TRANSCRIPT: NIIT Technologies Ltd Q2 FY2019 Results Conference Call

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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator: Ladies and gentlemen, good day and welcome to the NIIT Technologies' Q2 FY2019 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 over to Mr. Abhinandan Singh, Head – Investor Relations and M&A, NIIT Technologies Limited. Thank you and over to you, sir.

Abhinandan Singh: Good afternoon and welcome everyone to our Q2 FY'19 earnings conference call. You would have received our emails with the results already. Those are also available on our website www.niit-tech.com.

Present along with me today at this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our Vice Chairman & Managing Director; 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 handover the floor over to Mr. Sudhir Singh, our CEO. Sudhir, over to you.

Sudhir Singh: Thank you, Abhinandan and very good evening, very good morning to you folks wherever you are. Let me kick this off. We are very pleased to share that revenues have expanded 10% quarter-on-quarter and they have grown 23.1% over the same quarter last year to Rs. 9,074 million. Quarter-on-quarter growth in constant currency is 7.6%. We are equally pleased to report that operating profits stand at Rs. 1,634 million for the quarter representing a sequential growth of 25.1% and an improvement of 37.2% over the same quarter last year.

The extremely robust 10% quarter-on-quarter revenue growth and the 217 bps quarter-on-quarter improvement in operating margins is a reflection of the new operating normal that we have established as we target and deliver predictable and fast scaling profitable growth. Broad based, de-risked growth across all businesses and significant investments and building differentiated capability while simultaneously improving margin profile were the highlights of this quarter.

I will step into the revenue analysis section now. The revenue growth continues to be broad based, predictable, and on an accelerating curve. All our constituent businesses continue to expand. Insurance grew 11.2% quarter-on-quarter contributing to 28.8% of our revenue. Travel & Transport was up 9.2% quarter-on-quarter contributing to 26.9% of revenue and Banking & Financial Services expanded 6.2% quarter-on-quarter contributing to 16.2% of revenue.

Other segments collectively expanded 11.9% quarter-on-quarter and they now represent 28% of overall revenue. The geo based growth cuts also showed de-risked, sustained, and accelerating performance. Americas which contributes to 49% of our global revenues grew by 8.4%. The growth in the Americas came on the back of growth in the Travel and the Insurance verticals. EMEA revenues expanded 16% sequentially and they now represent 34% of the revenue mix. The expansion in revenue in EMEA was on account of growth in Travel, Insurance, Digital, new generation Infrastructure Services including Cloud services.

APAC contributes 9% to the firm's total revenue. India contributed only 8% to total revenue. Revenues were expanded by 12% on the back of improved GIS business.

The top five clients now contribute 28% of the total revenue and the top 10 and top 20 contribute 40% and 54% of the total revenue respectively, representing broad based growth and improved risk profile.

Broad based growth is supported by the number of million dollar clients which has expanded to 88 this quarter from 84 last quarter and this number compares to 74 in quarter 2 of last year.

Stepping on to the margin analysis section now. Operating margin has increased by 217 basis points quarter-on-quarter to 18% for the quarter. Constant currency margins improved quarter-on-quarter by 200 basis points. Operating margins have increased by 186 basis points in reported terms and 225 basis points in constant currency terms over the same period last year.

The significant, and equally importantly, sustainable jump in margins was driven by growth across all verticals with nearly the same levels of SG&A spend and through a very comprehensive automation and productivity improvement framework and tool set roll out across the delivery factories. We continue to drive intense automation productivity tools adoptions and templatized monitoring frameworks across our delivery factory.

Net profits for the quarter are Rs. 1,118 million. They are up 66.3% year-on-year and 30.3% quarter-on-quarter. Effective tax rates during the quarter stood at 23.7% as against 24.9% in the previous quarter.

Let us talk about order intake now. The order intake story remains very strong and the pipeline continues to improve. We secured fresh business of $160 million during the quarter. Out of the $160 million order intake this quarter $86 million came from the US, $39 million came from EMEA, and $35 million came from rest of the world.

The trend line of order intake starting from quarter 1 of last year for six successive quarters has increased every quarter and now reached at $110 million followed by $122 million, $130 million, $145 million, $151 million and now $160 million, respectively. Ten new customers were added during the quarter, five in the US, three in India and two in rest of the world. You will notice that in the last four quarters we have doubled the rate of new logo acquisitions per quarter and ten new logos a quarter will be the new baseline.

The firm got two $20 million plus large deals. One from one of our largest BFS customers for DevOps, proactive monitoring, IT landscape refresh. And the other one was with an existing client in the Insurance space in the US. We also recorded three $10 million plus contracts during the quarter which included a multi-million dollar digital engagement with a new commercial lending & leasing major focused on driving digital process orchestration across the client onboarding cycle. The other two $10 million plus large deals were secured in our Travel vertical which has rebounded smartly on a sustainable path over the past few quarters. The order intake during the quarter is at $160 million. In line with our recent quarters, order book executable over the next 12 months continues to expand and it now stands at $363 million.

I will comment on delivery now. The sustained growth that we have delivered in the recent quarters has been aided materially by the differentiated capabilities that our delivery factory has incubated as the intersection of our three industry verticals and emerging technologies like full spectrum automation, cloud and data services, robotic process automation, DevOps, cognitive and AI technologies and core digital. Our success in the market continues to be shaped by real world stories of live use cases and real life impact generated, and not through vanilla power point pitches.

