



TRANSCRIPT: NIIT Technologies Ltd Q1FY2020 Results Conference Call

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FROM NIIT TECH:

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Note:

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(1 crore = 10 million)

Moderator: Ladies and gentlemen, good day, and welcome to the NIIT Technologies Q1 FY'20 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 telephone. Please note that this conference is being recorded. I now hand the conference to Mr. Abhinandan Singh, Head – Investor Relations & M&A, NIIT Technologies. Thank you, and over to you, Mr. Singh.

Abhinandan Singh: Good evening and welcome everyone to our Q1 FY'20 Earnings Conference Call. You would have already received our e-mails with the results. The same are also available at our website, www.niit-tech.com.

Present along with me on this call today are Mr. Sudhir Singh, our CEO and Mr. Sanjay Mal, our CFO.

We will begin today's forum with opening remarks by our CEO Mr. Sudhir Singh, and after that the floor will be open for your questions.

With that, I would now like to hand over the floor to Sudhir.

Sudhir Singh: Thank you, Abhinandan, and a very good evening and good morning to you across the world folks. We are pleased to report that we registered a good performance in Fiscal Year '20 Q1.

As I walk you through the results, I would like to call out the framework under which I shall articulate them. You are aware that in April 2019 we divested the GIS business and on June 14, 2019 we closed the WHISHWORKS acquisition. As indicated in the last quarterly call, I shall be discussing numbers and analysis only in the context of the continuing business which excludes the GIS business and consists of only half a month's revenue from WHISHWORKS during the quarter.

With that, I am going to move on to the revenue analysis.

We would like to share that revenues on an organic basis, net of the divested GIS and the acquired WHISHWORKS businesses, registered QoQ growth in constant currency terms of 4%. This growth comes on the back of 1.3% growth in constant currency in the previous quarter.

In constant currency terms, BFS expanded 2.8% QoQ contributing to 16.5% of revenue; Travel & Transport was up 5.9% QoQ contributing to 28.3% of revenue and Insurance grew 6.6% QoQ contributing 29.1% of overall revenues. Other segments collectively grew 1.5% QoQ and they now represent 27% of overall revenues.

From a geo perspective, Americas, EMEA, APAC and India contribute 49%, 35%, 11% and 5%, respectively, of the revenue mix. The top five clients now contribute 27.2% of the total revenue and the top 10 and top 20 contribute 38.8% and 53% respectively of the total revenue. The broad-based growth is reinforced by the number of million dollar plus clients which stood at 91 this quarter after excluding two of GIS clients. Onsite revenues were stable QoQ at 66% of total revenues.

With that, I am going to close the revenue section and move on to margin analysis.

On margins, we are pleased to report that we registered a good performance in Q1. EBITDA margin for the quarter under review, adjusted for one-time nonrecurring expenses, stood at 17.1%. This reflects the negative impact of 240 bps on account of annual wage hikes which take effect in Q1 every year. A 90 bps negative impact on account of booking the annual visa filing costs in this quarter alone is also part of this margin number. Finally, the upside of 90 bps from the adoption of IndAS 116 accounting standards is also baked into these numbers. The one-time nonrecurring expenses during the quarter were Rs.235 million translating to a negative impact of 240 bps. The effective tax rate for the quarter stood at 26.2% which reflects capital gains tax incurred on the sale of the GIS business. Net profits for the quarter, adjusted for one-time non-recurring items, are INR1,021 million.

That was the margin story. Rolling on to the order intake analysis.

The order intake story remains positive. We secured fresh business of US\$175 million during the quarter. This number represents the ninth consecutive quarter of increase in order intake numbers. Out of this US\$175 million order intake, the US contributed USD100 million; EMEA as a geo contributed USD58 million and we secured USD17 million from rest of the world. 11 new customers were added during the quarter. As I noted in the last quarter, we have primed our hunting engine to focus on select but highly scalable pursuits. We have also repurposed some of our hunters to drive accelerated growth across existing accounts. The order book executable over the next 12-months has expanded and it now stands at US\$395 million.

