singhal:

Fair enough. Sir, my next question was on basically the top client's growth, so I think that question has been asked before. But I just wanted to basically dwell a little bit deeper that not only just the top 5, but if we remove the top five growth from the top ten growth the clients, six to ten have also kind of declined on a QonQ basis as well as on a year-on-year basis in this quarter. Is this all due to these seasonalities, GIS and Morris, or there is more to it than we are basically reading here?

Sudhir Singh:

No, so I just want to reassure you. I think our top client relationship and outlook status is possibly one of the strongest that it has ever been in our history. I want to make that statement upfront because this question has come for the second time. The only reason why we see the contribution going down is twofold. One, the company's revenue has been going up materially and consistently and the number of million dollar plus clients that are not top 20 clients has been going up.

As I said same quarter last year, we only had 72 million-dollar plus clients. Today we have 84. So, it has gone up. That is one thing. Second, the only impact that we are looking at in these numbers is largely because of Morris. That is from the Morris JV, the Morris part of the business going away. Everything else is rock solid. And as I said earlier as well, no headwinds that we anticipate or see or expect moving forward.

Vibhor Singhal:

And regarding Morris, do we see it bottoming out in near future or have we hit the bottom or what is the availability on that?

- Sudhir Singh:** We have hit complete bottom, there is going to be zero negative impact moving forward and as I just answered to the earlier question that I was asked, around why do we feel so confident, one reason that we also feel confident is because we see no headwinds.
- Vibhor Singhal:** Okay so Rs.146 million that we did in this quarter should probably be the lowest number that we should go and probably we should look at a positive trajectory from here on, right sir?
- Sudhir Singh:** You are right.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde of Bank of Baroda Capital Markets. Please go ahead.
- Ruchi Burde:** I have a very small question. Could you quantify because of ramp down at Morris how much would be the impact on the executable book? If I recollect correctly, we have won our largest contract from Morris amounting about \$63 million in September 2016. So, as we conclude the ramp down at Morris, is there some executable book which has shrunk because of this contract?
- Sudhir Singh:** It had an impact on executables and all of that is fully baked in and despite the ramp down, executables have gone up. So, Ruchi, that is the position and it is going to have no negative impact on going forward business. Whatever negative impact it had to have, has been fully absorbed by us that has been more than offset by the growth that the executables have seen because of the strong order intake and moving forward nothing negative at all.
- Ruchi Burde:** It is good to hear that. I was just wondering if you could quantify how much we have lost on executable, what is the reduction big in that total number that we should see today?
- Sudhir Singh:** So, Ruchi, we do not share account by account numbers. The JV numbers we share every quarter, and I did share them right now on the call as well. So, you have the last quarter numbers, you have this quarter numbers. Within the JV, specific account-wise numbers is not data that we share.
- Moderator:** Thank you. We have a follow up question from the line of Sandeep Shah from CGS CIMB. Please go ahead.
- Sandeep Shah:** Sudhir, in BFS as a vertical there is a sharp rebound in this quarter as a whole. So, can you just give us what are the demand trends and this kind of a spending is sustainable going forward and how do you see your growth outside your top line within the BFS as a vertical?
- Sudhir Singh:** So, for us BFS as you know Sandeep is largely the capital market space. The demand in the capital market space is coming along two axis. One, firms continue to spend on the regulatory front to manage regulations that keeps changing. Second, of late for the last couple of quarters we see material budgets getting into the innovation funnel as well. So, that is where the growth has been coming for us.

The other interesting thing that has happened over the last two quarters with additional investments getting higher in Europe in addition to what we had. Even Europe BFS has started firing for us. So, BFS for us right now from a geo perspective is generating growth across the world. From a demand perspective money is getting assigned, funds are getting assigned by clients into addressing the regulatory imperatives and innovation. So, overall that are the drivers that are driving things for us.

Sandeep Shah: Okay. And in terms of if you look at just from a company specific issue, what can go wrong according to you to break this momentum for you?

Sudhir Singh: If you had asked me this question four quarters back I think I would have had a pretty extensive list to share because it could have been potential risk. At this point in time it can only be external risk like the visa regimes are getting extremely restrictive. I do not think that is likely. We have already learnt to live with the restrictions that have been imposed but something like the visa regime getting extremely restrictive in this space could be a risk, but that will not be a risk only for us, it will be for the industry as a whole.