Illustratively, in this quarter itself, we rolled into production an Amazon Alexa-driven UI interface for all passengers of a major airline. We created a set of cognitive chat bots for a large asset management major. We rolled out a Blockchain framework for the airline industry. We delivered a micro services based platform and environment integration solution for two of our top 10 clients and we created an AI based cost out model for a wealth management major.

In addition, we constructed a factory based upgrade model for insurance Duck Creek upgrades and importantly sold it to a new prospect. We rolled out 40 automation use-case base solutions across two clients in the US and Australia and for a mortgage processor created custom automation scripts to reduce mortgage processing analyzed time from three months to two days.

We successfully applied our process gym framework for a wealth management firm and are also in an interesting conversation led by a recently hired transformation leader around potentially partnering with clients to create industry utility framework in the asset transfer space. As noted, a lot of our confidence in the continued growth in to the future stems from real technical capabilities which are getting applied in real life client context. The investments we have made over time in to technical capability built and SME pool creation are now delivering impact for our clients in creating positive topline and bottom-line impact for the firm.

People section now. We crossed the milestone of 10,000 employees this quarter and the total headcount at the end of the quarter now stands at 10,025. There was an increase in our account by 261 during the quarter and this included 138 employees in the digital space. We have added over 1,000 net new employees over the last three quarters, 50% of which are in the digital space. Utilization during the quarter has improved to 80.4% and attrition stood at 10.8%. Over the past four quarters in our results commentary we have shared details of the focused lateral senior tier-1 leadership hiring that we have done to sharpen our market and our growth focus.

These leaders have now settled in and have taken effective control. They are marshalling our resources, they are helping drive differentiated propositions and capability constructions, and they are helping directly fuel growth. All our current global industry vertical business heads based in the markets are new hires brought on board over the last one year from tier 1 firms including Accenture, Capgem, TCS and Infosys. In addition, two veteran industry consulting leaders joined us this quarter. One of them was a CIO of two large insurance carriers and the other one the COO of a capital markets firm.

The reconstituted leadership team has settled down well and our investments in leadership hiring are bearing fruit as evidenced in the numbers that we have shared. In addition we have strengthened the leadership of our top client-facing teams with experienced lateral hires who have both external industry and digital experience.

Moving on to a section around key balance sheet metrics. Cash and bank balances stood at Rs. 7,556 million an increase of Rs. 707 million over the previous quarter and an increase of Rs. 1,093 million over the previous year. Capex spent during the quarter was Rs. 119 million and debtors at the end of the quarter stood at 73 days of sales outstanding compared to a number of 75 for the last quarter.

Hedge position. Outstanding hedges $64.23 million at an average rate of Rs. 69.49 to the US Dollar. In British Pounds we have £13.05 million outstanding at Rs. 94.54 to the pound and in Euro it is €4.2 million at Rs. 84.55 to the Euro.

Outlook. The macro environment has witnessed some shifts with the strengthening of oil prices and a noticeable weakening of the Rupee. The economies of some of the major markets that we serve seem to be in the growth mode. You will recall that last quarter we had indicated that we would expand our revenues and margins on a quarter-on-quarter basis. As you would have noticed, we have delivered a strong quarter-on-quarter performance with all businesses across international geos showing robust growth during the quarter. As we look forward at Q3 we expect growth to continue and margins to strengthen further given our strong deal pipeline, despite this being a shorter quarter. As we have noted last quarter, our confidence in our plans is borne out of multiple factors. They include the sustained deal flow, the large deal velocity in pipeline, the broad based nature of growth we see across all our industry segments, the successful integration of our new senior hires who along with the broader teams are driving both growth and differentiation impetus in the market, the impact that both the hunting and the mining engines are creating and also the traction that our newer capability vectors like cloud, core digital, PSV revenues, data services and cognitive offerings are recording.

The revenue trend and revenue quality has both seen a material improvement over the past quarters. We believe that the expanding pipeline funnel across verticals, continued reduction in top clients revenue concentration, decrease in contribution of India to the overall revenue, the growth of capability vectors like Automation, AI & Data, a significant acceleration in new logos acquisition, and order book generation from the western markets have improved the revenue and the risk profile of the firm materially.

At the beginning of the current fiscal year we had shared plans to grow at least double digits in constant currency organic terms. You will notice from our recent results that with the reported growth of 20% in the first half we are on a growth trajectory to significantly exceed those fronts.

With these opening remarks I look forward to addressing your questions. Thank you very much.

Moderator: 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 Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Just two questions from my side. One housekeeping one. But firstly, we have seen very strong growth momentum over the past two, three quarters and especially driven by the travel transportation as well as the BFSI segments. So just to basically get some further color on that part. Travel & transportation of course is a part of the business which has airlines that get negatively impacted by crude prices running up. So do you foresee any impact of that, may be impacting the growth negatively from this segment?

And in the BFSI segment if you could just highlight as to which exactly are the specific areas, I mean geography wise, is it US or Europe or may be both which are kind of driving the growth? Second question of course which I could probably to take on later on is more of a bookkeeping number. If I could get the revenues and EBIT numbers for the subsidiaries – for NITL and other subsidiaries that we have?

Sudhir Singh: Let me start off with the first question that you asked which was centered around getting more color around the growth that we are seeing across travel and transport, insurance and BFS. Travel and transport for us is not just airlines, Travel and Transport for us is airports, it is airlines, it is the hospitality sector as well. So it is not an industry segment that is necessarily dependent only on airlines. I think that is point number one.