The delivery operations of the firm continue to create real world impact across our three chosen verticals. The touch point kiosks roll out for one of the largest airlines in the world where we developed the entire software and constructed the Cloud-based solution is now live and operational. For a robo advisory firm, we completed the transition of their entire technology stack from another vendor in four weeks flat. Our DMS framework, AutoEasy, was rolled out fully across a key national market for one of the automotive majors. Our recently created Maestro framework in the Data Analytics space, which essentially consists of industry-specific jumpstart use cases, built leveraging Auto-ML on a data lake backbone has now crossed the 15 use case milestone.

Furthermore, in line with our focused initiatives around Automation, Cloud, Integration, and Data, our team at the Cognitive CoE has been hands down delivering on our vision of “Engage with the Emerging” with AI (Artificial Intelligence). We created a core technical group on AI this past quarter, whose charter is to work with academia to commercialize the latest research and engage with our clients on advanced AI use cases. Our intent is to make AI real, exploitable and explainable - all the while delivering business value to our clients.

Our BPS team also provides the “Human-in-the-Loop” for those advanced AI uses cases where manual data annotations are required. As an example, at NIIT Technologies we are ensuring that we embrace AI-based technologies internally as well. We have developed and productionized an HR Digital Assistant called NAIRA, which helps communicate benefits like leave and policies to our employees and uses cognitive services such as language, speech and knowledge mining.

At a large financial institution in the US, we are helping and creating an advisor relationship platform using NLP — Natural Language Processing — capabilities to better target client customers as well.

And finally, at a large talent management firm in Switzerland, we have retooled their products to include cognitive services, driving more effective recruitment and strengthening the recruitment engine along with streamlining their HR evaluation processes. While these are just a few use cases, we shall continue to invest and build our capabilities in AI across all our verticals and horizontals which is core to our strategy of “Transform at the Intersect”.

With that, I am going to roll on to the people section.

The total headcount at the end of the quarter was 10,297. This includes an addition of 275 on account of WHISHWORKS and a reduction of 363 people due to the GIS business divestment. The net increase in headcount on an organic basis was 122 during the quarter. Utilization during the quarter has risen to 80.5%. Our attrition stood at 12.9%.

At this stage, lets move on quickly to three bullet items around the balance sheet.

The cash and bank balances stood at INR7,296 million. Capex spend during the quarter was INR 339 million. The debtors at the end of the quarter were at 67 days of sales outstanding. You will recall last quarter this was 62 days. And the DSO including unbilled is now at 83 days.

Quick commentary on the hedge position. Outstanding hedges in USD are 69 million at an average rate of Rs.73.09 to the US dollar. In British pounds, we have 13.05 million outstanding at Rs 95.94 to the British pound. And in Euro it is 4.5 million at Rs 85.53 to the Euro.

Finally, the outlook.

Overall for the quarter under review, the company clocked good revenue and margin growth. The fundamentals of the business are strong and we continue to plan for robust, predictable and profitable growth in the future.

That was the update from my end folks. Abhi, I am going to hand this back to you.

Abhinandan Singh

Operator, let's please open the floor for questions.

Moderator:

Sure, thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Shyamal Dhruve from PhillipCapital. Please go ahead.

Shyamal Dhruve:

My first question is on the growth in EMEA region. A large part of it that would be from Europe and the competitors have witnessed headwinds in the Europe geography in this quarter, so which verticals are helping us in growing at a very strong rate?

Sudhir Singh:

The growth in EMEA and in Europe specifically with regard to the question that you asked Shyamal is coming from the Insurance and the Travel verticals for us. There is also an additional upside that has come in from the 15-16 days of revenue of WHISHWORKS from last quarter that we have recognized.

Shyamal Dhruve:

I missed the remarks. How much would be the revenue from the WHISHWORKS in this quarter?

Sudhir Singh:

The revenue from WHISHWORKS in Indian rupee million terms in the quarter was Rs 54 million. [Note: Revenue of WHISHWORKS for the full month of June 2019 was Rs 108 mn and the revenue from WHISHWORKS that got consolidated with NIIT Tech's Q1 FY20 revenues was for half of that month, translating to Rs 54 million.]

