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January 27, 2025

The Manager
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001

The Manager National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

Sub: Transcript of Investors/ Analysts Call - Unaudited Financial Results for the quarter and nine months ended December 31, 2024

Scrip Code: BSE - 543952; NSE - NIITMTS

Dear Sir,

Pursuant to the requirement of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith Transcript of Investors/ Analysts Call organized on January 22, 2025, post declaration of Unaudited Financial Results of the Company (Consolidated & Standalone) for the guarter and nine months ended December 31, 2024.

The same is also available on our website i.e. www.niitmts.com.

This is for your information and records.

Thanking you,

Yours sincerely, For NIIT Learning Systems Limited

Deepak Bansal Company Secretary & Compliance Officer

Encl.: a/a



"NIIT Learning Systems Limited Quarterly Results Conference Call" January 22, 2025

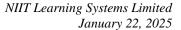




MANAGEMENT: Mr. VIJAY THADANI – MD & VICE CHAIRMAN

MR. SAPNESH LALLA – CEO MR. SANJAY MAL – CFO

MR. KAPIL SAURABH – M&A/IR





Moderator:

Ladies and gentlemen, good day, and welcome to the NIIT Learning Systems Limited Quarterly Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Vijay Thadani:

Thank you. Good afternoon. Thank you very much for joining this call and it's a busy results season and in that for you to have decided to spend this time with us, we are truly grateful. We're looking forward to a very interesting discussion. What we have on the agenda today is to provide you an update on the quarter 3 of the financial year '24-'25 or FY '25 performance as well as discuss the outlook for the business and other questions that you may have from any of us.

I have with me the Chairman of the company, Mr. Pawar; Sapnesh Lalla, the CEO. We also have the business leadership team from the US who has joined us today in person and we also have Mr. Sanjay Mal, the CFO; as well as Kapil Saurabh in Investor Relations as well as Saurabh Taneja and many of our other colleagues. We'll all be very happy to answer all your questions.

So, without further loss of time, I would like to hand you over to Sapnesh Lalla.

Sapnesh Lalla:

Thank you, Vijay, and thanks, everyone, for joining. Good afternoon to you all. In our prepared remarks, I will comment and review on the financial numbers in detail first and then provide color commentary on the quarter that went by, as well as towards the end provide expectations going forward.

Our revenue for the quarter stood at INR4,189 million, that represents a growth of 7% year-on-year and 5% on a quarter-on-quarter basis. The growth in constant currency terms was 5% quarter-on-quarter and 5% on a year-on-year basis.

After what was a challenging second quarter, our business has recovered growth, despite continuing challenges in the macroeconomic environment as well as some of the seasonality that impacted parts of our business in Q3. In line with our earlier stated expectations, we see further acceleration in Q4, both sequentially as well as on a Y-o-Y basis.

The improvement in our growth was caused predominantly by new customer addition in the previous quarters, the 100% renewal track record that we enjoy, the wallet share expansion opportunities that we were able to take advantage of as well as some of the green shoots that we saw where some of our existing customers improved their consumption in our second quarter.

We also started to see our investments in new capabilities, including AI, start to create a differentiating position for ourselves as well as make improvements in our operations. Over the last couple of years, as I've mentioned often, the business has been resilient in the face of heightened uncertainty. Despite rate cuts that started in September of last year, the business environment continues to see uncertainty in the near term given mixed economic indicators,



geopolitics, policy uncertainty and continuing regional conflicts. However, the business has been resilient through all of this uncertainty, given the strong customer additions as well as improving wallet share with some of our existing customers.

We have seen a sharp compression across management consulting and professional services firms in Q2 and lower-than-expected volume in our North American real estate contract which had impacted revenues in Q2. Despite continuing challenges in these two areas, the business growth in Q2 has been driven by the ramp up of new customers, like I pointed out, 100% renewal track record and improving wallet share from existing customers and a partial recovery in spending across some customers.

The BFSI, Life Sciences, our leading segments, which are leading growth, both year-on-year and the Tech segment has started to see quarter-on-quarter growth. The general theme that's driving increased conversations is a pressure to cut costs. As you might expect, during times of uncertainty, most organizations look at controlling their costs and to some extent, that's starting to create interesting opportunities for us.

Like you might imagine, cost cuts have impacted in the past where budgets have gone down, but now we are starting to see increased acceleration in outsourcing opportunities that may result in acceleration of new customer additions. We are continuing our investments to take advantage of these upcoming opportunities, and we think that we will see acceleration in new customer additions as we look ahead.

During the quarter, we added 2 new MTS customers, one, a top 10 bank as well as large automobile major. In addition, the company had 3 contract renewals, retaining its 100% contract renewal track record, as well as expanded its operations with 2 of its existing customers.

The company continues to maintain a 100% contract renewal record. The number of MTS customers now is at 92. The revenue visibility given the new customer additions, the renewals as well as expansions is now at USD391 million. As stated earlier, while disproportionate focus on cost is resulting in lower consumption across a number of our existing customers, we are starting to see this focus on cost result in an acceleration of outsourcing opportunities.

With our investments in sales and marketing, consulting, and advisory services as well as a reputation as a trusted and reliable market leader, we believe we have an opportunity to gain a larger share of the upcoming opportunities and be able to accelerate growth.

Our deal pipeline continues to be strong, and we are also starting to see a number of large deals across a wide spectrum of market segments, and we hope to take advantage of all of these opportunities going forward.

Our business continues to win awards given the focus on innovation. The business earned 39 Brandon Hall Awards in technology, and these include 13 awards, 6 gold, 6 silver and 1 bronze for NIIT's AI-powered technology innovations.



Coming back to financials. EBITDA stood at INR946 million and it was up 1% quarter-on-quarter. The EBITDA margin was 22.6%. It was down 97 basis points quarter-on-quarter and down 129 basis points from a year-on-year perspective.

Margins include the impact of environment on product mix, primarily the drop or the weakness in the Management Consulting & Professional Services segment as well as the North American real estate contract. It also included transition and one-time expenses that were unique to Q3. The depreciation for the quarter was INR159 million.

