



## TRANSCRIPT: NIIT Technologies Ltd Q4 FY2018 Results Conference Call

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FROM NIIT TECH:

MR. RAJENDRA S. PAWAR, CHAIRMAN  
MR. ARVIND THAKUR, VICE CHAIRMAN & MD  
MR. SUDHIR SINGH, CHIEF EXECUTIVE OFFICER (CEO)  
MR. AMIT GARG, CFO  
MR. ABHINANDAN SINGH, HEAD – INVESTOR RELATIONS AND M&A

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(1 crore = 10 million)

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to NIIT Technologies Q4 FY2018 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 '\*' and 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, everyone. And welcome to our Q4 FY2018 earnings call. Present along with me today on this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our Vice Chairman and Managing Director; Mr. Sudhir Singh, our CEO; and Mr. Amit Garg, our CFO.

You would have already received our emails with the financial results for the quarter. The same are also available on our website, [www.niit-tech.com](http://www.niit-tech.com). We will begin today's forum with opening remarks by our leadership team and then we will open the floor for your questions.

Before I hand the floor over to Sudhir, I would like to make one quick announcement. You would have received invitations from our side for our Investor and Analyst Meet that is happening next week on the 9<sup>th</sup> of May at our Greater Noida campus, near New Delhi. I just wanted to take this opportunity to again invite you to our analyst and investor meet because we intend to bring in not just our top leadership team but also some of our business heads, including our digital, cloud, insurance and other business heads or people from those businesses who will showcase some of our capabilities at the forum. I look forward to seeing you there on Wednesday. Since this event is going to happen at the SEZ campus which we have, if you like to attend I encourage you to register by dropping me an email with your confirmation. My email address is abhinandan(dot)singh (AT) niit-tech(dot)com.

And with that, I would now like to hand over the call to Sudhir Singh, our CEO. Over to you, Sudhir.

**Sudhir Singh:** Thank you, Abhinandan. And a very good evening and a very good morning to all of you folks.

We are very pleased to report that our revenues have increased 4.3% over the previous quarter to Rs. 7,888 million. The constant currency growth during the quarter was also 4.3%. The quarterly revenue number represents an improvement of 5.9% over the same period last year. It is important to note that the company had concluded the consultation process with one of its government clients in quarter four of fiscal year 2017 and that has resulted in a one-time revenue of Rs. 271 million in Q4 of fiscal year 2017. Excluding the impact of that one-time settlement, revenues in this quarter have expanded 9.9% over the same quarter last year.

Moving on, the EMEA region experienced robust expansion in revenues of 9% sequentially and now represents 32% of our revenue mix on account of growth in digital engagements and NITM

across EMEA. Americas grew 1% despite a drop-in revenues on expected lines from Morris and this growth came on the back of growth in top insurance clients, it now contributes to 48% of our mix. India and APAC contribute 10% each to the total mix.

Company continued to experience good traction in the BFSI segment with revenues expanding 5.4% sequentially during the quarter and this now contributes BFSI as a segment to 44% of our revenue mix. Revenues in manufacturing, media and others increased sequentially by 6.8% due to seasonal increase in GIF revenues and also ramp-up in our digital engagements; this segment now represents 30% of our overall revenues. Travel and transportation which had robust growth last quarter remained flat as ramp ups from new clients got delayed. TNT Now, which is Travel and Transport Now contributes to 26% of our revenues.

Our client concentration is now becoming more broad-based with top five clients contributing 29% of the total revenue and the top 10 and top 20 clients contribute 40% and 54% of the total revenues respectively. Onsite revenues represent 61% of the total revenue.

So moving on to the margin analysis now:

Operating profits grew 9.4% sequentially to Rs. 1,417 million. As noted earlier, a one-time settlement boosted financials in the same quarter last year, as a result reported operating profits show a 6.9% decline year-on-year. Excluding the impact of the one-time settlement, operating profit improved 12.4% over the same period last year. Operating margins improved sequentially by 85% basis points to 18%. On a constant currency basis, operating margins stood at 18.3%.

Growth, driven by high margin businesses like digital, GIS, NITL, along with lower SG&A due to operating efficiencies resulted in this margin expansion. Net profit for the quarter are INR 861 million, up 13.7% quarter-on-quarter and down 14.2% year-on-year due to gains from the one-time settlement done last year. Effective tax rate during the quarter stood at 22.9%.

I will move on to order intake now:

The order intake story remains very positive. We secured fresh business of US\$145 million during this quarter. This number represents a step jump in the order intake numbers that we have seen in the recent quarters. Out of this US\$145 million order intake in the quarter, the US contributed US\$43 million, EMEA contributed US\$69 million and the rest of the world contributed US\$33 million.