Moderator:

Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu:

In terms of core vertical Travel, what is the potential of selling digital services to the airlines? I think we have around 50 clients. So, how many have we penetrated through the digital or UX, CX related kind of work?

Sudhir Singh:

Almost all of them have been penetrated through the digital route because Travel as a vertical has been a big consumer of digital services especially when it comes to services centered around customer experience and ancillary revenue creation.

- Madhu Babu:** Last quarter, we disclosed about the consulting team, around 27 people. So, how is the progress there and what are the technical hirings we have done this quarter, any fresh additions on the management side?
- Sudhir Singh:** That is an ongoing process, Mr. Babu. The technology consulting group that we talked about continues to focus on enterprise architecture as its prime area of responsibility and we continue to add automation architects, cloud architects, data architects and integration architects. The progress on this front has been satisfactory from our point of view.
- Madhu Babu:** Lastly, on capital allocation. What was the payout for Incessant? I think one more tranche was supposed to be done in May. So, what was the total for Incessant and how is the transition happening, because the earlier promoter was supposed to exit now?
- Sudhir Singh:** We paid out Rs 95 crore.
- Madhu Babu:** So, total for Incessant until now, is the amount available? Right from the start of acquisition, we had different tranches overall, so the total payout ...?
- Sudhir Singh:** We will have to step back and look across the years and aggregate it and we will get back to you. The indicative number at this stage would be about Rs.450-odd crore.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.
- Sandeep Shah:** I just wanted to understand, there are some companies talking about client-specific issues because of some delay in project starts or ramp-ups of that sort. Has NIIT Tech been witnessing any client-specific issues or delays or ramp-up of projects? As well as in terms of conversion of deal pipeline into deal wins, is it taking slightly longer than expected?
- Sudhir Singh:** Sandeep, as you might have noticed in the numbers that we shared around our top-5 and top-10 account growth, we have seen some softness around the BFS space in one of our top-5 clients, and to that extent the feedback that you have is consistent with what we noticed as well.
- Sandeep:** Should be in the capital markets, right?
- Sudhir Singh:** BFS for us is largely capital markets and that is why we have seen the softness in this quarter.
- Sandeep:** Any nature of the softness in terms of -- is it cancellation, is it delay, ...?
- Sudhir Singh:** It is very difficult to characterize it, Sandeep. What we have seen at this stage has been the IT spend getting compressed owing to business pressures.

- Sandeep:** This is US based or Europe?
- Sudhir Singh:** It is top-5 client, Sandeep. As you are aware, we do not give a geo wise break-up of our top-5 clients.
- Sandeep:** Any other client-specific issue within top-10 or top-20?
- Sudhir Singh:** Not at this stage.
- Sandeep:** But sir I think you have been successfully consistently improving the order intake on QoQ basis. So, do you believe that you have enough business on the table which will help you to compensate such issue and may not break the growth momentum significantly?
- Sudhir Singh:** As I said, Sandeep, in my closing remarks around the outlook, we believe that the fundamentals of the business are strong. We do not give guidance of course but we continue to plan for robust, predictable and profitable growth.
- Sandeep:** In terms of this non-recurring expenses, can you share any more details in terms of nature and how necessary it was, the ex-gratia payments and all that, because it comes in the SG&A line, it does not show in the direct cost?
- Sudhir Singh:** The non-recurring payments for professional expenses related to the WHISHWORKS and to the GIS transaction, and they also related to a one-time ex-gratia payment to employees in light of their continued association with the company.
- Sandeep:** So, that ex-gratia is largely in the SG&A line?
- Sudhir Singh:** That is correct.
- Moderator:** Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Fund. Please go ahead.
- Ashish Aggarwal:** Just wanted to understand, first of all on the profitability front, how should we now look at your EBIT margin? I am taking EBIT because of the IndAS 116 effect. So, is there any major headwinds now left in the business which would have an impact on the margins going forward?
- Sudhir Singh:** Ashish, we remain consistent with what we have said over the past few quarters. We had indicated that we are planning for an 18% EBITDA and we stay aligned with that plan for now.
- Ashish Aggarwal:** Because IndAS 116 would give you almost 100 bps of tailwind, that's why I was looking more on the EBIT side, not on the EBITDA side. Also, wanted to understand, apart from one of your

top-5, is there any other client issue? Because I was looking at your other 6 to 10 clients, the revenues from those seem to have declined, is there any concern around there or...?