Point number two, if I were to look at that sub-segment across Travel & Transport which is airlines, at least the short to medium term demand profile from our clients' organizations appears very robust and the industry outlook is extremely robust. IATA normally comes out with guidance around Travel & Transport especially airline industry outlook and the latest one that came out in the first week of October talks about how revenue passenger kilometers (RPKs), which is a key metric, has grown 6.4%, which is exceptionally solid and how the outlook continues to be strong. The industry load factors across that sub-segment that you talked about in airlines is the highest ever in the history of that metric being tracked from the beginning of the 1990s and cargo load factors again are going up. So if I were to center down, for us reliance is not necessarily on airlines; it is on airports, on hospitality as well. So we are de-risked. Second, within airlines the external demand environment appears to be extremely robust.

The other color that I want to add is that within the airlines, airports, and hospitality sector given the newer digital engagements and the new digital push that has gone through it has become extremely clear the technology is no longer a discretionary spent that necessarily goes up and down with the fortunes of these organizations. Most of the spent is now non-discretionary and hence for this industry the demand volatility again has gone down.

Getting to your second question around BFS and where we see the growth coming from, we see material growth coming both from the US and from Europe. We have fundamentally strengthened our Europe BFS presence which used to be relatively weaker earlier. We have hired a new Europe financial services head based out of London. He was earlier the Infosys UK Financial Services sales leader. We have hired a global consulting head for the BFS business based out of London who was the head of operations of MF Global at one point in time.

So BFS, again circling back, the growth comes from both the geos and the growth is again getting accelerated by the service offerings we have in capital markets and it is getting led by the new leaders who are heading the market, on a constant basis.

The third question that you posed revolve around the breakdown of revenue by the subsidiaries. I am going to give you the numbers in Indian Rupees million. GIS that number was Rs. 351 million; NITL the corresponding number was Rs. 491 million; Incessant was Rs. 1,244 million.

Vibhor Singhal: Morris and Proyecta?

Sudhir Singh: Morris before is as we told you it has bottomed out, it is now a small business and we have rolled up the revenues in to the US Geo numbers that we reported. Proyecta for us was Rs. 205 million business.

Vibhor Singhal: So Morris we would no longer be reporting it separately because as a subsidiary it is integrated into the US business, is it?

Sudhir Singh: Absolutely right and as we had indicated last time the business has bottomed out. It is holding out at that level and we have now rolled it into the US business.

Vibhor Singhal: Would you be able to give the margins for these subsidiaries also, GIS, NITL and Incessant - the EBIT, segmental margins?

Sudhir Singh: GIS the number was 23%, NITL was 28%, Incessant was 25.5%.

Vibhor Singhal: Last question, related to my first question just if I can squeeze in this. You mentioned that the Travel and Transport segment is not just airlines for us it is also includes the airports and hospitality. Would you be able to just give me a broad breakup as to how much of the Travel and Transportation would be airlines, a third may be or may be more than that?

Sudhir Singh: About 40% is airlines, Vibhor.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: My first question is on the work that we have been doing in terms of transforming the vertical and the structures and all. Where do you find yourself now I think it is almost a year in to the role so you think most of the stuff you wanted to achieve are now complete and from here on what would be your incremental focus areas?

Sudhir Singh: I think the plans that we shared with this group earlier around verticalization have progressed very materially and we have made very significant changes. As I have noted in the commentary earlier, all the three verticals heads have been hired over the last four quarters. The industry consulting leaders, two out of the three, were hired over the last couple of quarters and they are in place again in the market. We have gone one level further beyond what we shared earlier over the last quarter and the top three clients are now headed by client partner equivalents who again have been hired laterally from the market.

So material progress has been made and that progress has translated into some of the metrics getting accelerated as you would have noticed. This as you can imagine from it, is work in progress. Every threshold that we reach is a threshold that we intend to sustain and grow from. So we will continue to augment leaders but the basic structure, the basic framework, and the basic leadership core is already in place, although we will continue to add and augment it in the future.

Pankaj Kapoor: So any plans of expanding the vertical focus now and look at some of the other verticals which you so far obviously have been concentrating on these three? So plans to look in to verticals like telecom going forward where in a way to probably de-risk the business?

Sudhir Singh: So Pankaj, we see a ton of headroom in growing the business in the three verticals that we have identified now. At the revenue level threshold that we are, if we have to maintain the revenue momentum, hopefully accelerate the revenue and the profit and margin growth momentum, we see enough headroom in these three verticals for us to be able to grow for quite some time. So that is the current outlook and that is the current plan.

Pankaj Kapoor: And next is on the SG&A side where we have been doing a great job in terms of controlling it as a percentage of revenue. So I am just curious that given that as we continue to build out the leadership as well as your stated plans of incentivizing and improving the incentive for the sales team. How do you see the SG&A trajectory could be and do you expect that could be materially large in the fourth quarter when the sales incentive gets paid out?