We signed two large deals in the quarter and we are particularly pleased with the changing complexion of the large deals that we have secured during the quarter. The first large deal from London is from a new client, and I repeat, a new client who has awarded us a US\$35 million managed service contract to run their IT back office infrastructure and to drive transformation of the infrastructure over the next five years. We see a clear runway to expand beyond this

immediate infra-centric revenue stream into the application and process spaces at this new client as well.

The second large deal that we secured was in the US with one of our BFS clients where we were doing BPM, business process management work. We have changed the complexion of that engagement to a robotic process driven transaction-based pricing model as we secured the increased mandate.

Moreover, seven new customers were added during the quarter, most of them in the western geographies. Two of them were in the US, four of them were in EMEA and one of them was in the rest of the world. Order book executable over the next 12 months stands at US\$339 million.

I will now hand the floor over to Arvind. Arvind, all yours.

**Arvind Thakur:**

Thanks, Sudhir. Good evening, everybody. I just wanted to touch upon the entire financial year. And the highlight of the financial year has been the vastly improved deal flow with order intake improving steadily in each quarter. We had US\$110 million in quarter one, \$122 million in quarter two, \$130 million in quarter three and now topping the year with an intake of \$145 million in the last quarter which Sudhir just described. Likewise, the addition of new logos too has seen consistent improvement with new logos ranging between 7 to 9 per quarter, which was typically 3 to 5 in the previous years.

Large deals have also significantly increased, we closed seven large deals with deal flows in every quarter improving. So, the first two quarters had one large deal each and the last two had three and two respectively. So, all in all, a very good story in terms of deal momentum throughout the last financial year.

We have continued to strongly grow our digital portfolio. Our digital portfolio now contributes to 24% of our overall business during the financial year and we saw a growth of 27% in this portfolio over the previous year. We continue to create proposition at the intersection of digital technology and industry arcs with a focus on digital integration and customer experience.

So, all in all, revenues stood at Rs. 29,914 million for the year, representing a 6.8% growth over last year. Currency has had an adverse impact on reported revenues, in constant currency the growth for the year has been 9.7%. Operating profits increased by 3.5% during the year to Rs. 5,012 million. Operating margins stood at 16.8% for the year, if I exclude the adverse impact of currency, margins in constant currency stood at 17.4%. Net profit increased by 12.1% over last year to Rs. 2,802 million. Tax rate was 23.5% of PBT.

During the year, the company made significant investments in strengthening the front-end sales as well as its delivery capabilities. As we shared in the last call we added many new leaders from Tier-I organizations to drive the business. We have had transition to the new leadership with

Sudhir at the helm. And as we embark on our next phase of growth, there are some significant changes that Sudhir is making to the organization which I will now ask him to share with you. Over to you, Sudhir.

**Sudhir Singh:**

Thank you, Arvind. Moving on folks, we concluded our fundamental organization restructuring exercise last quarter that Arvind just talked about. As part of this exercise, we have reorganized ourselves as a vertical centric organization from being a geocentric organization.

We now operate as a set of units focused on travel, insurance and BFS which are our key focused verticals. As part of this reorganization sales, presales and core ADM delivery has been aligned under business leaders who are all based in the market. The insurance business is now held by Anurag Chauhan who was a Managing Director at Accenture and has joined us in New Jersey last quarter. The BFS business will be run by Gautam Samanta, who is ex-Capgemini and Infosys and is based in London.

In addition to these integrated market facing business units, we have also created a formal robotics process automation, RPA service line under a new leader who has joined us from Cognizant. We have created a cloud services line under ex-Microsoft veteran. And the recently formed data and automation service line is also taking shape now. Finally, from a capability perspective we have created a formal Chief Technology Officer (CTO) to focus on blockchain, IoT and cognitive computing.

The fundamental principles underpinning this reorganization were centered around further accelerating revenue growth, enhancing our market impact, moving the center of gravity of our leadership to the markets and creating new growth vectors for the firm.

Moving on to people:

There was an increase in headcount by 342 during the quarter. Total headcount at the end of the quarter was 9,423. Utilization during the quarter was 79.5%. Attrition stood at 10.5%.

Balance sheet data, cash and bank balances stood at Rs. 8,057 million, an increase of Rs. 1,151 million over the previous quarter and increase of Rs. 737 million over the previous year. The capex spend during the quarter was Rs. 162 million. Debtors at the end of the quarter stand at 70 days of sales outstanding, last quarter again was 70 days.

Hedge position, outstanding hedges in the USD are 65.25 million at an average rate of Rs. 66.9 to the US dollar. In GBP we have 13.05 million, outstanding is Rs. 90.2 to the Pound; and in Euro it is 4.5 million at Rs. 79.68 to the Euro.