I will now invite Sanjay, our CFO, to provide commentary on the net other income, which was INR26 million.

Sanjay Mal:

So net other income was INR26 million this quarter as compared to expense of INR38 million last quarter. This includes treasury income of INR95 million. Strategic growth and acquisition-related expenses of INR33 million as compared to INR91 million previous quarter.

This includes a gain of INR23 million due to fair value adjustments in future acquisition liability versus expense of INR43 million last quarter. INR14 million in interest cost which is basically paying down of the loan. Exceptional expenses of INR42 million relating to inorganic growth initiatives.

Demerger-related nonoperating transitory expenditure of INR5 million, and we had other expenses of INR30 million, which included a forex loss of INR14 million this quarter as compared to INR40 million last quarter and net other miscellaneous expenses of INR17 million. The tax for the quarter stood at INR195 million, which was at 24.1% ETR. Over to you, sir.

Sapnesh Lalla:

Thanks, Sanjay. The profit after tax for Q3 stood at INR617 million. This was up 8% quarter-on-quarter and 9% year-on-year. The EPS stood at INR4.54 per share versus INR4.2 in the previous quarter and INR4.21 same quarter last year. The balance sheet and cash flow metrics continue to remain strong. The DSO stood at 62 days versus 59 days in the same quarter last year. Cash and cash equivalents are at INR7,769 million. The capex for the quarter was INR118 million. The net cash stands at INR6,999 million versus INR6,554 million.

The ratios continue to remain strong and robust. The company ended Q3 with an addition of 33 new NIITians resulting in the total NIITians at 2,356. As I've mentioned before, we continue to make disproportionate investments in new capabilities as well as in sales and marketing. The use of GenAI is gaining prominence in our customer conversations, even though hesitancy remains in adoption of GenAI-based solutions across enterprises. We continue to make rapid progress in leveraging AI across multiple aspects of our work and are starting to see benefits accrue to us across a number of project areas and work streams.

In projects and work streams where we are using AI, we are becoming significantly more ambitious in terms of the outcomes that we can drive for our customers as well as we are starting to see improved efficiency in some of our operations. We would like to reiterate that the rapid transformation in the industries we serve owing to digital transformation, decarbonization, acceleration in biopharma and AI present a large and multi-year opportunity for the company.



We see a number of organizations transforming and restructuring to improve their cost structure and achieve higher variability in their cost structure. We're starting to see acceleration in outsourcing opportunities going to the strength and feel uniquely positioned to take advantage of these opportunities and continue to lead the industry in terms of growth and profitability, specifically as some of our competitors are starting to become distracted.

We also have an active pipeline of inorganic opportunities that we are pursuing, and we will report on these as soon as we have material information. In terms of our guidance, we would like to reiterate our guidance that we provided in the previous quarter. We continue to see robust contract pipeline and ramp up in new customers. However, revenue this quarter is marginally lower in terms of -- I'm sorry, again, let me restate what I said. We would like to restate our guidance that we had provided in the previous quarter.

For the full year, we expect 7% growth in constant currency. Margins are expected to be at the higher end of the guided range of 22% to 24% for the full year. Like I was starting to say in spite of challenges in the macroeconomic environment and amongst the seasonal dips that we've seen across a couple of our market segments, we had a good quarter, and we continue to expect to see acceleration in our performance as we get into Q4.

Thanks, and back to you, Vijay.

Vijay Thadani:

Okay, so there are no further corporate level updates. So, at this point of time, we will open the floor for questions. And as usual, the operator will manage the questions queue.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question comes from Deekshant B. From DB Wealth.

Deekshant B:

Congratulations management for an excellent recovery in our numbers. I have a couple of questions, firstly, on what kind of service or product is giving us strength in our numbers right now? What has been the leading driver for us?

Sapnesh Lalla:

I think we are seeing strength across the different practices of the different work streams that we offer from an outsourcing perspective. Most of our customers are looking at opportunities to streamline their operations. A number of our customers have large L&D organizations and that lack visibility as well as understanding of the investment that they are making and the return that they get.

So a number of our customers want us to operate their large L&D organizations as a managed service and provide them the visibility of what they are spending, help optimize the spend as well as improve the outcomes that they get from that spend.

Deekshant B:

Okay. So generally, you are seeing a growth in the discretionary spend by customers right now, in your conversations as well?

Sapnesh Lalla:

Like I pointed out, we are seeing acceleration in the number of conversations we are having where organizations or our prospects are looking at outsourcing. In some cases, with our existing



customers, we are also seeing green shoots where organizations are looking at increasing the consumption of our services across the different lines that we serve.

Deekshant B:

Got it, sir. Sir, secondly, we are noticing a lot of companies have been integrating with AI, specifically the Copilot and Microsoft product services. How are we seeing growth in this particular bucket in terms of they would mean more L&D and maybe streamlining their services with their existing product portfolio? Are you seeing any green shoots here with your existing customers or maybe new ones?

Sapnesh Lalla:

Our focus in utilizing AI has been on how to make Learning and Development operations more efficient as well as how to make them more effective in driving improved learning outcomes. We've had a number of conversations with both prospective as well as existing customers on how AI can be integrated in their learning organizations. We've had some success, specifically at a departmental level, in doing projects where AI has been implemented. However, like I pointed out in the prepared comments, we see hesitation in rolling out AI-enabled solutions across the enterprise.

Deekshant B:

Okay. The reason for me to ask this to gauge if the AI growth is still starting to kick in or not. That's the only reason, sir, I know our company has been working hard on it. Sir, my last question is, it is too prompt, one is, you had mentioned that in our commentary that some competitors are getting disrupted. Could you show more color on this? What do you mean by it? And how can this be a growth position for us?

Sapnesh Lalla:

I won't get into specifics, but we track a number of organizations as key competitors and one of them has been going through a structured sale. And we think that, that will create a distraction for the management team and as well as create anxiousness for some of their customers.

Deekshant B:

Got it. Thank you so much. Sir, lastly, just accounting question is, historically what has been our strongest and our weakest quarter, if you could just throw some light on it?