Sandeep Shah: Okay and just lastly Amit can you just share exactly the hedging policy in terms of how much for the yearly net inflow we hedge and how the maturity for the quarter-on-quarter it looks like?

Amit Garg: Basically, from a hedge policy perspective, so we have outstanding hedges of \$60.15 million which we shared in our announcement. From a hedge policy they roughly cover 75% of our cash flows which are coming from outside from receivable of revenue into the hedge policy. The other 25% remains open.

Sandeep Shah: Okay but there would be a comparable portion within the quarterly exposure which would be also open for the spot rates right, because that portion may not be that low as well looking at your hedge position versus the total revenue?

Amit Garg: That is what I talked about when I mentioned the around 25% open exposure, and about 75% being hedged. These are for the dominant currencies which is USD, GBP, and Euro.

Moderator: Thank you. We have a follow up question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, in terms of this new deal wins which we have been winning, so what is the competition set in these deals, is it Tier-1 vendors, or is it the mid-sized vendors from India? Can you explain more on the competition against which we have won these deals?

Sudhir Singh: Absolutely. So, if I look at the three ~\$10 million deals that I talked about, the first one the principal competitor was a Tier-1 vendor actually one of the largest players in the world. The second one that I talked about was a mix of a Tier-1 vendor and two other mid-Tier-providers

like us. The third one which again was from travel like the second one had a mix I would say of an onsite based Tier-1 vendor and multiple mid-Tier-vendors.

Madhu Babu:

So, what is the advantage position which we are getting? I mean the differentiation position, is it the engagement with advisors or the stickiness with the client or ability to give better attention to the client?

Sudhir Singh:

I think the advantage that we are getting right now one quite clearly is the industry appreciation model. For vendors in our space and we did a conference in London this year where we spoke to industry analysts as well. The positioning that we have which is focused exclusively on only three industries resonates very sharply with clients because we do not walk in there saying that we were going to do infrastructure IMS, BPO, RPA and what have you. We walk in there saying we understand your industry. We understand illustratively in the travel context, cargo operations inside out. We are not going to be order takers.

We will come in with a point of view. We will make sure that you are going to look good in front of your CEO. So, that domain appreciation story is resonating very well. Incidentally in the leading European research firm Whitelane report that came out this quarter we were ranked number 1 across Europe when it came to domain appreciation. This is a Whitelane research. The second thing that is working well for us Madhu is the relationships that we have.

If you look at our top 10 relationships and the top 20 relationships, a lot of them tend to be ten plus years, twenty plus years in the quarter that just went, we celebrated a 20-year anniversary with one of the largest airlines in the world. We also celebrated a 10-year anniversary with one of the largest airlines in APAC. So, the relationship tenure and the client relationship strength that we have is the other thing that plays into it. There are a ton of other factors but if you ask me for the top two I would say industry appreciation and the strength of our client relationships with the top-ten and the top-twenty clients.

Moderator:

Thank you. We have the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer:

Just a small clarification. On the \$151 million new order intake that we had this quarter how much was renewals and how much were the new orders actually?

Sudhir Singh:

We do not give a breakup Sangam of renewals versus new orders. The overall trajectory of course as I said it was a \$110 million in the same quarter last year, it is a \$151 million right now. The mix has not materially swung either way. There has been a slight movement towards new, but we do not give an exact breakup in terms of this.

Sangam Iyer:

Got it and thanks for that. And secondly on the large deals, on the three \$10 million deals that we won this quarter, what is the execution tenure for the same?