Sudhir Singh: Not at this point, Ashish. The softening that we had indicated in the client spend at one of our top-5 clients, that is flowing down to a large extent into the numbers that you see for top-10 as well.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: My first question is about the ex gratia payment. Is this like a retention bonus given the holding from promoters to private equity players, it is a one-time non-recurring expense?

Sudhir Singh: It is a one-time nonrecurring expense, it is not an expense that is likely to recur. This also included professional expenses associated with the WHISHWORKS and the GIS transactions.

Ravi Menon: That is altogether Rs 235 million?

Sudhir Singh: That is absolutely correct, yes.

Ravi Menon: The capex of Rs 339 million given that your campus is already fully constructed if I understand correctly, what was this leading to?

Sudhir Singh: Q1 for us tends to be a higher capex quarter because this is the quarter in which we go ahead and buy our annual enterprise licenses or renew those licenses. Our capex for the year will remain consistent with the spend in the past and with last year. Q1 tends to see a spike on account of the licenses referenced which is what you have seen. Overall the aggregate will stay consistent with the numbers for last year.

Ravi Menon: The financial services capital markets, is it only in asset management firms and ones who cater to like custodian services and all that, that you are seeing weakness in or is it more broad-based?

Sudhir Singh: At this point in time, it is specific to one place. I do not see a broad-based weakness. As I have spoken in the past, most of what we do is in the Buy side of the capital markets. Innovation dollars there continue to flow in. And the commentary that I just provided is in the context of top-5 clients and the IT spend getting contracted.

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

Dipesh Mehta: Couple of questions; first, if one look at the segmental performance which we have reported Americas and India showing some weakness at least on operating margin side. If you can help

us understand what is going on in those two geographies in terms of their segmental margin performance? Second question is you used to report, Incessant, NITL that is ROOM Solutions, revenue and margin performance separately. So, if you can provide those data points?

Sudhir Singh:

Let me first start off with the NITL data point here. Revenue in the quarter was INR 529 million and the EBITDA percent was 29%. This quarter, Dipesh, we will also be providing WHISHWORKS in line with our standard policy of providing data for all acquisitions where we have not done a complete assimilation and a complete payout. WHISHWORKS was INR 54 million with an EBITDA of 21%. For Incessant as you are aware, Dipesh, this was the quarter in which the last tranche was paid out to the promoters. The organization has now been completely integrated and assimilated after four years. So, moving forward, starting today onwards, we will not be providing the Incessant data.

Coming back to your first question around the US margin being going down, as I had indicated, this is the quarter in which we put in all our annual visa filing cost. We booked all of that on account of the H1B visas that are processed. That is why you are looking at the US margin having come down. And India in turn is down because GIS has been sold. And that (GIS) was, as you are aware, a high margin business for us.

Dipesh Mehta:

So, just on India side, now that business is currently loss-making business. Because GIS was fairly profitable business, now we have sold GIS business, then how you look this business and profitability going forward or medium-term?

Sudhir Singh:

India for us, Dipesh, now has come down to just being 5% of our aggregate revenues which as we look back at history is a very, very significant drawdown. The pieces of business that we have here, and especially the ones that we signed in the recent past, are profitable businesses which are on par with the rest of the firm's gross margin. The loss that you are talking to is on account of old government accounts which are now in the O&M phase, and once they move to the O&M phase as we know the predictability of the revenue goes down and they do close down pretty soon. That is how we are looking at India right now.

Dipesh Mehta:

Broadly, you expect, once this ramp down happens on O&M side for government business, normal profitability to return for India business?

Sudhir Singh:

That is correct and we have been very consistent in terms of doing that drawdown and I expect that to continue on the same curve line as earlier.

Moderator:

Thank you. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey:

Has this change in the ownership made any difference to the business both in terms of opportunities or challenges?