Sapnesh Lalla:

I would say we see some weakness from a profitability perspective in our Q3, historically, and that's mostly seasonal in nature. From a revenue perspective, we have Q2 and Q3, which are weak, and then we start seeing strength; to some extent, marginal strength or marginal improvement in Q4, and then we start to see some steam in Q1.

And all of this is mostly around how holidays and year-ends are set up in the United States and Europe. We see fewer working days in our Q3 as well as vacation time in Europe, mostly and to some extent in the US in our Q2.

Deekshant B:

Thank you so much for the detailed reply. I will join the queue. Again, congratulations on the numbers.

Moderator:

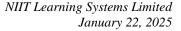
Thank you. The next question comes from Siddhant Dand from Goodwill. Please go ahead.

Siddhant Dand:

I just wanted to ask, is this our first auto client and what geography would it be?

Sapnesh Lalla:

It is our first auto client. They are based out of UK.





Siddhant Dand:

Okay. My second question, we are a little curious. Why would we not have any Indian companies in our MTS business? Is it because of our choice of customers or is it because India is just too young for Management Training Services?

Sapnesh Lalla:

So far, we've seen most of the opportunity across large global multinational organizations based out of United States and Europe or North America and Europe and that's where we have focused most of our energy.

Siddhant Dand:

Perfect. Thank you.

Moderator:

Thank you. The next question comes from Ganesh, an Individual Investor. Please go ahead.

Ganesh:

Sir, congratulations, for a very good set of numbers in such a difficult macro. And you have mentioned in your commentary that the outsourcing strategy from the clients has reversed now, that in spite of difficult macros, they are willing to outsource. So, this is a new sort of phenomenon we are experiencing because of our new offerings. Can you please give some highlights on this, sir?

Sapnesh Lalla:

Thank you, Ganesh, for your kind words, and I really appreciate the time that you take to both provide encouragement as well as follow NIIT and you have been a keen supporter over the last several years. So, thank you.

In terms of your question, what we are experiencing is uncertainty in the market. And likewise, our customers are seeing uncertainty in the economic environment as well as several of our customers, whether it's in energy or it's in pharma or in BFSI, are going through transformations that could be seen as business transformations, for example, caused by decarbonization or renewable energy in the energy sector, biopharma in the pharma sector or the advent of increased digital implementations in BFSI.

So, a lot of our customers and prospects are going through significant transformations. And when you pair that with the economic uncertainty, a lot of customers become very careful about the fixed cost structure that they have and any discretionary expenses that they might be making. So, a lot of prospects and customers start looking at converting their fixed cost structures into variable cost structures as well as find methods of driving efficiencies and what they are spending as well as try to figure out how they can get better outcomes from their spends.

And that's where they see in NIIT, NLSL a reliable market leader who is able to convert that vision of driving efficiency and improved outcomes into a reality for them as a managed service.

Ganesh:

Sir, previously, you have guided for 20-20 type of guidance for revenue and EBITDA. Now that we have upgraded it for 22%, 23% EBITDA, do you think that going forward, we can maintain the same EBITDA, in spite of increased revenues and increased competition, sir?

Sapnesh Lalla:

Our effort would be to maximize EBITDA and profitability and use technology and efficiencies that we can create to achieve that. However, I would continue to say that this business, the way we have modeled it is a 20-20 business from a medium- to long-term perspective.



Ganesh: Thank you very much, sir and all the best.

Moderator: Thank you. The next question comes from Yashodhan Nerurkar from Ionic Wealth. Please go

ahead.

Yashodhan Nerurkar: Thanks for the opportunity. This is the first time I'm interacting with you. So just pardon my

lack of understanding of certain aspects of the business. So the first question I have is, to acquire a client and to gain additional share of the business, what is the average cost that you spend

behind per client and in how much time you recover the cost?

Sapnesh Lalla: So this is information that we do not make public. However, what I can say is it takes us between

4 to 8 months, sometimes close to 9 months to acquire a new customer. It typically takes us

about 9 to 10 months of work to recover the cost of acquisition.

Yashodhan Nerurkar: Okay. So after you acquire a client, then another 8 to 9 months by the time you recover the whole

cost, you've put it?

Sapnesh Lalla: Approximately.

Yashodhan Nerurkar: Okay. Perfect. And another question that I have is, sir right now, I mean, most of the clientele is

in US and Europe, like US will be the major dominant part. And since this is a contact business like you have always alluded to, most of your employee base will be in the respective

geographies, is my understanding correct?

Sapnesh Lalla: No. So we have, like I mentioned, approximately 2,400 NIITians. Of those, about 25% are

outside of India. And I would say the split across North America and Europe would be about

60%-40%.

Yashodhan Nerurkar: Sir, 60%-40% between US, and Europe?

Sapnesh Lalla: North America and Europe, 60%-40% and about 25% of the 2,400 outside of India.

Yashodhan Nerurkar: Okay. Got it. And just a follow-up to one of the questions asked to you before by another

participant. I mean, see, your business is majorly dominant and you're getting major opportunities from US and Europe. But is there any specific reason why Indian companies don't

give you that sort of opportunity or they're not that attractive?

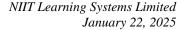
Sapnesh Lalla: No. What I would say is if you were to look at the share of Indian companies in Fortune 1,000,

the majority of companies in Fortune 1000 would be based out of North America and Europe. Latin America, Southeast Asia, India have probably less than 20% of the share of Fortune 1,000 companies. So we think that our energy is best spent in the markets where there are higher

opportunities.

Yashodhan Nerurkar: Right. So basically it's just about the propensity of spend that these larger companies have, and

that's the kind of market you want to play around in.





Sapnesh Lalla: Yes, I would say that's where they are. So it's important for us to put in efforts where our

customers are or prospects are.

Yashodhan Nerurkar: Got it. Thank you so much and that's it from my side. Good luck to you.

Moderator: Thank you. The next question comes from Ebrahim from ICICI Bank. Please go ahead.

Ebrahim: Sir, I have a question regarding the difference in the cash and cash equivalents and net cash and

cash equivalents? As you told, total cash and cash equivalents is somewhere around INR7.77

billion and net cash is something around INR7 billion.