- Sudhir Singh:** So, the first one the TCV of the deal was over I believe a three-year period. The second one was a five-year period and the third one again was a three-year period.
- Sangam Iyer:** Okay. Also, I mean I think Sandeep or some other participant did ask in the call regarding the large deals that you had alluded to which you define as greater than \$20 million, which you expect actually a couple of them getting closed in Q2. Could you throw some more light in terms of which are the verticals to which they cater to and any particular geography wherein these deals are going to fructify?
- Sudhir Singh:** So, Sangam it is not just two that are cooking right now, the number of large deals that we have cooking is significantly more than two. I have put in a number of two just to be conservative. If I look at the entirety of the pipeline that we have, the pipeline has spread across insurance, it spreads across BFS and Travel. If you go back and look at the seven large deals that we closed in the last three quarters, you will find again that those were spread largely around insurance and BFS. The good thing that we see is that Travel also is now in the hopper and the large deal pipeline is across the three verticals.
- Sangam Iyer:** Okay great sir. On the margins you definitely gave us an outlook in terms of the margins definitely going to move up given the trajectory from the business perspective in terms of the revenue growth etcetera coming through. So, would there be a point given the strong traction of order booking and the pipeline that we are having that beyond a certain level of margins where the currency benefits you would want to reinvest significantly back into the business. So, is there any level or threshold which you can give us some idea upon in terms of from beyond which you would want to reinvest further to for the next couple of years growth?
- Sudhir Singh:** So, as I talked about over the last few quarters we continue to reinvest in the Tier-1 lateral hiring that we have done. We do not have a guidance around margin that we normally share. We get close with the 16.7% margin for the whole year last fiscal. As we shared, we expect that number to go up for the current fiscal. The confidence around the number going up and the extent to which it can go up has strengthened after this quarter's performance.
- So, while I cannot give you a number we are sticking to what we said and we think that with this quarter performance there is more momentum behind getting to that number and hopefully beyond the numbers that we are internally targeting.
- Moderator:** Thank you. The next question is from the line of Ganesh Shetty, as an individual investor. Please go ahead.
- Ganesh Shetty:** I just want to have some query regarding our insurance business and the insurance business being one of the top-ranking businesses for us for many years now, and can you throw some light on the business performance in Europe and the digitalization acceptance and digitalization business going ahead, sir?

Sudhir Singh:

Absolutely Ganesh. So, the insurance business as you know for us has a software products connotation around NITL business which is ex-London. That business has performed very well, there has been a very material restructuring of the product offering that was attempted over the last four quarters where we completely refreshed the product suite. We have gone to the market with that product suite and the market has responded very positively to the new product offerings which are cloud based, micro services, architecture based and are more of a pay-as-you-use kind of model. In that business you would have seen the results has been trending upwards on a steady basis with solid margins. That is how NITL is doing and that business is now also expanding from beyond London into Bermuda and the US. The other leg of our business as you know is the insurance services business where we have hired a new global leader who's the Accenture Managing Director whom we spoke about this quarter and last quarter. That business has seen accelerated momentum. It was always a growth business, but the growth has got accelerated in the last quarter, and we expect that growth to sustain moving forward as well.

Moderator:

Thank you. It is a follow up question from the line of Sandeep Shah from CGS CIMB. Please go ahead.

Sandeep Shah:

Sudhir, you are increasing the payouts related to the large deal formation or for new business to the sales and marketing. But at the same time if I look at this quarter's SG&A expense, it is at a multi quarter low as a percentage to the revenue despite the currency which we realized in this quarter versus maybe FY17 where we were on an average of 67 versus this quarter 66.35. It looks like there is a benefit also coming, so how do we look like look the SG&A line going forward because your focus is to bring new business. So, will it be that the leverage may continue with the growth coming or you believe it could further increase going forward and this could not be the right metric to look at for the 1Q going forward?

Sudhir Singh:

I think the leverage will continue Sandeep, to the question that you asked. The way we are approaching SG&A and the reason why you see SG&A numbers at 18.2% this quarter compared to 19.8% in the same quarter last year and 18.6% in last quarter, the reason why you see that decline is (a) because revenue is going up (b) because we are holding the absolute cost to the same level (c) the way in which operationally we are able to do it is to make sure that we keep looking at performance with a very sharp lens. People who are performing are getting the quadrupled commissions that I talked about.

They are operating under the new regime where the range of incentive and fixed compensation increments have been increased and people who are not performing are obviously no longer part of a team that is very hard hitting in the market. So, the cost I do not expect it to go up. We expect the performance I think that all of us collectively are pushing in the organization to continue to stay strong. Hence just making it simple, I expect SG&A as a percentage to go down, because revenue goes up and absolute SG&A cost to more or less stay where it is.

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

Sudhir Singh: Thank you very much for your time. We really appreciate the fact that all of you made time for this. We are very pleased with our results which we shared with you and we were all very happy with the interest that all of you have shown and the time that you have made for us. Thank you very, very much. We look forward to speaking to you again.

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

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