Sudhir Singh: So Pankaj, this is a question that normally comes with every quarter and I think the proof lies in the pudding. Over the quarters what we have done, our approach has been to hold the SG&A line in absolute dollar terms which we have held. Revenue is obviously on an accelerating curve so SG&A as a percentage goes down. Six quarters back, quarter 1 of last fiscal year SG&A was 19.8%, this quarter as you have noticed it is 17%. The way in which we have been able to add very senior and also expensive tier 1 talent into the front end and at the backend has been by a process which involved inducting new leaders and at the same time culling people if they were not performing. So it has been a simultaneous process. Our intent is not to make any material augmentation to the entire SG&A cost pool. We will continue to hire and we will continue to cull at the same time. So I do not expect material changes to the SG&A level that you have seen. The point that we made outright at the outset and the point that we have made in our press release also was that we expect these metrics and nearly all the metrics to be the new threshold on a go forward basis for us.

Pankaj Kapoor: Just last bit on the cash flow conversion, any numbers on OCF or FCF if you can share please?

Sudhir Singh: I want to request our CFO Mr. Mal to take that question.

Sanjay Mal: So this quarter we have added on cash balances about Rs. 707 million. This is leading to a free cash flow of about Rs. 108 crore.

Pankaj Kapoor: And what would be the operating cash flow for the quarter?

Sanjay Mal: That is about Rs. 1,664 million.

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

Dipesh Mehta: Just couple of questions. How one should look the revenue growth trajectory and how one should look margin because if I look our H1 performance we are ahead of our margin aspiration when the year started. So if you can help us understand over medium term how one should look optimal margin trends where NIIT Tech like to operate it and if any benefits coming because of currency or operating efficiency which we will flow back in to developing capability and driving further growth. So if you can provide some contour around it that would be helpful?

Second question is about the capex and depreciation. If I look our revenue trajectory, has substantially improved over last few quarters but capex as well as depreciation, if one looks at it, is broadly stable. So now do you expect we have reached a stage where capex cycle should start to reflect improvements in the growth trajectory?

Sudhir Singh: Let me just take the first question first. And your first question was really around how sustainable is the revenue and the margin profile and whether we are going to use some of the currency tailwinds to drive capability and growth. And let me answer it in the reverse order. We have revenue intentions of investing in capability and growth because we are materially aware it to the idea of augmenting and significantly augmenting both capability and driving growth. We have been on that journey we will continue to invest there and we will continue to do that in a manner that the SG&A numbers or the margin numbers do not degrade.

If I were to take out the currency implications from our business and address it, minus currency tailwinds or headwinds, in constant currency terms if you look at our results at the end of the first half of this year in constant currency terms we have grown 15.8% constant currency growth over the same period last year. When this year began we had shared our plans to grow at least double digits organic this year. Now that 15.8% as you can notice is significantly ahead of the plan and the commitment and the plans that we had shared was at least double digit organic. As we have said in the onset it is our intent to make this the new operating normal. So we will try our level best to sustain performance where it is, though of course we do not offer guidance on a go forward basis.

On margins, the thing that I would like to point out is if you were to take out all the tailwinds around margins we have a very fascinating story we believe, because our H1 margins versus H1 margins of last year in constant currency terms – which means we take away the hedge loss and we take away the currency tailwinds – is actually a 180 basis points over the same period last year. So this is not a story that we are sharing around margins which has been an increasing story because of currency fluctuation. This is a structural uplift of the margin profile of NIIT Technologies and as we commented at the outset we would like to make this a new baseline, the new normal and hopefully drive up further from here.

I am going to handover the floor to our CFO Mr. Mal to take the third question around capex and depreciation.

Sanjay Mal: So the capex for the quarter has been Rs. 119 million which is in many quarters the lowest number. As far as the whole year is concerned I think I think we are looking at a number around Rs. 70 crores to Rs. 75 crores, not more than that. And in depreciation there is hardly any increase, it is about only Rs. 7 million increase, which is in the range of 3.5% to our last 12 months revenues.

Dipesh Mehta: So the question was whether this is the new normal in terms of capex also for the business the way we have transformed business?

Sanjay Mal: Yes, at this point in time I think this is the new normal, correct.

Dipesh Mehta: And just one first part of the question about margin. Considering the changes which we have made in overall engines that have started firing, what would be the new normal of margin for NIIT Tech? If you can provide some colors there, may be a broad range, that would be very helpful.

Sudhir Singh: So Mr. Mehta, 18% would be the threshold as we have said. And it is the threshold that we are at. And the intent is to grow marginally from here. But 18% should be the threshold and we have called it out as the new operating normal.

Moderator: Thank you. The next question is from the line of Govind Agarwal from Antique Stock Broking. Please go ahead.

Govind Agarwal: I will just ask you about the margins, because we have realized a lower rate of exchange rate because of our accounting treatment. So should we expect the currency benefits to further flow in to margins in Q3 and Q4?

Sudhir Singh: So Govind, you know how we present our results, we actually net off hedge gain and loss from the revenue itself. This year we have recognized about Rs. 12 crores hedge loss in the first half versus Rs. 30 crores of hedge gain in this first half of last year. I think those metrics give you a broad indication in terms of where we are minus the hedge gain or losses and how sustainable the margin profile is. Did I answer your question or did I get it wrong?

Govind Agarwal: My question was, going forward if we get currency benefits, currency tailwinds, should that lead to margin improvement or ex of hedging gains?

Sudhir Singh: Absolutely, it will definitely lead to margin improvements and even if we do not get currency tailwinds, on a constant currency basis also we expect margin to go up. That is our stance. It will go up hopefully, both ways.

Govind Agarwal: And on the order intake, it has been going up every quarter over the last five, six quarters. So what could be your number we should target in terms of order intake?