Sanjay Mal: What is the difference between cash and cash equivalents and?

Ebrahim: Net cash and cash... Yes sir.

Sapnesh Lalla: Yes. So before I answer that, net cash is an internal term which we use, so I think...Sanjay?

Sanjay Mal: The overall cash and cash equivalents represent the cash in the company, which are invested in

various avenues.

Sapnesh Lalla: I think you have a disturbance on your side.

Sanjay Mal: So I was saying that the cash and cash equivalent is the gross cash, which is with the company.

And net cash is net of debt, which it has.

Ebrahim: Okay. Which we have availed from the bank?

Sanjay Mal: Yes, correct.

Ebrahim: Okay sir that is all. Thank you.

Moderator: Thank you. The next question comes from Sankaranarayanan S. from ithoughtpms. Please go

ahead.

Sankaranarayanan S: Thanks for the opportunity. Sir, my first question is regarding the acquisition of your competitor

by a private equity firm. So one of the few things that they have mentioned in their acquisition document, that the GenAI has the potential to change the content creation, how the process works on its pricing. So I just want to hear from you that how would you navigate such a huge risk as we are one of the content creation servicer? And how are you going to navigate those risks in

the future?

Sapnesh Lalla: So the way I understood your question was, you said that one of our competitors has stated that

they see a significant risk in how AI can affect or disrupt the learning business and drive down the price points that they can drive. I think like I pointed out earlier, AI will fundamentally change how learning and development works. Now we can choose to let it play its course and

not do anything about it.



And if we were to follow that course, your argument would be valid. We would become spectators and watch the price points and the business go down. However, like I pointed out, AI also has the opportunity to significantly disrupt and significantly change what you can expect out of L&D. That requires investment in AI, so that we can get AI to do what training has not been able to accomplish in the past. For example, using AI we can improve the time to proficiency for a person.

Using AI, we can become more efficient in how training dollars get spent. Using AI, we can remove a lot of constraints that come with training today. And all of that will result into improved performance of our customers. And from an overall perspective, our customers do not have a significant worry about spending money on training because the return on money that's well spent on training is almost infinite.

Training is the difference between being able to not do something and doing something. So investment in training has an infinite return when applied properly. I think with AI, especially as ambitious as we are with what we can achieve, we think that we have a very significant opportunity to improve how our customers are able to get a return on their L&D spend using AI.

And that will actually not drive down the price points, it will actually increase the price points and increase investments that customers make. At least that's our point of view. And like you pointed out, it is in sharp contrast with what you read.

Sankaranarayanan S:

Okay, sir. Got it, sir. So actually, this statement was brought out by a private equity firm, which bought one of your competitor in the UK. So that's why I've asked this question. And one more question. Sir, we have a significant portion of our revenue coming from a lot of tech companies. So my question, correct me if my understanding is wrong. So the tech companies have itself capabilities of creating their own large language models, which would create their own content. So could you throw some light on how efficient we are to provide our service using the GenAI in content creation?

Sapnesh Lalla:

Yes, I think I got the gist of what you were asking was, given that several of our customers are in the technology segment and they are closer to AI and most of them are working on AI to solve a bunch of industry problems. And why would they or what would we do to get better of them from an L&D perspective?

So I will go back to the basics. All of our customers who become our customers have been doing their training themselves and they've been doing a good job of training on their own. One of the reasons why they outsource training to us is because that's not their business. So for example, for an oil and gas company, their business is to dig oil out of the ground, to refine it, to distribute it and make money out of it.

Likewise, for a pharma company, their business is to discover new molecules, convert them into drugs and therapies and then bring them to needing customers. None of our customers are in the business of training. They are in a business which is a technology business or a banking business or an insurance business and so on and so forth. So every minute that the management team spends away from the business, is time taken away from growth opportunities that the business



might have. So, when they look at us as an organization that could effectively, viably, and efficiently do the work for which they have to spend management time, it's an attractive value proposition for them.

The second part of your question was that why would we be able to use AI better than some of our technology customers to solve learning problems? My thinking on that is, our customers in the technology segment are focused on using AI to solve their customers' problems. So for example, their customers might have problems with customer service and our customers would spend enormous amount of investment to create technologies that help use AI or have used AI to solve a customer service problem or a research problem or how to discover molecules faster.

So our customers are focused on solving their problems, and that's where their investments are. We are a learning and development company. We are an education and training company. And our investments are in solving training and education problems. And that's what we do, and we do it really, really well and often do it much better than what our customers can. Long answer to your short question, but I hope I covered both parts of your question.

Sankaranarayanan S: Yes sir, thank you so much.

Moderator: Thank you. The next question comes from Kunal Tokas from FVC. Please go ahead.

Kunal Tokas: First question, sir, the new MTS customers that you added, are these customers first-time

outsourcers of L&D or are you winning it over from some competitors?

Sapnesh Lalla: So a large majority of the customers that we have added are first-time outsourcers. However, I

would say about 25% to 30% of the customers that we get are takeaways from our key

competitors.

Kunal Tokas: And in your interactions, do you get to know what the main reason for them switching over is?

Sapnesh Lalla: Yes, we do get to know the reason. And often, our customers are very clear about why they're

looking at outsourcing, whether it's for the first time or why they are looking at moving from

existing partners.

Kunal Tokas: Okay. And another question was regarding the ESOP policy. In your financial filing around 10

million ESOPs were outstanding as of 31st December, that comes out to around 7% of total shares outstanding. So is that sort of not a little too high? Or is that sort of the cost you pay to

acquire top-tier talent?

Sapnesh Lalla: We think that what we are doing is in line with the market and creates NIIT an attractive value

proposition for key NIITians.

Vijay Thadani: I think let me give you some further color, I am Vijay Thadani. First of all, ESOP is a very

important part of making sure that our executive team's focus is aligned with that of our shareholders, number one. Number two, they get an opportunity, of course, in a much smaller way than our shareholders for wealth creation. And that their benefits are linked to the value that

they add. So I think there is a very good and clear alignment.