- Sudhir Singh:** We have had very productive discussions with the newly reconstituted Board and the Board has indicated and has been fully supportive of our agenda of driving robust, predictable and profitable growth in the future.
- Madhuchanda Dey:** I appreciate that answer, but my question is, the new owner, has it made a difference in terms of reaching out to newer clientele or any color that you can throw on that?
- Sudhir Singh:** It is early days. As you know, the definitive agreement closing happened on 17th May. And what we have experienced in our interactions upto date the support has been absolute. Over time, if and when, newer revenue streams are opened up we will keep you posted.
- Moderator:** Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.
- Pankaj Kapoor:** Just a few questions. First, on the client weakness that you spoke of. So, just curious to know if this was something which you noticed through the quarter or was this something which was concentrated more towards the end of the quarter?
- Sudhir Singh:** Thanks for the question, Pankaj. I think it might be a good time for me to add some more color to that particular comment. When I say that the IT spend has contracted for that specific client, I do want to be clear – our wallet share has not fallen while the IT spend of the client has fallen. Also the tightening has been a progressive affair which was noticed right through the quarter. Depending on when renewals come up in the normal course of business one ends up observing cuts or non-renewals as appropriate and as they happen.
- Pankaj Kapoor:** You said that this is something, as of now restricted largely to this particular client and you have not seen this spreading to any other either in financial services or a client in other verticals among the top-20?
- Sudhir Singh:** Yes, it is restricted essentially to the top 5-client that I had referenced.
- Pankaj Kapoor:** Second question was on the margin impact that you mentioned of the ex-gratia payment as well as the wage hike. So, wage hike impact you mentioned of 240 bps that seems to be slightly on a higher side. So, just curious, what kind of wage hike we gave out this year and was this more widespread, in terms of percentage was it higher compared to what we have paid last year?
- Sudhir Singh:** No, Pankaj, the 240 bps for us does not reflect a higher number. The blended wage hike that we gave across the organization globally was 4.9% which has been consistent with numbers in the past, and the 240 bps also accordingly, is in line with what we have done in the past.
- Pankaj Kapoor:** This ex-gratia payment, who would have been the typical recipient – was this largely in a certain say function or in terms of any specific level that you target it at?

Sudhir Singh: No. As I said, employees who got this ex gratia received it in light of their continued association with the company and their ability to impact our performance positively.

Moderator: Thank you. The next question is from the line of Aniket Pande from Prabhudas Lilladher. Please go ahead.

Aniket Pande: What is leading for your insurance segment to post a robust growth since last 8-10 quarters? So, basically is it pending license renewal or new license sales and what can we project or do prognosis for the same?

Sudhir Singh: Aniket, a quarter or slightly less than a quarter of our insurance business comes from the product side. The remaining three quarters does not have any license component to it at all. There has been a bit of a spike in the current quarter on the product revenue side because of a license sale. But as you noticed, the aggregate insurance business has been doing well. That business has been riding on the back of a reconstituted front-end team which has done a very good job on the back of partnerships that we've structured with leading product players in the insurance space and of course it is also being driven on the back of the good work that has been done in terms of re-architecting, reconfiguring and revitalizing the Advantage Go product suite that we have for the Lloyds market.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir, in Others vertical, which is almost 27% of revenues, would we start to create some sub-segment where we might again try to build out domain competency?

Sudhir Singh: That is something that is under consideration. This catch all Others segment, like some of the other segments has done well for us. At this point in time, we have not decided to pull the trigger on any one specific sub-segment or segment creation.

Madhu Babu: We used to call out new deal wins over the last few quarters. Any special deals which you would look like to announce which we closed this quarter? And we used to announce some IMS deals. I think couple of them we closed. So, any further deal wins in the IMS space?

Sudhir Singh: A large deal by definition for us Mr. Babu, is a deal with TCV greater than \$20 million. We did not have any large deal in this quarter and that was the case in Q1 of last year as well. We did however have three \$10 million plus TCV deals; one of them was with an insurance major; the other one was with one of the largest airlines in the world; and the third one again was with an insurance major but more on the L&A side. That is how I would characterize the large deal status.