Sudhir Singh: It is a difficult question, Govind, very difficult to give a hard number to that. But see, we have the leadership, and leadership of a caliber that we feel is one of the strongest in the industry. We have put the compensation incentive mechanisms in place. We have risen for six consecutive quarters. We have an extremely sound large deals velocity and flow. If you look at the last six quarters the point that I said that six quarters back the order intake you will recall was 110 [$mn], it went to 122, it went to about 130, it went to 145, it went to 151 and it is now 160.

So the trend is positive. The large deal flow is accelerating and we will at least hold on to that two large deals $20 million plus per quarter which we have been targeting. So we feel very positive around maintaining an upward momentum around order intake. I do not see this going down. I see the state has been extremely sustainable.

Govind Agarwal: One bookkeeping question on the stake purchase in the subsidiaries. How much you are going to purchase now and in FY20?

Sudhir Singh: So, it is May next year.

Govind Agarwal: Yes?

Sudhir Singh: In May of next year we are going to acquire the remaining 10% of Incessant and another 12.5% of RuleTek.

Govind Agarwal: Okay so that will be full stake acquisition then by May in next year?

Sudhir Singh: Full for Incessant and it will take us to 80% for RuleTek.

Moderator: Thank you. We move to the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Just regarding the margins. I think that would put us at nearly the upper end of midcap IT companies. So if you see our onsite has been gradually going up and when you are talking of digital I mean there is obviously higher onsite investments. So do we not see any challenges on that front which can be challenge for your margin aspiration?

Sudhir Singh: At this point in time the answer is, no, we see no challenges, Madhu. Margins at 18%, the ones I talk about we see leeway, and we also see clear levers to improve gross margin through the automation and the AI injection that we are doing at the backend. We are investing onsite. In order to make sure that margins do not degrade, we are also investing in near shore capabilities adjacent to our onsite markets.

That is helping us and as we look at our onsite offshore revenue mix, it is held at 64% right now. We feel very confident that there are going to be no headwinds in the foreseeable future which will degrade margins from the levels that we have already reached.

Madhu Babu: And second question, on BFS if you see our annual revenue will be around $80 million kind of. So when we are winning this kind of new deals, I think we mentioned a $23 million deal in existing customer in US. So whom are we competing against in getting these deals? And what are the kind of service lines we are working on this BFS deal which we mentioned in the press release?

Sudhir Singh: This deal was won against one of the largest tier 1 firms in the world, Mr. Babu and the nature of work had component of DevOps split which would largely be bracketed around digital. It also had a clear element which was centered around new gen infrastructure and monitoring.

Madhu Babu: The last one from my side. The top clients I think have shown a strong momentum so do we see I think considering the kind of obviously the replacements of the vertical heads and all, do we see a big potential to grow the existing top 10, 20 accounts?

Sudhir Singh: Yes absolutely and if you look at the current quarter also the business has grown at 10% and the revenue the contribution of top 10 clients continues to be at 28% which implies that the top 10 clients also quarter-on-quarter have grown 10%. Top 5 clients have also grown 10%. So we see that continuing and beyond the top 5 even the next 15 which is the top 20 or the next 5 which is the top 10 also have material revenue momentum happening. So we feel good about the entire mining story right now.

Madhu Babu: And just one question. The team has been new, I think one year around in the system almost. So how is the current attrition at the top level? I mean, the new guys who came into the system, are we going to say that they are going to be stable? Any attrition at the top level among the new joinees over the past one year?

Sudhir Singh: There has been zero attrition, Mr. Babu. The new joinees have integrated, they have settled down, they are in charge and they are actually leading the charge. The culture of the firm and the mode of the leadership is, if I were to use the word, it is an extremely hungry leadership. It is a very high caliber leadership and it is a leadership team that is very intent on making an impact and driving aggressive profitable growth for the firm.

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

Sandeep Shah: Just a few questions. If I look at the restructuring Sudhir you have done under your leadership for the go to market strategy or the sales, on two parameters when you need to evaluate how you are performing – can you quantify the deal pipeline expansion which is happening on a YoY basis four quarter back and what is your hit ratio in terms of conversion on this deal pipeline into deal wins? That is question number one.

Sudhir Singh: So the metric that we look at, when we look at our senior leaders Mr. Shah is focused primarily on revenue growth and bottom-line growth. Both of them have equal weightage and time to it. The way in which we have the robustness of the pipeline in this quarter it was $160 million. If I go back to the same quarter last year that number would have been around $122 million or $130 million.

So we see about 25% odd growth in just the width of the pipeline. In terms of the third aspect of your question around win ratios, I think they are exemplified by the change that has happened in terms of the large deals that we are winning, in terms of the confidence at which we are able to stake a claim and say that we will win deals. And if you look at just the current quarter when the quarter started we said we will get two large deals which we got. In addition we got three $10 million plus deals as well. So qualitatively also we feel very good about our large deal and revenue momentum.

Sandeep Shah: Just a question on in terms of digital services. Is it possible Sudhir, to give us some color whether within digital how widespread is your service mix across different towers of digital which includes cloud, DevOps, AI or core digital? Because I believe software as a service is where we may not be that strong, so just want to check, are we more diversified within digital services individually and will that be a new entry driver which will actually further improve your client relevance going forward?

Sudhir Singh: I think it is a great question, Sandeep. Thanks for posing that. Let me give you some color around our digital business because for a firm of our size compared to mid-tier players we believe we have an extremely strong bouquet of services that we take to the market and it is not just a laundry list of service capabilities. It is actually very pointed, very deep capabilities that we have built. So for instance, let me just run you through it.