The typical policy in outsourcing industry or services industry is companies start with the 10% of the equity as the pool, the ESOP pool and that's also consistent with the guidelines, which are available in the regulatory domain. ESOP pools are first approved by the Board, NRC and the Board and then is also sent to shareholders for their agreement. And after the shareholders approve, the pool is formed. The company overall is 40 years old. Of course, these pools are not 40 years old. They are 15-odd years old.

And in the combined company, NIIT and NIIT Learning Systems, there was an amount of pool that was visible. That pool was getting over. And typically, companies consume their pool over 3 or 4-year period. Our consumption has been slower than that in the past. After demerger, which happened in August or the listing happened in August, and we got the permission to issue ESOPs. When the demerger happened, there was an overhang of the pool, which was coming from the past, which the employees of both the companies got shares or options of both the companies because it was a combined option. So one part of our ESOP pool is that.

The second part is the fresh options, which have been given from the fresh pool that was deployed after demerger. And the totality that you see at this point of time reflects that. When this pool gets over or is about to get over, we would get back to the shareholders for enhancing this pool, which in the history of the company, from the time we started giving stock options, it has happened only once.

And now because at this time, it was a smaller pool, which was added just after demerger, I think this will come up and that is in future as the compensation policy of the company evolves.

So I think that answers your question. And if you look at the compensation studies, typically senior employees in many of these companies, many of the companies of our kind are compensated, number one, on the basis of fixed; number two, on the basis of an annual variable compensation, which is aligned with the goals; and number three, with the long-term incentive, LTI, which is in the form of equity or in case you are not listed then, of course, there are other formats in which it happens.

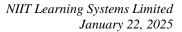
So these are the three components which form the compensation package. I think that's perhaps more than what you had asked for, but I thought let me give you a clear picture.

Kunal Tokas:

Yes, sir, definitely. Thank you very much for the detailed answer. Another question that I had was about the consulting business. If you could explain a little about what sort of activities you perform there? And does that business have significant overlap with the MTS business or maybe in terms of cross-selling opportunity? And how does one measure the performance of that business?

Sapnesh Lalla:

So the consulting business is a key arrowhead in terms of our offerings. Typically, an organization engages with a consulting organization or engages our consulting services when they want to make an important change or they want to make an important transformation. The transformation could be, for example, there might be a decentralized learning organization where there are 15, 20 different learning organizations across the enterprise, and they want to see if there is benefit in centralizing that organization or an organization may be looking at





transforming their operating structure or an organization might be looking at making strategic interventions to improve the performance of leadership.

So our consulting business focuses on being the spearhead that enables organizations to answer or to create change trajectories such that they can transform themselves. In several of these opportunities when we provide consulting, we also uncover outsourcing opportunities because that's one tool that's often used to realize the benefits of transformation. And so in a number of opportunities where we do consulting, we also see downstream revenue opportunities.

Kunal Tokas: Is this b

Is this business consolidated under the St. Charles Consulting Group?

Sapnesh Lalla: That is correct. The reason why we acquired St. Charles was or one of the reasons we acquired

St. Charles was to gain this capability and we are consolidating this capability under the St. Charles team. We have, of course, added our team that existed prior to the St. Charles acquisition

as part of this team.

Kunal Tokas: Thank you very much, sir. I will get back in the queue.

Moderator: Thank you. The next question comes from Rahul from Dolat. Please go ahead.

Rahul: Firstly, some clarification on the guidance comment that you made. Firstly, you said, if you

could share what could be the CC impact that we are assuming in 9 months so far? That would be one. And I think I heard that you intend to end the year at the higher end of your band. So

does that imply a very high margin of 27%, 28% in Q4 or I heard it slightly differently?

Sapnesh Lalla: So let me first reiterate what I said about our guidance. If you go back to what we had said last

quarter, we said that we would grow for the year at 7% plus, and we are reiterating that growth guidance on revenue in constant currency terms. In this quarter, we grew at 5% year-on-year in

constant currency terms. That's the first thing that I said.

Second thing that I said is that we had guided that our margin will be in the 22% to 24% range

for the whole year. This quarter, we delivered an EBITDA margin of 22.6%. We expect that for the year, while we will be in the 22% to 24% range, however, we'll be at the higher end of that

range.

Rahul: Sir, you just said the last part you already just said is only for Q4. Is it? Or for the full year is

what you're trying to refer?

Sapnesh Lalla: For the full year, our guidance was to be in the 22% to 24% range, and we are reiterating that

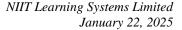
guidance. And like we had guided in the previous quarter that we would be at the higher end of

that range and that's what we are reiterating.

Vijay Thadani: Fourth quarter.

Rahul: Sure. Secondly, the Management Consulting segment continues to see some pain. If you could

share what's happening out here? And also, since our revenue visibility is now in the early teens





or 12% types growth. So what should be the aspiration? Are we going back to double-digit growth? And when we plan to reach that 20% aspirational growth mark in our future?

Sapnesh Lalla:

So like we've said in the past, we expect this business to be a 20-20 business, so 20% growth in the medium to long term. We are in our planning process at this time. We should be done with our planning process in about a couple of months. And by then, hopefully, we will have a better handle on some of the uncertainties that are going on in our key markets. And at that time, we will have better view of what the next year might look like and when we might be able to get past 20% from a growth perspective.

Rahul:

Right. And on the professional services part of the question?

Sapnesh Lalla:

Yes. On professional services, in real terms, that business or that market segment has seen similar consumption contraction that most other market segments have faced. I mean, one interesting nuance is that the Management Consulting & Professional Services market segment actually held out for a little bit longer as compared to other market segments that we serve.

And so while say, for example, in the last 1 year, many of the other segments that we serve had already contracted from a consumption perspective, the Management Consulting & Professional Services segment had held up. But then it started to see compression in spends. And the reason why that happens is, in Management Consulting & Professional Services, people is the product and they invest almost 3x as much as a typical enterprise spends on training.

