



TRANSCRIPT: NIIT Technologies Ltd Q1 FY2018 Results Conference Call

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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator: Ladies and gentlemen, good day and welcome to the NIIT Technologies Q1 FY'18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh – Head, Investor Relations and M&A, NIIT Technologies. Thank you and over to you, sir.

Abhinandan Singh: Good Afternoon and Welcome, everyone to our Q1 FY 2018 Conference Call.

Present along with me today on this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Sudhir Singh, who recently joined us as CEO-Designate; and Mr. Amit Garg, our CFO.

You would have received our e-mail with the results already. The same are also available at our website www.niit-tech.com.

We will begin this forum with opening remarks from our CEO and after that the floor will be open for your questions.

With that, I would like to now hand over to Arvind Thakur, our CEO.

Arvind Thakur: Thanks, Abhinandan and Good afternoon, everybody. Welcome to this earnings call. I would like to begin by doing some revenue analysis of our first quarter results. So during the quarter, revenues improved 5.7% over the same period last year to Rs.7,089 million. You would recollect that in the last quarter of the last financial year, the company had concluded the consultation process in respect to a government client where a project was put on hold. The settlement provided a one-time improvement to revenues and margins during Q4. For the purpose of this revenue analysis in the current quarter, we will exclude the impact of the one-time settlement to understand the on-going business. Excluding the impact of the settlement in the last quarter, revenues were down 1.2% sequentially to Rs.7,089 million. During the quarter, we also experienced an adverse impact due to currency of 2.6%. So growth in constant currency excluding the settlement in Q4 sequentially has been 1.4%.

As you are also aware, Q1 is a seasonally weak quarter for the company as revenues typically decline on account of seasonality in our domestic GIS business. So despite the India business declining 13.4% QoQ, mainly on account of this seasonality, we are seeing sequential growth in our overall revenues, which as I mentioned earlier was 1.4% in constant currency, and this is on account of the continued momentum in our international business. Revenue expanded 4.3% sequentially in constant currency in the US which now represents 49% of the revenue mix on reported basis. Revenue share for EMEA stood at 32%. APAC contributed to 10% of the total

revenues and also demonstrating strong growth of 9.8% in constant currency. Overall, we have seen 3.1% growth of our international business in constant currency.

During this quarter, we also saw increase traction in some of our smaller segments including Manufacturing and Media. So Manufacturing, Media and others collectively as a segment grew by 4.2% sequentially during the quarter and now represent 29% of total revenues. BFSI grew 1.7% in constant currency during the quarter, contributing to 42% of total revenues. Revenues in the Travel & Transport segment declined sequentially by 0.8% in constant currency due to ramp-down of a client in the EMEA region.

As I shared in the last earnings call, this was a client contemplating on restructuring its business. Since then, the client has restructured its business and reduced focus in a business line where we have an engagement. The relationship however continues to be strong and revenues from Travel & Transport now stand at 29% of overall revenues.

Top five clients contributed to 33% of total revenues. Top-10 and top-20 contributed to 45% and 58% of the total revenues. Onsite revenues represented 60% of the total mix.

Now to analyze margins, if you look at our numbers, operating profits improved 9.1% over the same period last year to Rs.1,108 million with margins expanding 46 basis points over the previous year to 15.6%. Excluding the impact of the settlement which I talked about earlier, operating profits were down 20.2% sequentially and margins declined 195 basis points sequentially. Wage hikes and currency impact were the primary reason for sequential drop in margins. Net profits for the quarter are Rs.513 million, which is up 79.5% YoY.

The effective tax rate during the quarter was 34.7%. The increase in tax rate is due to dividend income from foreign subsidiaries that were brought in to reduce global cash balance as part of our cash management strategy. The tax on dividend income from foreign subsidiaries would be set off against DDT when the dividend is paid next quarter. In fact, excluding the impact of tax on dividend income, the effective tax rate for the quarter is 23%.

A significant event during the quarter under review was the 55% interest that we acquired in a company in the US which is RuleTek, which is a BPM architecture services company, specializing in providing architecture leadership around the Pega platform. Based in Boise, in Idaho, RuleTek is a fast-growing business servicing customers in the US with 65 employees and a track record of successful implementations for Fortune 500 companies. This transaction, which was done through Incessant, strengthens our Digital Integration capabilities and expands our footprint in the high opportunity North American market. It also enhances our near shore capability in line with our intent to service our US clients with a well-rounded delivery model, involving onsite, offshore and nearshore capability.