Madhu Babu: And WHISHWORKS, what could be the trajectory this year in terms of momentum? I think growth has been very strong when we acquired it. And how the payouts of that company will be?

Sudhir Singh: Mr. Babu, as you are aware, we do not provide guidance, but as far as our plans are concerned, we would like to keep the WHISHWORKS business also consistent with our broader strategy that we have articulated over the last 9-10 quarters, trying to keep them on robust, predictable and profitable growth.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Equirus Securities. Please go ahead.

Abhishek S: Sir, the first question is regarding your perspective on the UK market. One of the smaller peers called out challenges in the UK market. Any thoughts what are you seeing on the ground?

Sudhir Singh: Abhishek, from our perspective, the play that we have from a services space in UK is largely centered around Travel and Specialty Insurance. Travel has so far, and the IATA numbers also bear it out, not been impacted by Brexit-related concerns. The specialty insurance market also has not been affected. Overall, I suspect our view when it comes to Europe is somewhat myopic and restricted to travel and specialty insurance. And at this point in time, we have not seen headwinds.

Abhishek S: Second is a two part question. Could you break the impact of ex gratia and within the impact that you called out? What is the reason to kind of lower the adjusted margin guidance from 18% now which includes the AS 116 contribution?

Sudhir Singh: We have not given that breakup, Abhishek when it comes to the cost, but the one thing that I do want to underline again is that it was non-recurring costs. The second thing is I just want to be clear I have not called down the guidance on margins. Our margins are one of the best when it comes to mid-cap IT providers in the industry. All I have said is, and we have consistently for many quarters said it that we will deliver 18% EBITDA and we stand by it. If there are upsides and you would have seen 90 bps upside in the current quarter results because of IndAS 116 standard, we shall take a call in terms of how much of it to be ploughed back into the business and how much of it to get added to the 18% plans that we created for the business.

Moderator: Thank you. The next question is from the Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Just to try and read through the unexecuted book or the executable book over 12-months perspective. How we should try and map this with the revenue traction because as our order booking data continues to surge and so does our revenue; however, the traction in this number is not that significant. Is it continuously on account of the smaller projects that do not feature as part of the order book or how one should track to correlate this with the annual growth prospect?

Sudhir Singh: I think your observation is correct. If you look at the businesses that are faster growing for us, one of them happens to be Incessant which tends to be a short cycle business. So, you are absolutely right. The order intake number has been galloping at a higher pace than the order executable, and a part of it as you rightly observed, has to do with the fact that Incessant tends to be a business which is high growth for us but at the same time the contract cycles tend to be shorter.

Rahul Jain: Also, if I refer to your comment in the beginning of the last year, I think one of the key factors for us that was driving was the change that you made to the incentive structure for large deals in the focus areas. And secondly, in terms of the shift from geography to vertical perspective. So, is this enough for us to continue on the momentum or are we adding a new sphere that would drive or continue the growth in the order book?

Sudhir Singh: Rahul, I think you rightly noted that we did focus on securing large deals and the large deal numbers did underline that focus last year. We did focus on the vertical structure and as you would have noted the growth across verticals has been broad-based as well. The incentive structure that we have shared earlier has clearly delivered for us as a firm and for our employees as individuals. The bonus payouts have gone up materially for them as have our revenues, so all of that has worked. Some of the other things that we focused on was creating new capability vectors and that continues to be an ongoing process. Over the last few quarters, we have talked about how we progressively created a Data service line and Intelligent Automation service line, a Cloud service line, an RPA service line, and today I talked about the Cognitive service line CoE that got incubated. It is a journey. I think you captured the transformational – initial elements of that journey – very well. Post that we have added the capability vectors that I talked about, and there is the new one that I talked about today as well.

Rahul Jain: These numbers obviously saw much bigger leap in the last year. And though this number is very exciting at \$175 million, is it still trending the way we would have been planning for the year or we expect this number to meaningfully improve for us to sustain the kind of growth we expect?