So in real terms, the compression in spends that we saw in most other customer segments, we did not see that in Management Consulting & Professional Services till recently or till the current fiscal year, whereas in other market segments, we had started seeing it about 2, 2.5 years ago. We think that while the compression started later, it also probably will lift faster because these are the organizations that help others restructure, innovate, bounce back. And so we expect that the period of compression will not last for as long as the other market segments saw. So we expect this segment to start growing soon.

Rahul Jain:

With this comment, will it be still safer to assume that it is at least a couple of quarters away from us? The recovery, I mean?

Sapnesh Lalla:

What is a couple of quarters away?

Rahul Jain:

Recovery in Professional Services.

Sapnesh Lalla:

Recovery in Professional Services. I would say we should start to see some recovery next quarter and then continued recovery from then on.

Vijay Thadani:

I think the environment, as it becomes more certain. And I think things are now beginning to fall in place at least this week, things seem to be pointing in that direction.

Rahul Jain:

Thank you. That's it from my side.

Moderator:

Thank you. The next question comes from Gaurav Arora from Equirus. Please go ahead.



Gaurav Arora:

Just one question, sir, you mentioned that one of your competitors is going through structured sale out. So of the new customers that you have acquired or some of the existing customers that have ramped up or you've seen scope expansion. So does any of those deal in a big way with that competitor or they don't do business with them?

Sapnesh Lalla:

I don't think I followed your question. But from what I could tell, you were seeking that of the two customers that we acquired in this past quarter, was any of them a takeaway from the competitor we spoke about? I don't believe so.

Gaurav Arora:

Okay. Sure. And second question is on the macro-outlook with the regime change in the US So does that impact your business in any way? Does that benefit you? Harm you? What are your views on that?

Sapnesh Lalla:

It's hard to tell. The change has happened just a couple of days ago. So it's hard to tell what the impact might be. But at this point in time, like I said, it's hard to tell what the impact might be. It might take a couple of months for us to really understand what the impact might be. My personal belief is that it is going to accelerate. It's likely to be a business-friendly government. It is also quite likely that it will help accelerate the opportunities that we have.

Gaurav Arora:

Sure. And lastly, just in case you do disclose, what is the contribution from your top client, top 5 clients, and top 10 clients in terms of revenues?

Sapnesh Lalla:

We do not make that information public. It's sensitive information, and we don't make that information public.

Gaurav Arora:

Sure. Thank you so much.

Moderator:

Thank you. The next follow-up question comes from Deekshant B. from DB Wealth. Please go ahead.

Deekshant B:

Sir, you have mentioned that seasonally Q3 is a weak quarter for us on profitability terms. And Q1 and Q4 is seasonally a strong quarter on net terms. I'm assuming because the year-end is of December, we would have some good growth on revenue. But since the past few quarters, this has been one of the best top line growth that we have. Is it safe to assume that this is the first spike of turnaround that we are seeing? Or is that some thought process that internally you are looking at?

Sapnesh Lalla:

Like we've said in the past that we were expecting to do better in H2 as compared to H1, and that seems to be playing out. We think that the worst is behind us, and we are likely to see improved sequential performance.

Deekshant B:

Got it, sir. Sir, you have alluded to better margins going forward. But from a contrarian perspective to think of this, do you think that 22 percentage-ish margins are like the bottom margins for us? Like this is like the least margins that our business could do?

Sapnesh Lalla:

So let me say again what our expectation or what our business model is? Our business is modeled around a 20% growth and 20% margin in the medium to long term. We are actually delivering



margins that are higher than the model. Given some of the remaining impact of COVID, we think that over a period of time, the margins will stabilize around 20%, and the growth should stabilize around 20% as well.

Deekshant B:

Okay. So, last question, sir. How important is it for us as a business perspective that the growth in the housing market in U.S., how much of that has a correlation with the growth in our particular business?

Sapnesh Lalla:

That's an interesting question, and it will take a lot of time to unpack what causes growth in housing. But what I could say is...

Vijay Thadani:

I have a feeling your question is related to the North American real estate training we do. Is that what it is relating to? Or overall, how does economic environment relate to housing?

Deekshant B:

Sir, overall, because also we also serve BFSI as a clientele. So I think you understand what I'm alluding to.

Sapnesh Lalla:

Yes, I mean I was going to try and unpack it for you. The housing market growth is typically proportional to the interest rates, which is the supply of money that's available and the inventory that's available in the market. The inventory is related to, again, supply of money because when -- only when builders can borrow, will they build houses that people can buy. If interest rates continue to be high, the inventory is low and the propensity to sell is low.

So the interest rates, to a great extent, drives the propensity to buy or sell houses at least in North America. Right now, the interest rates are high and it looks like they are going to continue to be high for the near term. So it's quite possible that real estate activity of volumes in North America will be muted, at least that's our point of view. Does that make sense?

Deekshant B:

100%, sir. Thank you so much for the elaborate there. Is it safe to assume that directionally as the interest rates, whenever they do, that's an uncontrollable for everyone, but whenever they do drop, and we see growth in real estate market, we should see a growth in the training spend as well?

Sapnesh Lalla:

What I could generalize is as interest rates go down, the supply of money increases -- supply of money is directly proportional to certainty in the environment. That certainty improves, business improves. So yes, you're right.

Moderator:

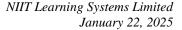
The next question comes from Ananya Kambhampati from Anand Rathi Investment Banking.

Ananya Kambhampati:

So, I have been following your company for a while, and I would like to acknowledge your efforts and also navigating through uncertain times. Now my question is regarding your North America real estate training contract, which was renewed last year for a one year period. So could you please provide an update on its current status?

Sapnesh Lalla:

Like you pointed out, it was renewed for one year, middle of last year, and that renewal is going to run out towards the middle of this year. And the renewal was limited to one year because the regulator directed by a legislative mandate to move from an exclusive model of contracting to a





non-exclusive model of contracting. And after our contract gets done, they will get into the market and look at organizations who would be interested in partnering with them on a non-exclusive basis. We are evaluating our options and we would keep you updated as we get closer to the date.

Moderator:

The next question comes from Vinay Nadkarni from Hathway Investments.