Another significant event during the quarter has been the appointment of Sudhir Singh as our CEO Designate. As his title suggests, this is a planned move for succession where Sudhir will take over my CEO responsibilities in a structured manner during the year. Sudhir has been with us now for seven weeks and post his induction, he has already taken charge of our Europe business unit. He will be moving to the US tonight to take charge of our US operations, and over the year, all businesses and functions would be handed over in a systematic manner to ensure a smooth and orderly transition.

Let me now invite Sudhir to introduce himself and share his views with you.

Sudhir Singh:

Thank you, Arvind and a very good evening, folks. My name is Sudhir Singh and as Arvind referenced right now, I am the CEO Designate at NIIT Technologies. I joined the organization on May 29th this year and I have spent close to seven weeks, again as referenced earlier. I am an alum of Hindustan Lever, Infosys, and Genpact and I shall be based out of Princeton, New Jersey in the States. I would like to extend my welcome as well, to all of you to this forum.

Beyond introducing myself, I thought I would also like to share my observations over the last seven-odd weeks. So let me start off with a quick personal background refresher. My first career start post-graduation from IIM Calcutta was at Hindustan Lever. That was an eventful seven-year brand management and sales management run. This in turn was followed by close to a decade in the US with Infosys where I started off as a sales manager and went on to run the payments practice and some of the key financial services clients portfolio across that stretch. More recently, I spent the last seven years at Genpact and I was the Chief Operating Officer for the capital markets and IT services business.

So with that quick preamble, let me move on to the more immediate actions that I have undertaken since joining NTL on May 29th this year. Over the past few weeks, I have spent a lot of my time in the market meeting CXOs and their directs along with the sales team across Europe and the US. I have also spent considerable time meeting with our key go-to-market partners and the front-end sales and the backend capability and delivery organization leaders and teams. There are a few key pursuits that I have jumped into as well.

So in the short period that I have been around, I have tried to build, and in some cases, sharpen my appreciation of the key differentiating capabilities of our organization. Where I stand today, I clearly see four specific industry sub-segments where we have clear differentiating depth.

These sub-segments that I see them today are:

#1, Insurance and within Insurance specifically the P&C and the Specialty Insurance space. As you know, this is a fast growth area for us and it is an area where we play across the products, the platforms and the services spectrum.

#2 is Travel and Transport, with an emphasis particularly on our depth around Airlines, Airports and Travel Technology.

The 3rd space would be buy-side segment of the capital markets domain and the leadership that we have specifically around digital orchestration and integration in the broader BFS space.

#4 is media which again is a space where we made conscious investments at NIIT Technologies over the years.

Now, basis my initial interactions with clients and leaders at NTL and my past experience, the transformation agenda across these four industry segments that I just talked about is being led largely off the back of nimbler technologies and technology frameworks that allow for superior differentiated customer experience. There is obviously a clutch capabilities across Digital, Automation, Cloud, Data, Integration that come into play here. In NIIT Technologies case, beyond a full spectrum technology services stack, which in some ways is table stakes, the other aspect where we have built solid capabilities to address the emerging transformation led demands from these sub-segments are Automation and Digital. Automation capability for us really spans all the way from RDA, RPA, Workflow, Machine Learning, AI and also across Digital. As you are aware, we have put together an end-to-end Automation platform, we call it TRON Smart Automation and this consolidates innovative technologies, practices, best-in-class tools for both transformation and for improved customer experience. Equally importantly in my view, our view of Digital spans integration, data and most importantly, experience-enhancing technology.

Illustratively, something that caught my eye over the last 6-7 odd weeks has been a recent project that we completed for an insurance P&C major where using automation at the backend and a micro-services-based approach, we were able to cut down a new product introduction time for that from by around 75%-odd. That in my mind, basis my experience so far at NIIT Technologies, is the perfect marriage of a chosen core domain and a key technology capability that we have built here.

My intent, since I will be based in the market, will be to ensure that the message around core industry and capability stories that I just talked about gets further sharpened and that it goes across the client and prospect set with speed. In NIIT Technologies, I personally see a brand with significant recognition in its chosen domains, long-standing client relationships and a very-very hard-earned reputation as being a preferred talent magnet. I look forward to working off the base that we have created and working across the domain and the technology intersection points that we talked about and which are our strength areas to drive growth. It is going to be my pleasure to interact with you when I am back in India next.