Automation for us is not just plain vanilla BPM. Automation for us is an RPA business that is multiplying this year over its revenue numbers last year. Automation for us is a very large practice around digital process automation. Automation for us is this entire cognitive and AI spectrum where last quarter illustratively, and I think I talked about this, we have actually gone down to creating custom scripts to drive automation.

So that is one bucket and one piece of that overall digital bouquet that we address. The second piece for us and a fast growing piece for us is the entire data services piece. So data services, and we have talked about this again in the past how we hired a very senior leader from the industry to drive this for us about a year back, again an extremely fast growing business service line from our point of view. A service line in which we have looked at and we've focused on Data Modernization, Data Monetization, and Machine Learning based data services as differentiated points for us to lead with.

The third bucket where again we see growth under a new leader who has been hired from Microsoft about a year back is the entire Cloud services spectrum where again we are crafting very interesting strategies and helping with App transfer, infra transfer onto the cloud for some of our largest clients. That is number three.

Number four for us has always been Integration and there has been very interesting work that we have done particularly around MuleSoft. Number five has been digital experience where most of what we have done has been Sitecore-centric. Number six would be the DevOps piece that I talked about. And number seven, even though it is not digital, is an ancillary space which is the entire software space where we have an insurance product for the Lloyds market in the UK and we have a revenue accounting product itself for the mid-tier airline industry.

So that Sandeep, is a quick flavor in terms of what we do in Digital. We are very proud of what we do in Digital. We understand that the service offering is extremely deep, is extremely wide but what we are particularly pleased with is the depth and the capability points that we have in Digital.

Sandeep Shah: So is it fair to say that we will have a, well, mix now across most of these services where going forward the reselling capabilities or mining capabilities could be further sharpening?

Sudhir Singh: Absolutely, for instance illustratively the data services as I told you about, where we had a new leader come in a year back, was responsible for us opening one of the top 10 banks in the world in Europe using data services as a lever. The robotics process automation that I told you about, one of the ten clients that we won in this quarter actually came in because we led with an RPA-led value proposition. So these service lines are now not just growth vectors, they are also spearheads in some ways around new logo acquisitions.

Sandeep Shah: Just few things. If I just look vertically, my sense is that BFS which is capital markets business relatively it has not grown in line with the company average. Any specific issues here?

Sudhir Singh: No, it is at this point in time no issues at this point in time, Sandeep. As I noted BFS for us is largely a capital market business and even within capital market it tends to have a very strong capital market buy side flavor. This is also a space where we have now consciously started investing in Europe and as I have stated in Europe not only do we have our BFS global leader sitting in Europe, we have our global consulting head who has recently joined who now is based out of London and we also have the Europe sales head come in from a tier 1 firm and lead the charge for us.

So Europe is a growth vector for BFS for us. And to the point that I made earlier, the data point I shared, 6.2% quarter-on-quarter is actually fairly robust growth. And we think we will be able accelerate this component of the number of our vertical mix also in the quarters to come.

Sandeep Shah: Just few qualitative stuff. If I look at your growth rates I think it has been improving and surprising on a quarter-on-quarter basis because you always alluded that it is because of the senior leadership team which you have recruited and restructured. So do you believe your review process has enough incentive program or do you believe that that could be a worry going forward where attrition can disturb your growth momentum going forward?

Sudhir Singh: We have the most aggressive large deals incentive program possibly in the industry as we speak right now. We had shared this a couple of quarters back. The incentive that our sales manager makes for signing a $20 million plus deal is almost four times of what he or she was making last year for signing the same deal size order. So it is an extremely aggressive sales commission plan that we have instituted. There is also a very aggressive differentiation that has been done across the organization.

We had talked about this a couple of quarters back. We have doubled the range of increments across the organization in line with the performance that we see individuals churn out. So just getting back to your question, I do not think compensation or commission is going to be a material issue which we at this point in time would worry about. And to the point that I have said earlier in response to an earlier question, we have had zero attrition in the senior leaders who we have hired over the past few quarters.

Sandeep Shah: Last two questions. One bookkeeping question. The treasury income, despite the cash generation and the cash balances going up, has declined on a quarter-on-quarter basis. What is the reason? And the second, out of the $70 million worth of TCV for the large deals can you quantify what is the percentage new business?

Sudhir Singh: I will request Mr. Mal to answer the first question.

Sanjay Mal: So the treasury income has not really come down. Apparently the number looks like that. It includes interest from tax refunds which we had received in Q1 which was a higher number of 55 million. And this quarter also we have received where there is an interest component on tax refund, which is a little lower number. So on a steady state the treasury income has actually increased.

Sudhir Singh: And getting back to the second question that you had, Mr. Shah the answer is close to half of the large deal TCV that we talked about is new business. Incidentally one out of these five deals was a new logo which started off with a straight $10 million plus sign off. And that was the digital-led logo where we worked with a commercial lending & leasing major. We looked at digitally automating orchestrating the entire KYC process for that organization.

Moderator: Thank you. The next question is a follow up from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Sudhir, I just had one question. If you look at our performance in this quarter I think it has been a great performance all around. I mean there is hardly anything that we can pinpoint in terms of being negative. Strong growth, margins, clients everything. But as a habit, if I were to just say if I want to basically find something which might be kind of a small concern and if I would just ask you to may be specify that to us.