Vinay Nadkarni:

I have just one question. If I look at your performance from March '23 till December, that's almost seven quarters now, it has been in the range of plus/minus INR10 crores from INR4 crores – I mean INR400 crores mark. In this period, you have added at least two clients per quarter, minimum. So you would have added something like 10%, 15% in your new clients. And you say you have got a 100% renewal track record. How is it that it doesn't translate into business? Is the business per customer going down?

Sapnesh Lalla:

I think it's a very good question. I'll relate back to what I said a little bit earlier. You're right that if you are adding new customers, our business model would expect us to grow on a quarter-on-quarter basis because each customer brings growth. However, what we've seen over the last, I would actually say not just seven quarters but nine or ten quarters is a compression in spends with our existing customers.

So to peel back, how do we get 20% growth? The model for 20% growth is, we are able to expand the business we do with our existing customers by about 7% to 10% year-on-year. We add new customers each year, like you pointed out, and those result into about 7% to 8% growth in the coming year. And then each year, we add new customers, which results into growth as well.

Now, what we saw over the last 2.5-or-so years is that the existing customers instead of growing, were compressing their spends. So, instead of growing 7% to 10% year-on-year, they were actually going down 10% to 15%. And that took away from growth, which had to be compensated by expansion or wallet share expansion in some of the existing customers as well as contribution from new customers. So you saw a netting effect which resulted into lower growth, if any.

Vinay Nadkarni:

The last question was on this nine months period. If I have to look at the constant currency growth, what would that figure be for these nine months?

Sapnesh Lalla:

We'll tell you the answer to that question.

Vijay Thadani:

I think we have been giving a constant currency growth every quarter, and we said that constant currency at the end of the quarter. So if you do that same reset for the year, you would see the guidance --it's matching with the guidance that we have given. So what you have asked is a little bit of a calculation-driven expansion.

Sanjay Mal:

We will provide that answer offline.

Vinay Nadkarni:

Then what was the constant currency growth in FY'24 last year, full year?



Chirag:

Vijay Thadani: It was 11%.

Moderator: The next question comes from Chirag from White Pine.

at your employee count, it is actually down on a Y-o-Y basis. And in fact, I look at it, it is kind of flattish for -- since Q3 FY'23 or in fact, even earlier than that, we are in this range only. So

despite adding new customers, the client addition -- employee count has not really changed. So

Sir, continuing the earlier participant's question on client addition. My first question is, if I look

that's one.

If you can just -- is it because of efficiency or is there something else, if you can highlight? And a related question is, on-site and off-site, the 20-80 ratio that you indicated, over there also, so

the reduction is happening where, if you can just highlight that?

Sapnesh Lalla: Sure. So I would paraphrase my response as follows: A, as I pointed out earlier, we've had --

we've not had the expected growth over the last 1.5 or 2 years. Second, we have seen significant uncertainty in the market. The way our staffing model is set up is, we always have variability in our staffing model. So whenever we see uncertainty in the market, we try to compress the fixed headcount that we have or at least prove the growth in fixed headcount and rely more on variability in the headcount that we have so that we are able to protect our margins, rather than

expanding our fixed headcount and taking the risk of utilization.

So over the last two years, our strategy has been to service the additional customers through additional addition of variability from a headcount perspective rather than adding fixed

headcount in times of uncertainty.

Chirag: Okay. And sir, this reduction happens in -- well, whether in India or this reduction happens

outside India? Whenever you have to manage the headcount, where does this adjustment

happen?

Sapnesh Lalla: See, we have natural attrition. Like I pointed out, in the past, when there is less uncertainty, we

backfill for attrition. In the past several quarters, when attrition has happened, we have chosen to backfill through variable headcount rather than fixed headcount. So the reduction that you see

is natural attrition, and it is more or less the same across India and outside of India.

Chirag: Sir, second question is again following up on headcount. This 20-80 ratio that you indicated is

the choice that you have made? Or is the outcome of the kind of contracts you are doing? And is there a risk given the new regime coming in the US, the need for higher on-site headcount,

the ratio changes in this year? If you can just share some of your past experiences, how does it

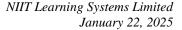
work?

Sapnesh Lalla: So our headcount split across India and outside of India has been about 25-75 for the last several

years. And I feel that it is going to stay at the same ratio. We think that for the services that we

offer our customers, that's the right ratio.

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Chirag: Okay. And the headcount outside India are Indian nationals, people of Indian origin or they are

locals whom you hire?

Sapnesh Lalla: We -- our business is a very local business outside of India. And consequently, most of our

employees outside of India are of local origin. And I mean outside of India, our employees are

-- come from or originate from 39 different nationalities, India being one of them.

Moderator: The next question comes from Deepak from Sundaram Mutual Fund.

Deepak: Sir, my first question is regarding our interest cost. So this quarter, we saw a sharp reduction in

our interest cost. And if I understand correctly, most of it is related to the earn-out provision with respect to the St. Charles acquisition, right? So could you throw some light like what led to this sharp reduction in the interest cost? And going forward, what could be the quarterly run rate

of this in absolute terms?

Sapnesh Lalla: I would request Sanjay to answer that question.

Sanjay Mal: So one is, of course, there is a little bit of a debt, which has got paid off as an installment. To

that extent, it is lower. But the other part, as you rightly said, there is a -- due to the lower revenue, which is there at professional services in St. Charles, it has got readjusted, and to that

extent, interest cost is lower relating to that acquisition.

Deepak: Okay. And sir, going forward, the quarterly run rate, let's say, if the management consulting as

it picks up, then do we expect this interest outflow to move up?

Sanjay Mal: Quarterly run rate has been actually INR43 million each quarter. Previous quarter was INR43

million. This quarter, we had a reversal. We believe that next quarter, it will be in the range of

INR39 million or so.

Deepak: Okay. Got it. And sir, my second question is more strategic. So for example, there are some

businesses which we conduct with our clients, which we do on our own kind of capability, and there is some we do as part of strategic outsourcing, right? And there is also professional

outsourcing. So when do we decide like what kind of business do we take on our own terms? And what do we kind of give to our clients through strategic outsourcing?