With that quick five minutes, let me hand the platform back to Arvind to continue his briefing. Arvind, back to you.

Arvind Thakur:

Thank you, Sudhir, for that introduction and a very nice summary of our capabilities. In the customer introductions that we have done together, we could see them resonate very well with the views particularly around the marriage of chosen core domains and key technology capabilities. I think these strengths is what is driving here are the steady intake of fresh business that we have been having in the company. If I look at our order intake for this quarter, we had fresh business of US\$110 million secured during the quarter; 60 million in the \$US, \$25 million from EMEA and US\$27 million from the rest of the world. This also includes an extension of a large multi-year engagement with an existing Travel client in the US.

Nine new customers were added during the quarter; five in the US, one in EMEA and three in rest of the world. This includes five significant customers acquired through the RuleTek acquisition as well.

The order book executable over the next 12-months stand at US\$320 million.

There was an increase of 110 people during the quarter. Total headcount at the end of the quarter was 8,963. This includes 63 people added at the RuleTek facility in Boise. Utilization improved during the quarter to 81.2% and attrition remains low at 12.1%.

I would now like Amit Garg to take you through some balance sheet items.

Amit K Garg:

Our cash and bank balances stood at Rs.6,162 million, decrease of Rs.1,159 million over previous quarter due to acquisition of 55% stake in RuleTek and additional 19% stake in Incessant. Capex spend during the quarter was Rs.279 million, and our debtors at the end of quarter stood at 69 days of the sales outstanding, the last quarter was 64 days, primarily because some of our big clients paid in the first week of July, and if you really look at, we have the same trend here.

If I look at from a balance sheet perspective, reserves and surplus declined due to provision for future acquisition liability for RuleTek, remaining stake of 45%, and some increase in Incessant stake purchase, which stood at Rs.70 crore which was partially offset by our PAT of Rs.51 crore during the quarter.

With this, I will again hand over back to Arvind.

Arvind Thakur:

So I would like to just wrap up my opening commentary by just stating that in terms of outlook for the company, I would like to highlight that despite the sharp fall of Rs.230 million in our GIS business in this quarter, revenue still expanded in Q1, as I mentioned earlier, by 1.4% in constant currency due to the momentum in our international business. We expect further improvement in growth rates as well as margins as we move to the next quarter. So with these opening remarks, we will be happy to now take your questions.

- Moderator:** Sure, thank you very much. We will now begin with the Question-and-Answer session. We have the first question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** So going forward, are the top clients ramping up or are we seeing additions from new accounts which is driving the growth?
- Arvind Thakur:** Yes, so you would have seen that we have added nine new clients in this quarter. So I think definitely we have seen an increase in the addition of new clients. In terms of our top clients, as I shared with you, one of our Travel clients in Europe has started ramping down. So we have had an impact in this quarter which will bottom out in the next quarter because the full impact of the ramp down will be experienced in the next quarter. But despite that we will have strong growth in the next quarter.
- Madhu Babu:** How is the growth in Incessant? Could you give us more color about RuleTek?
- Arvind Thakur:** Revenues at Incessant are at Rs.543 million which is I think more or less at the same number as the last quarter. RuleTek, as I mentioned to you, is a company which is based in the US and it is a specialist company which provides services around the Pega platform and some of its clients are Fortune 500 clients. So very well respected in the niche that they service. But more significantly, we are operating in a low cost near-shore facility in Boise. So we would be servicing our clients from the near-shore facility and particularly with the risks associated with immigration and potential new bills that are likely to happen in the US, this we felt would be supporting us in sustaining our business in the US going forward.
- Madhu Babu:** My question to Sudhir; would there be any more sales additions from your side after you take over?
- Sudhir Singh:** At this point in time, I think we feel very satisfied with the current sales mix both in terms of the number and the quality that we have in the market. So there is no immediate plan to make a tweak to that set up.
- Madhu Babu:** On the capex and payouts for Incessant and RuleTek, how would that be for FY'18 and '19, what would be the outgo both in capex and acquisition related earn-out?
- Arvind Thakur:** I will ask Amit to address that question.
- Amit K. Garg:** On capex as I said in the beginning of the year that we will trend towards Rs 80 cr, and that's the same trend. Usually in Q1 we capitalize some of our software that's why you see a spike and that normalizes over the full year. The current fixed assets includes 60 cr from RuleTek but so you are asking about the payment that will be due for RuleTek and Incessant? RuleTek would be Rs.60 crore and Incessant would be Rs.100 crore.