Sudhir Singh: Mr. Jain, \$5 million does reflect very hard work done every quarter. So, we think it is meaningful improvement that has already happened. Our intent of course, as you can appreciate, continues to be to try to move it as fast as we can, but at this point in time as we look at the numbers and if you reflect back on the commentary that I provided, I think the growth in numbers is consistent with the plans that I shared in the outlook section at the end.

Moderator: Thank you. The next question is from the line of Shradha Agrawal from Asian Market Securities. Please go ahead.

Shradha Agrawal: What is the stake in RuleTek now for us?

- Sudhir Singh:** So, at this point in time, we are at 80%, Shradha.
- Shradha Agrawal:** And how much did we payout this time around for the additional stake?
- Sudhir Singh:** At this point in time, INR 40 crore for the 12.5% stake that was acquired.
- Shradha Agrawal:** And what is the payment schedule for the remaining stake?
- Sudhir Singh:** That is tied to the performance. There is one more payment which is going to be made, which is going to be the final payment in May of next year. It is at this point in time contingent on the performance of the firm in the next 12-months.
- Shradha Agrawal:** We have always been highlighting that GIS is a higher-margin business for us, but if I look at the adjusted margin ex GIS, it is 17% and adjusted margin for the company is 16.9%. So, how do you explain that discrepancy?
- Sudhir Singh:** I think it is a good observation. Q1 last year for GIS was a low margin quarter and if you go back and track the numbers for that specific quarter you will see that. The catch lies there. Q1 of last year for GIS was a low margin quarter for GIS compared to the normal margins that they operated at.
- Shradha Agrawal:** It is a seasonality quarterly which has impacted, yes.
- Sudhir Singh:** That is correct, seasonality or a one-off in that specific quarter for GIS that came into play.
- Moderator:** Thank you. The next question is from the line of Shashi Bhusan from Axis Capital. Please go ahead.
- Shashi Bhusan:** Both quarterly performance and deal win against tough macro is heartening to see. What exactly is working for us with these deal wins -- did we see increase in size of deals that we are participating that is due to stronger deals every quarter?
- Sudhir Singh:** I think it is a great question. It is a very difficult one for me as well to answer. The way I would state it is that good performance is a mix of many factors. It is a mix of the efforts of folks out there in the market who are actually sweating it out and working daily. It has got an overlay of the culture which continues to be led by a team in the market that I, for lack of a better word, call as being very hungry for growth. And I think it has also in many ways been a validation of some of the elements that one of the earlier questioners on this forum talked about. The fact that we augmented the leadership team, the fact that we tweaked their compensation structure, the fact that we've focused our strategy very, very sharply -- it has been a mix of all of these that have contributed to the good numbers that you were talking about right now.

- Shashi Bhusan:** We did not see any increase in the size of deals that we are participating in or is it more or less the same still over the last two years?
- Sudhir Singh:** Size of deal tends to be a point in time issue and we never really shared data around the TCV of the deals when it comes to pursuit time line. So, I would not want to go there. But as I have shared in the past, our ability to win large deals which for us by definition are greater than \$20 million TCV has been improving over time and I think it has been reflected in the numbers also.
- Moderator:** Thank you. The next question is a follow-up from the line of Sandeep Shah from CGS India. Please go ahead.
- Sandeep Shah:** Sudhir, wanted to understand that looking at client-specific issues and some macro issues highlighted by most of the other peers, do you believe there is still enough pipeline, I am not asking QoQ, but you still believe deal win momentum can continue at this level or there could be some aberration, which can come on a near-term as a whole?
- Sudhir Singh:** Just about any other CEO you speak to I am sure, Sandeep, will say I hope it will continue. It is very difficult for me to say whether it will or will not. But as I have noted in the outlook and the commentary that I have provided, we believe the fundamentals of the business are strong. And I know I am saying this for the fourth time, so I apologize, but we continue to plan for robust, predictable and profitable growth. And I am smiling and laughing as I say that, Sandeep (laughter).
- Sandeep Shah:** Last few book-keeping questions; in terms of cash and bank balances have gone down by Rs 246 crore. So, largely because of the WHISHWORKS upfront payment?
- Sudhir Singh:** Yes, you are right, Sandeep. That in some ways has been the principal reason that has got accounted for it. There has also been the Incessant and the RuleTek impact which again you are aware of.
- Sandeep Shah:** The future acquisition liability, the figure of Rs.190 crore also includes some earn-outs for WHISHWORKS or...?
- Sudhir Singh:** That is correct, it does, the future acquisition liability includes that. There is obviously no future acquisition liability (FAL) going forward for Incessant where as I said we have done the last tranche but it does include the FAL for the WHISHWORKS transaction.
- Sandeep Shah:** Just curiosity that most of the companies, gross block have gone up because of the right-of-use asset creation on the balance sheet because of lease accounting. With that the lease liabilities have also gone up. But, for us, the fixed asset movement has not been that sharp. From Rs.422 crore it is Rs.510 crore, with the capex in this quarter being Rs.34 crore. So, I can take it offline, but if you want to...?