So the deal flow that we have seen has been very, very strong for the past three, four quarters and as we see that around $360 million of deals of this is supposed to be executed over the next 12 months which give us a good visibility for the next two to three quarters. I just wanted to ask you basically a bit more on this; right now we are basically winning so many large deals of shorter durations which are also helping us on revenue growth. That gives us the visibility for the next two to three quarters.

Do you have enough visibility in terms of this deal flow kind of continuing for the next four or five quarters which could give us the visibility in terms of revenue growing at the rate that we are at this point of time? I mean it should not be the case that okay at this point of time we are getting good deals and that is translating into revenues at a much faster rate and suddenly the deals dry up and we are not able to grow that much. So anything specific about the nature of the deal flow that could be a cause of concern at this point of time?

Sudhir Singh: You know my crystal ball turns increasingly cloudy as I keep moving beyond quarters Vibhor, but just to answer your question. The five deals that I talked about, each one of them, and I am just trying to think through those. Three out of the five were $10 million or $20 million plus deals signed over a period of three years. Two out of the five have been TCV deals over five years. So to that extent that is protected revenue and honestly at this stage we are only disclosing $10 million plus deals.

There are $5 million plus deals also that are getting signed. So like any other organization while we cannot comment, the macros are very good, the trend is very good and the leadership team that we keep alluding to we think is of a caliber which is best in class now. It has taken us a while to get there but we now believe that we have the leadership, we have the macros, we have the track record and we have the deal flow to make it happen in the quarters to come.

Vibhor Singhal: Just a related question on the other side of this deal flow. Do you foresee any delivery issues in terms of availability of talent to execute the kind of deals that we are seeing? I mean I know talent is a crunch at this point of time, are we getting enough kind of people and you hired 50% of people that you hired in the last three months in the digital space. Are we getting enough people in the domains that we want and that the clients are asking for? Are we getting enough full stack developers or is there a problem on that front that we are facing?

Sudhir Singh: So we are very fortunate to have a DNA from NIIT which has a very core learning component to it, which makes us somewhat a typical compared to mid-tier players. We started off as a firm focused on training and learning. To that extent the training, learning, ramping up engines that we have we believe is superior to most. Second we also have a brand in the Indian context which is a pretty strong magnet for attracting good talent and you have seen that in terms of the caliber of people who joined us.

And third there is always been a culture which has been extremely people centric. So to that extent attracting talent, ramping up the engine has not been an issue. As I said we have added a 1,000 net people over the last nine months. And utilization number has stayed where it is. So we do not see adding more people or training more people or giving current employees as a big issue given where we are. We have also very recently launched a new re-skilling and a learning training platform called Percipio across the organization and as we speak out of the 10,000 plus folks that we have across the firm close to 6,000 have already become active users of that.

And that again is in line with what I talked about, a very deeply ingrained training culture, learning culture, strong brand and more than all of this the proof right in the pudding that last nine months we added 1,000 people. For a 10,000 people company, that's a material augmentation and we have been able to do that without anything creaking in the process.

Vibhor Singhal: So that speaks volumes about the capability of the company to attract talent and re-skill and retrain them. My question was more on the supply side. Are there enough people in the market available with the kind of requisite skill set where the clients today are asking for the projects?

Sudhir Singh: We at least given our skill right now and giving the competencies we are focused on we do not see an issue. We are not really going out there and looking for the next 20,000 people. For us we added 1,000 in the last nine months. Even if we have to add 2,000 in the next nine months we do not see that as an issue.

Vibhor Singhal: So as such we do not see a problem at all?

Sudhir Singh: Correct, we do not see a problem at all.

Moderator: Thank you. The next question is from the line of N Puranik from Enam Securities. Please go ahead.

N Puranik: I had a question about the new hires you have made. I think you have created a totally modern NIIT Tech, the hiring, key verticals, hiring vertical market consultants. How do you integrate them into the company because lot of them are come on board recently, how do you integrate them on to the company? And the next question is about the Agile and DevOps maturity curve, how has that evolved over time? On the maturity curve of one to ten where are you in Agile and DevOps?

Sudhir Singh: Let me take the first question first which is in terms of the new hire and the extent to which we have been able to integrate them. I think we did two things. One, the new hires, at least the senior most ones, have come in as leaders. They have not come in as folks who are operating under someone else who may or may not be aligned with the vision that they craft.

Second, structurally, we restructured the organization. We made it vertical centric from being a geo centric organization and once you have a vertical organization, once you have folks who come from outside and head that organization, and these leaders report directly into me, the challenges inherent in agendas being at cross-purposes goes away and has structurally gone away. So to address your first question, that's how we have handled it. The new leaders who've come in of course have been made completely aware of our values and vision, of the heritage of the organization, of the people centricity of the organization and the teams that have been formed has been composite teams. While we do talk about the 10, 20, 30 senior lateral one hires, if I were to look at Travel, we have a very senior lateral hire who is running the front end and the business globally but delivery at the backend is being delivered and led by a lady who has been with us for 25 years. That equation, that balance, is a good balance to have and we have thankfully not had any issues at all, which is why the numbers have looked up and they have looked up sustainably for a while.