- Madhu Babu:** Rs.160 crores for acquisition and Rs.80 crores is the core capex?
- Amit K. Garg:** Yes.
- Madhu Babu:** In FY'19 also, there would be payout for Incessant if I am right?
- Amit K. Garg:** Yes.
- Moderator:** Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.
- Pankaj Kapoor:** My first question, Arvind, is on this ramp-down in the Travel client that you mentioned. You spoke about the client defocusing on parts of business line where NIIT Tech used to work. So can you quantify the kind of engagement size that we had with this client in this particular business and you think that this would have some follow on impact in the second or the third quarter as well?
- Arvind Thakur:** As I mentioned, since the ramp down has started in this quarter, the full impact of the ramp down will be experienced in the next quarter. The potential ramp down, if I look at next quarter, would be touching about \$2 million.
- Pankaj Kapoor:** So is it 2 million altogether or you think that there could be some impact in the third quarter as well?
- Arvind Thakur:** No, it will bottom out in the next quarter.
- Pankaj Kapoor:** With this client the impact being done, are there any other Travel client where you see some signs of weakness; I am alluding to the commentary that you shared in the previous quarter as well, so you think that is this the one which you are referring to or you think there could be some weakness in other clients also?
- Arvind Thakur:** This is the one I was referring to because if you recollect, I had mentioned that there was a client contemplating of restructuring, and they have taken their decisions. So that is why we are seeing this impact. Other than that, we have clients in the Middle East, but it is not a ramp down, it is small.
- Pankaj Kapoor:** My next question is to Sudhir. You mentioned about the strengths of NIIT Tech that you have seen in the last seven weeks. What are the areas where you think that probably which could be the weaknesses here and where you probably would like to focus once you settle down?
- Sudhir Singh:** At this stage, nothing that I can specifically call out. The mandate that I do have from Arvind, from Mr. Pawar, from the board is to make sure that the areas that are areas of strength for us. In relative terms, the messaging around them gets sharpened and the speed with which we take the

message across geos gets accelerated. I am being honest around this, I cannot really point to anything specifically and call that out as a weakness at this stage.

Pankaj Kapoor: Is it fair to assume that the initial focus of yours will be more on the sales front and trying to sharpen or trying to add on to the overall front end of the company and maybe with a lag you will come and look at the delivery or the execution side?

Sudhir Singh: That is correct, Pankaj, and as Arvind pointed out, as we looked at a very structured transition plan, step #1 quite clearly is to focus on the front-end at the sales engine and into the markets that we sell into; step #2 during the course of the year is going to be more centered around getting into the delivery engine and building an appreciation around that.

Pankaj Kapoor: Amit, what is the reason for the DSO going up in the quarter and how we should look for that going forward?

Amit K. Garg: I think we will maintain the same trend, Pankaj, around 65, this quarter also, the way I see it is 65, because there is one of the slippage from one of our customers, some big customer from which payment came in first week of July. So our cash focus and our cash management strategy and our collection strategies remain same, and as a company we continue to be focused on maintaining the same DSO days we were targeting earlier.

Pankaj Kapoor: Lastly, on the hiring, we have been going extremely slow through the last year as well and this quarter also the hiring has not been very-very aggressive, utilization for us also is now at running close to the highest levels. So any hiring plans that you can share for the quarters going ahead?

Arvind Thakur: Pankaj, this has been area of sharp focus for us and in fact we have actually engaged McKinsey to create next-generation delivery organization and what they have really been focusing on is on Lean and Automation. So I think we are driving a lot of efficiency into our delivery organization and that is one of the reasons why you see utilization been pretty high and significant numbers not getting added to the headcount.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Sudhir, I do agree it is too early but looking at your strategy going forward, what are two or three things you would like to do immediately? You said front-end change, so do you believe the go-to-market strategy needs to be changed?

Sudhir Singh: The direct honest answer to that would be I do not think the go-to-market strategy needs to be changed. I think the message that we have around four specific sub-domains, and I am being very categorical about this: sub-domains. Even when we say Travel, we have talked about three specific sub-domains within Travel where we think we have key differentiating strengths. So the intent is going to be to make that message sharper and to call it out across interactions. Getting

back to your question, we are not going to do a material change in the go-to-market strategy. We will however continue to focus on calling out the specific sub-domains and the intersections of those sub-domains with Automation and Digital where we think we have differentiation and make sure that story goes out to the clients and to the prospect set more aggressively and more sharply.