Sapnesh Lalla: That's a great question. We bring our capabilities to our customers. And when that capability

sits within NIIT, we call it self-delivery or NIIT delivered business. Most of that tends to be for

areas where we believe our customers see a differentiated capability within NIIT.

There are many times when a customer uses a number of third-party suppliers to buy off-the-shelf training. So for example, one of our pharma customers might want to buy pharma off-the-shelf training or off-the-shelf training that might be relevant to pharma companies. In those situations where we cannot bring differentiated capability to our customers, we end up buying

that training for them, and we park that under what we call strategic sourcing.



Deepak:

Okay. And sir, this -- when I was looking at our revenue, it is growing at, let's say, 5%, 6%, right? But our employee cost on Q-o-Q basis in INR terms has grown by 2%, but the professional and technical outsourcing expense has grown by 16%.

Is it because now we are getting more businesses, which are more temporary in nature rather than long term in nature that's why our professional technical outsourcing expense is growing at a faster pace than, let's say, our employee cost? Because more and more business is temporary and which has been outsourced to our, let's say, trainers and partners?

Sapnesh Lalla:

So like I pointed out to the earlier question, when there is uncertainty, we look at using higher variability in our expenses. And to a fair extent, that's what we experienced this past quarter. We will continue to look at balancing variability with fixed expense as we go forward and as we have a better understanding of market environment.

Deepak:

Okay. And sir, for us, the typical contract which we enter, it is generally two to three years, right?

Sapnesh Lalla:

It is between three to five years.

Deepak:

Three to five years, okay. Thank you so much.

Moderator:

The next question comes from Laxmi Narayanan from Tunga Investments.

Laxmi Narayanan:

I have one question. In terms of the mandatory training as a percentage of our total revenues, what is the mandatory training related revenues?

And second, what has been the revenue side, I mean, you are on the part of the cost side, but on the revenue side, what is your revenues coming from these two figures?

Sapnesh Lalla:

Laxmi, we got the first part. Could you repeat the second part of the question?

Laxmi Narayanan:

The second is not the cost side where actually we augment the revenues of the customer. So that what is the percentage of revenues coming from, we augmenting the revenues of the customer?

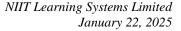
Sapnesh Lalla:

So let me try to answer your first question. We still could not clearly understand what you wanted to know about the second question. The first question we understood was what percentage of our training comes from mandatory training?

So like you may have noticed, a number of our customers are in market segments where there is significant mandatory training due to the compliance and regulatory nature of their business. For those customers, so customers in highly regulated spaces such as BFSI, such as energy, such as mining and commodities, such as aviation, the mandatory training tends to be between 40% and 50%. However, in segments, such as technology and telecom, there is a very, very small portion of mandatory training.

Laxmi Narayanan:

Got it. Sir, the second part of the question is that, let's say, you're selling -- a customer sells a license and the license is being sold, then you actually there is a training which actually you give





either to implement a product or something like that, whereas for every dollar of revenue earned, you actually get billed along with that and then the company passes on some benefit to you, right, whatever. I was asking from that point of view, what is your revenue contribution from that?

Sapnesh Lalla:

So that information, we do not make publicly aware because it becomes very specific to different customers. What I can say is that there are a number of customers who have outsourced their customer education and when I say customer education, let's say, quite like you pointed out, when an organization sells a license to their product, they often attach training to enable the customer to be able to get value out of that license.

And when they outsource that training to us that is in line, I think, with the question that you asked. So we have a few customers who have outsourced their customer education to us. I would unfortunately not be able to go into more detail in terms of how much we do for each of those.

Vijay Thadani:

Moderator, can we keep it the last question? Or are there more?

Moderator:

The next question comes from Pratap Maliwal from Mount Intra Finance.

Pratap Maliwal:

I just wanted to have one clarification on the North American real estate contract that is up for renewal, I believe, in the mid of this year. So what is the size of that particular contract? And assuming that maybe it doesn't come back to us, then does it affect our growth rates for the next year? Does it kind of impede us into getting to that 20-20 kind of growth rate that you target?

Sapnesh Lalla:

So given non-disclosure agreements, we do not get into specific volumes or run rates of different contracts, which are specific. It was or it is a material part of our business. And we are in a planning cycle at this point in time, like I mentioned earlier. And as we complete our planning over the next couple of months, we will be able to inform better on the growth rates for future.

Moderator:

We have a follow-up question coming from Kunal Tokas from FVC.

Kunal Tokas:

Just a quick question, sir. How much of a role does cost play in a customer's decision to choose MTS provider? And where do you stand in the cost rankings compared to your competitors?

Sapnesh Lalla:

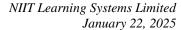
So, in most outsourcing opportunities, cost is a critical decision-making criteria. Across our competitors, what I would say is our belief is that if a prospective customer asked for five bits, they would get the pricing, which is within 5% to 7%. So, there is tight grouping from a pricing perspective across competitors. Most of the decision-making is really focused on the value that they get out of a relationship rather than the cost.

Moderator:

As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sapnesh Lalla:

So, thanks for taking the time. I know we went over a little bit, but thanks for asking insightful and detailed questions. I did want to mention that Fosway, who is one of the analysts who provides insightful analysis on our business came out with a report. They look at different





organizations and rate them on performance and potential, and they rated your company in the top right-hand corner ahead of most of its competitors.

So, thanks for being patient and thanks for all your insightful and detailed questions. We appreciate the time you have taken.

Vijay Thadani:

So, thank you very much, all of you, for joining us despite other priorities. And I think we went over as far as this call is concerned, but your questions always give us new ideas and new things to think about. So, thank you very much for being there and asking all those questions.

Look forward to your continued support, guidance and questioning as we become better and better. And as Sapnesh pointed out, I think to the extent the future is visible, we did share, but I think in the next quarter, we'll get much more clarity about how things are panning out.

So, with that, thank you very much, Moderator, and you can close the call.

Moderator:

Thank you. On behalf of NIIT Learning Systems Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.