Sudhir Singh: I think it is a valid observation, Mr. Shah, and this is something that obviously we were also observing both on an absolute and a relative basis. The reason for that fundamentally is that unlike a lot of our peers, we tend to have our own campus and own facilities. When it comes to leasing out facilities, our usage tends to be significantly lower than some of our peers.

Sandeep Shah: All the balance sheet entries are after considering the right of use asset and some creation of lease liabilities as well?

Sudhir Singh: You are absolutely right, they are, yes.

Moderator: Thank you. The next question is from the line of Ruchi Burde from BOB Capital Markets. Please go ahead.

Ruchi Burde: My question is on the client-specific issue that you called out. So, the IT spending compression that you mentioned, in your sense is it done already in the run rate? And from here onwards there should be stability or improvement or how do we see this moving into the following quarters?

Sudhir Singh: As I said, Ruchi, our wallet share has not contracted. So, the compression of the IT spend at the client is what has caused the softening. Given the fact that the wallet share remains intact, rebound is going to be contingent on the IT spend at the top-5 client reverting back to normal level. A dependent variable here is their IT spend. Wallet share remains intact. So, whenever their business bounces back and their investment into IT services bounces back, we will hopefully start riding that wave again.

Ruchi Burde: But at this point of time, that visibility is not clear is what we are trying to say?

Sudhir Singh: I guess you are right, yes, I will align with that. It is very difficult for us to predict when they will take a call around opening the taps when it comes to their IT spend.

Ruchi Burde: Second question was around the visa expense. So, 90 basis points impact this quarter seems a bit higher if I look at your historical spend. So, I am just curious to know if there is any change to our visa or onsite talent management strategy as we applied for more visa, any tweaking of the model over there?

Sudhir Singh: So, if you look at our visa spends over the last couple of years, you will see the cost has progressively been going up and we have figured out ways of managing our aggregate operational expense to offset it and manage margins. In this specific quarter, the 90 bps impact that you are looking at on visa was largely because the visa filing cost for the whole year which is largely the H1 visas that we file for are fully booked into Q1 itself. That is why there is a blip, but there has also been over the last two years a steady increase in overall visa filing and visa transfer cost which are built into the margin numbers that we have been sharing over the quarters.

Moderator: Thank you. The next question is a follow-up from the line of Sandeep Shah from CGS-CIMB India. Please go ahead.

Sandeep Shah: Last time because of the corporate event, I think we had not announced the final dividend. Any timeline or any details or any planning which you can share in terms of capital allocation going forward?

Sudhir Singh: Mr. Shah, dividend and capital allocation is a call that I suspect both of us know is a board decision. So, the board will deliberate on it and it is a call that they will take.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Just a book keeping kind of a number. I wanted to understand, do we make any other payment related to incentive or any kind of appraisal subsequent to Q1 also now in the subsequent quarters?

Sudhir Singh: No, the material payment is done in Q1 which is a quarter that is behind us. There is nothing which is significant that is made in other quarters.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Sudhir Singh, CEO, NIIT Technologies for his closing comments. Over to you, sir.

Sudhir Singh: I want to thank everyone who has made time for us late in the evening for this conversation. Thank you for your questions. They continue to be as always insightful, probing and very useful for the management. Thanks once again for your time and we look forward to speaking to you next quarter.

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

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