Sandeep Shah: Arvind, there is a very good strong growth in the export business which was in dollar terms was close to around 3.4% and even in constant currency in dollar terms maybe close to around 2.5% or 2.4%. So do you believe this growth momentum will even continue in the coming quarter despite a ramp down in one account in Travel & Transportation?

Arvind Thakur: That is a little dampener, but what we are seeing is very good traction in Insurance. We are also seeing a strong growth now in our NITL business. You would recollect throughout last year post-Brexit, the NITL business had been somewhat muted but now we have seen good recovery in that business; we acquired two new clients in the last quarter, we acquired another new client in this quarter, we also have new leadership in that organization. That is going to be driving a lot of our business and traction going forward.

Sandeep Shah: So I think for the full year with the good start as well as first half being better, in second half for us GIS drives the growth, you believe that the growth for FY2018 could be at least like a high single digit or slightly better than the industry? I am not asking for a specific guidance but am I on a right direction?

Arvind Thakur: What can I say is you are right we have got off to a good start. We will do much better in Q2 and we hope to continue with that trend.

Sandeep Shah: When you say Q2 the growth rates would be higher, you are talking about higher than 1.4% CC growth?

Arvind Thakur: That is right.

Sandeep Shah: Just a few book-keeping, questions. What was the reason for the decline in reserves and surplus? You mentioned some reasons but it was not clear to me.

Amit K Garg: Basically what has happened is while the PAT of Rs.51 crores got transferred to reserves and surplus, but we created additional future acquisition liability for RuleTek and for additional payout for Incessant. The combined liability provided for both of them was Rs.70 crore, what you see is that Rs.20 crore difference.

Sandeep Shah: Can you repeat?

- Amit K Garg:** For both RuleTek and Incessant, incremental future acquisition liability was Rs 70 cr and our Q1FY18 PAT was Rs 51 cr. This is leading to decline of about Rs 20 crore in Reserves & Surplus for the quarter.
- Sandeep Shah:** Just for Incessant if you look at the revenue, it was Rs.54.3 crores and if I am not wrong, there would be some revenues coming through RuleTek which would be accounted in Incessant. So why the revenue growth momentum after that also is not that great? I do agree there is a rupee appreciation, so that has impacted the numbers. But my sense is I think there would be some growth coming automatically through the RuleTek into Incessant.
- Arvind Thakur:** Of course, from RuleTek there is only one month of revenues, and next quarter there will be significantly more contribution of RuleTek into Incessant. As you know, in the digital space, you have projects. So when large programs start coming to an end before the next one starts, there is a little lull. I think that is what we are experiencing in Incessant at this point in time.
- Sandeep Shah:** But do you not believe that the growth momentum on a year-over-year basis or a full year is unlikely to die out?
- Arvind Thakur:** This is an area of sharp focus. We are investing in this space. Earlier, Incessant used to position itself as a specialist provider of technology services, now we are getting into engagements which involve complete integration of platforms with infrastructure because the customers are looking for complete solutions. So we are beginning to see real synergy between NTL and Incessant in the marketplace.
- Sandeep Shah:** What have we paid for the Incessant additional stake, what is the spending in the Rs.200 crore liability which we have accounted as of June end?
- Amit K Garg:** For Incessant, we made a payment of Rs.103 crore and pending is around Rs. 140 crore.
- Sandeep Shah:** So balance which is accounted in the future acquisition liability relates to RuleTek?
- Amit K Garg:** Yes.
- Sandeep Shah:** What is the RuleTek payment in this quarter?
- Amit K Garg:** We paid Rs.60 crore for that.
- Sandeep Shah:** This is a prime reason for a decline in a cash balance?
- Arvind Thakur:** That is right.
- Amit K Garg:** But one thing you have to remember that in future liabilities have to be revaluated every quarter, so there could be some true-ups coming at later date as we see the performances.