Coming to the second piece around Agile and DevOps, I think it is a journey. It is a journey for all organizations and there are only certain elements of the 10,000-people factory that we have across onsite and offshore that needs to be up-trained and up-skilled on it. Most of the large development projects that we have, have some flavor of Agile in them and DevOps also, in some ways ends up being a hybrid flavor of DevOps. The Agile flavor that exists across the organization has multiple aspects to it. There are versions of Agile which are being pursued by Travel tech players which are materially different from the extreme Agile or the extreme DevOps environment that the cap markets buy side firms are pursuing. So we have an agenda, we have a leader, we have a framework around Agile that is ours. But that framework ends up getting customized and adjusted depending on the specific client ask we end up having.

If I were to give you a top of the head number around how many of the 10,000 odd folks would be conversant with Agile at this point in time, I would take away the BPO folks, I would take away some of the infrastructure folks and I would say about 60% to 65% of the ADM factory would be conversant with the principle and about 35% would be extremely conversant with the principles with some of them being active practitioners.

N Puranik: That's a good number. And then in terms of Agile projects, what is the largest Agile project you have implemented?

Sudhir Singh: The largest Agile project that we have implemented is for a Travel tech player which creates some of the largest travel industry product offerings for airlines, airports and is actually somebody who threads it together. The size of the project was in the ballpark of about 20,000 function points. Now increasingly the world is going to story points etcetera but it was at that point in time roughly about 20,000 functional points and that project has been delivered. So it is not in the process, it has been delivered.

N Puranik: It is distributed Agile?

Sudhir Singh: That is correct.

N Puranik: So in terms of delivery teams have they been sufficiently incentivized as the sales team? Not as much, but sufficiently?

Sudhir Singh: They have and to the point that I made earlier, the range of increments has been doubled. So for the outstanding performers, they're recognizing close to double of what they did as increments, and we have always had a culture around recognition which has mechanisms outside it. But the most material piece as you and I can both relate to is the increment. The increment for the best performers got doubled starting this year.

N Puranik: And what is the role of these two consultants for deep domain capability that you have hired in capital market and insurance?

Sudhir Singh: There are actually three consultants. Three consulting folks, we call them transformation leaders. There is one for the Insurance, one for BFS, and one for Travel. The intent here is that these folks, they come in with a point of view around what is happening in the industry, they funnel our capability build into spaces which are relevant and important for the industry. They work with our horizontal technology capability leaders to create point solutions for the intersects and they will also overtime become hopefully rain makers for us when it comes to large deals, standing up along with the pursuit teams and presenting their point of view.

Illustratively your question in the IATA conference that I believe I spoke about earlier, this month our Travel transformation leader was there in Greece. He is the one who actually rolled out a Blockchain based model for the airline industry which was compliant with the data model that IATA has recommended for the travel industry. So it was not just about any Blockchain model. He understands and his team understands what the IATA mandated data model is and the Blockchain framework was constructed around it.

So that illustratively is the kind of work that we expect these leaders to be doing for us.

N Puranik: So in aggregate going forward, NIIT Tech will look lot more scalable in terms of deal wins, you can bid for larger deal wins and more $10 million, $20 million deal wins and what is the way forward because you have structured a very nice organization?

Sudhir Singh: So if you look at it, we have been winning on an average about two $20 million deals per quarter on an average and the deal flow has doubled over the last I'd say three to four quarters. A lot of it, in today's market, a $20 million deal is not necessarily a deal where mid tier players play. Everyone jumps on to those deals these days. And almost all of them had a mix of tier 1, tier 2 players competing.

We won them basis differentiation largely and given that we have reached a sustainable velocity of roughly about two large deals per quarter, we believe we will definitely maintain it and of course the effort is going to be to go beyond two on an average and take it to three in the short term.

N Puranik: So you talked about the head count of 10,000 plus you have. So in this headcount, unlike the large players where some of them have become legacy players, they have this legacy disadvantage, you do not seem to have that kind of a disadvantage in terms of creating a middle which is not as productive as functional going forward and they will disrupt the traditional pyramid structure. So how do you keep it relevant and modern as the time go by?

Sudhir Singh: I am sorry I do not think I understood the question. Could you repeat that please?

N Puranik: What I meant was, typically large players have been having hundreds and thousands of employees. So they will have a lot of middle level managements who are not relevant, who are not billing and they have to be up-scaled in terms of their capability metrics. So you do not have that disadvantage. You have lesser number of people and you will also have a lot of middle level people. How do you handle that, because you have a better functional pyramid structure?

Sudhir Singh: So we have always had internally a culture, and I talked about this earlier also, which is more focused on learning, more focused on training and more focused on what we internally call producing managers. Culturally and from an overall legacy perspective we really have not had the, for lack of better words, the dead wood that you were referring to. It has been a function of the legacy that we have, it's also a function of the flex that we have given our size. We were just 9,000 till three quarters back, so we do not really have that overhang that you were referring to. And hence it is not a material issue for us.

Moderator: Thank you. The next question is from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty: All my questions have been answered.

Sudhir Singh: Given that we are over time, we will regard that as the last question for the day. I would like to thank every one of you for the interest and the time that you have taken to spend with us today. If I were to quickly recap I would echo some of the views that I have heard from some of the questioners. It has not been a quarter where only one metric did well. This has been broad based growth across almost all, and I would venture out to say across all, operating parameters.

We have very clearly articulated that we regard this as a new operating normal for the firm and where we sit today we have, given our deal pipeline, our order flow, the deal velocity, we have visibility to living up to the expectations that I have heard some of you articulate. Thank you very much for your time and for your interest.

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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