- Sandeep Shah:** Just on dividend, are we optimized in terms of repatriation from the foreign subsidiaries to India?
- Amit K Garg:** Yes.
- Sandeep Shah:** So there is no further repatriation which can happen?
- Amit K Garg:** No, the intent was frankly to get the DDT benefit out of that because you have benefit flowing, you do not need to pay DDT to the extent taxes have been paid on receipts from the foreign subsidiaries, they get knocked off. So what you have seen is the tax flowing through P&L but a real credit has gone already to the reserves.
- Sandeep Shah:** Is it possible to quantify what was the repatriation amount?
- Amit K Garg:** It was around Rs.57 crore.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.
- Dipesh Mehta:** I think broadly revenue you indicated about high single digit seems to be reasonable to expect. But what to expect about margin, if you can provide some color about how you expect margin trajectory to be specifically considering the 2 million hit which we expect in Q2?
- Arvind Thakur:** I will just take you to the typical margin trajectory that happens every year. In Q1 normally there is a margin decline which is predominantly because of wage hikes and other things. So last year Q1 margins, in the first quarter, was 15.1% and we exited at 17.6%. This year we are beginning at 15.6% and so I anticipate we will exit at 18%.
- Dipesh Mehta:** So last year we had benefit of hedges at higher rate, now hedges position also seems to be closer to the current number. So still you expect operations wise we can reach to exit of 18%?
- Arvind Thakur:** Yes, I am basically saying everything in constant currency.
- Dipesh Mehta:** Broadly when you are looking for exit at 18% in CC terms, you expect from full year perspective margin to expand?
- Arvind Thakur:** That is right.
- Dipesh Mehta:** Is it possible to give color a bit if rupee stays where it is, what would be the impact on overall margin?
- Arvind Thakur:** That is the constant currency trajectory which I just shared with you.
- Dipesh Mehta:** Is it possible to provide revenue breakup of GIS, NITL, the typical numbers which we share?

- Arvind Thakur:** GIS revenues are Rs 300 million, if you recollect, last quarter it was 520 million. So we have seen a sharp decline in Q1 in GIS. Morris Rs 401 million. NITL Rs 357 million.
- Dipesh Mehta:** What about Incessant?
- Arvind Thakur:** Rs 543 million.
- Dipesh Mehta:** Op Margin of each business?
- Arvind Thakur:** GIS is 21%, Incessant is 23%, Morris is 8% and NITL is 18%.
- Dipesh Mehta:** On GIS, I think seasonality seems to be slightly on higher side this time?
- Arvind Thakur:** Yes, I'll give you the reason for that. There are actually two additional reasons besides seasonality. One is the impact of GST. So a lot of business which was to have been closed in Q1 got actually pushed to Q2 because customers wanted to take advantage of input tax and GST was implemented. So that was one reason we had further decline. The second reason is, as you know GIS predominantly the business is done with the government, and the government has moved the procurement to a portal called GeM, it is an online purchase portal. So all DG S&D rate contracts have moved on to GeM and in that they have still not categorized software. So some procurement got delayed because the software category was not available on GeM. So these are two other factors which contributed to a decline in addition to seasonality.
- Dipesh Mehta:** Otherwise you expect, because of Smart Cities and overall recovery in government procurement, GIS to do well from full year perspective?
- Arvind Thakur:** Yes, in fact, a lot of Smart City projects got delayed because of GST.
- Dipesh Mehta:** In next three quarters, it should recover?
- Arvind Thakur:** Yes.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.
- Rahul Jain:** On this acquisition, why this has been chosen through Incessant...is it from a brand which is already popular or there are pre-tax benefits which comes to this?
- Arvind Thakur:** Basically it is in the same business as Incessant. Incessant provides services on the Pega platform. Incessant does not have a strong footprint in the United States, its footprint is basically in the UK and in the Asia Pacific region which is strong. So RuleTek was complementary to Incessant and they also had cash reserves which could be utilized to make this purchase.

- Rahul Jain:** Does that change in any way compensation toward Incessant and how that pans out over next two years and how much the incremental integration we would see from a profit perspective in two years?
- Arvind Thakur:** Just like with Incessant, there is an earnout component in RuleTek as well where the founders would basically get paid based on achievement of certain milestone and targets. The model is exactly the same and it is being very successful as far as Incessant is concerned. So we hope to replicate the same success with RuleTek as well.
- Rahul Jain:** Second bit, which is how the stake in the Incessant increases over next two years and similarly for RuleTek?
- Arvind Thakur:** As far as Incessant is concerned, next year we will buy out the balance and so it will be 100% owned by NTL, and RuleTek has an earnout similarly over the next three years and so progressively we will buy out the stake in RuleTek as well.
- Rahul Jain:** So in FY'18 this number, this 100%, would be what, for Incessant? What is the stake in Incessant for fiscal '18 given the payout that would happen during the year?
- Amit K Garg:** You're asking for payout....
- Rahul Jain:** No, not payout but what is the stake for fiscal'18, given the payout would happen during the year?
- Amit K. Garg:** Okay, by 2018 we would have acquired 100% of Incessant.
- Abhinandan Singh:** Because the last tranche of Incessant will happen in May 2018, so at the end of FY'18 we will have 70% of Incessant.
- Rahul Jain:** So basically the minority interest is also affected to a certain extent in the current quarter and full effect of that would be seen from 2Q onwards?
- Amit K Garg:** Yes.
- Rahul Jain:** Sudhir, you said that your broad thesis would be to go for a sharper communication in terms of the sub-domain capability that we have to obtain. I think as far as NIIT Tech is concerned, they have very long held relationships with the top clients. So I guess those capabilities would have been conveyed to the existing large accounts by this time. So is that more towards beyond top-10, top-20 to a wider set or do you think even the top-20 would need that kind of the reassurance on the sharper communication side?
- Sudhir Singh:** Some of the capabilities, specially the Digital and the Automation stack are evolving capabilities, Rahul, so the ones that are evolving as we speak will need to be communicated to the clients

again, even the existing top-10 clients that you referenced and that process will continue. The underlining of the capabilities and the differentiation will obviously also hopefully with my presence in the market go more sharply to the prospects we are going after and to the relationships that are still in the nascent or the budding stage.

Rahul Jain: Any color which you can throw in terms of some of the very interesting area where we have built up capabilities over the last couple of quarters like Pega, with RuleTek on an incremental basis, DuckCreek that we have got a couple of quarters back, and through Incessant; so how some of these new technologies in our service lines have changed our visibility in the market and what a meaningful change you have seen from a client onboarding or a client benefit of these things given our service line offerings....

Sudhir Singh: I will give you a three very quick illustrative examples, Rahul, to that. On automation, as you know, we came up with the complete end-to-end smart automation process framework which is Tron and the interesting thing that from my personal experience I have seen around automation is that we now have the full stack; it starts all the way from the more elementary desktop and process automation, goes all the way with the new Arago partnership, all the way to Machine Learning and AI. So if you look at the last two quarters that's obviously built up and that is a story that has played well with some of our larger insurance and travel clients and the smaller ones as well. The second story which I found interesting, and again this is more illustrative and more anecdotal, is the kind of work that we have done in Travel where using some of the approaches that we call "Empathetic Front-End Technology Framework", we have been able to come up with clear case studies, clear frameworks for airlines where they can start looking at targeting in a more micro manner where they can look at making pricing bids at the right time to the right prospect through the right channel, etc., So illustratively, anecdotally those are two examples of capabilities that have evolved recently and capabilities that have also resonated with our current client set.

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

Harsh Kundnani: How much did Digital contribute to the revenue and what was the growth and how do you see it going forward?

Arvind Thakur: Digital contributed to 21% of our overall revenues. Going forward, this is a sharp area of focus and as and when our automation platform also matures, we only see this expanding going forward.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: What is the revenue productivity per employee approximately?

- Arvind Thakur:** It is around \$50,000 p.a.
- Moderator:** Thank you. The next we have a follow up question from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Arvind, wanted to know, as you said GIS, there has been a delay because of GST where orders have been pushed back. So your growth expectations for the coming quarter or the full year of FY'18 in the coming rest of FY'18, do you believe it is more driven through GIS or would growth momentum be evenly spread out between the domestic as well as the international revenues?
- Arvind Thakur:** International, we already have the momentum. I think the traction that we are seeing in GIS is only going to add to that momentum.
- Moderator:** Thank you very much. That was the last question. As there are no further questions from the participants, I now hand the conference over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments.
- Arvind Thakur:** Thank you so much everybody for your participation. I think as Sudhir gets deeper into the operations, he will be able to give you more insightful details of how he plans to shape the organization going forward. We hope to see him back in India sometime in September around which time Abhinandan will see whether we can get you to meet with him face-to-face. Thanks once again.
- Moderator:** Thank you very much. On behalf of NIIT Technologies, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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