Finally, the outlook section. The macro environment has been relatively stable since we spoke to you in January. Although there has been some uptrend in oil prices and the weakening of the

rupee. From our vantage we see positive demand for our services across all the three industries, insurance, BFS and travel that we operate in.

The budgetary spend outlay across calendar year across most of our top 20 clients is strong and is indeed much stronger than what we have seen at the start of the previous years. Specifically, in travel the IATA, which is the International Air Transport Association, expects 2018 to be a healthy growth year for the airline industry with the economic momentum supporting rising passenger demand in 2018.

The insurance sector continues to spend on technology with three overarching trends, digitization, data analytics and legacy and ecosystem transformation. And the asset and wealth management space which is what we are primarily focused across in the BFS industry have budgeted significant spend growth in the regulatory and innovation spend domains.

Overall, the financial year has ended on a strong growth with robust sequential performance across all financial parameters in the quarter. There has been, as you would have noticed, a significant improvement in deal flow. The growth momentum again has been building up over the past few quarters, backed by a strong pipeline of large deal closures and new logo additions give us the confidence of strong growth during fiscal year 2019. Our confidence in our plans for double-digit organic growth in constant currency for fiscal year 2019 has strengthened. Despite Q1 being a seasonally weak quarter for us due to decline in GIS businesses and residual fall in Morris revenues, we still expect revenues in quarter one fiscal year 2019 to be better, better than quarter four fiscal year 2018 in constant currency terms.

That is all from my end. Abhinandan, back to you.

**Abhinandan Singh:** Thanks Sudhir thanks Arvind. I think we can now open the floor for question-and-answer session please. Moderator, if you could do the needful?

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Govind Agarwal from Antique Stock Broking. Please go ahead.

**Govind Agarwal:** I have two questions, one is on order intake. It has been pretty strong in the last few quarters, so what is driving this order intake and what gives us confidence to maintain this trajectory and can it further improve in FY19?

**Sudhir Singh:** We believe what is driving order intake is the set of measures that we have put in place over the past few quarters. We talked in the past about the leadership change and we significantly enhanced focused when it comes on front-end sales, presales and capability build to drive the order intakes that we are seeing. We have changed the incentive structures recently for the front-end sales team, that also is driving behavior. We have talked in the past around having changed

the center of gravity of the leadership to the markets, that is a contributing factor. And finally, execution, which is just monitoring number of calls, number of meetings, closure of conversations, in general hunger for closing deals, the culture aspect and performance ethic has also got addressed. That has been the frontend market pacing scheme. At the back end some of the capability vectors that we talked about around data and automation, around digital are resonating, resonating well for us. Digital for us a transformation story at the intersection of technology and industry that Arvind talked about. That again has been received well. So it has been a combination of a sharply focused front end along with a capability set that seems to be resonating and doing well.

The second part of your question was, do we feel confident that the order intake will continue and to be strong? I think the short answer to that is, yes we feel confident that the order intake will continue to be strong.

**Govind Agarwal:** Okay. And another one if I may ask you, see on the growth for FY19 since we have very good order intake in all the four quarters of FY18, can we expect higher growth in FY19 than FY18? And also can we expect margin improvement on a year-over-year basis?

**Sudhir Singh:** So, as I said towards the end as well, Govind, we do expect at least double-digit organic growth in constant currency terms. We are planning for it. Which again you will see is higher than the number that we reported in this quarter. So the answer to that question is, yes we expect to do better and we do expect to increase margins as well. So both revenues and margins, the answer again would be yes.

**Govind Agarwal:** Will you increase taking your stake Incessant in current year in FY19 and FY20?

**Sudhir Singh:** Can you repeat the question, Govind?

**Govind Agarwal:** How much stake will you increase in FY19 and FY20?

**Arvind Thakur:** So we are planning to buy another 20% in May of this calendar year, and remaining 10% in May of next calendar year, Govind.

**Govind Agarwal:** And what is the payout for these purchases?

**Arvind Thakur:** So, overall at this point in time as you will see from the balance sheet we budgeted Rs. 294 crores against future acquisitions and liabilities. Out of that Rs. 155 crores for across Incessant and RuleTek will be paid out in May of this year. The remaining amount is an estimate based on what we project as their performance over the next two years.

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

**Sandeep Shah:** Just Sudhir in terms of the reorganization of the organization, is it largely done or you believe still there are few things that need to be done and what could be those going forward?

**Sudhir Singh:** So, Sandeep, from our vantage the things that we think have been helping us drive the growth has been one of course the structure change that we have just put in place. The second piece has been the leadership augmentation that we have done at the front end. And the third, something that will kick us more over time incentive structure change that is being done. So if I look at the organization structure, I think we have after the restructuring in the last quarter arrived at the org structure that will be stable now moving forward. In terms of leadership, we have talked about this in the past and we continue to stress on the fact that the leadership hiring, and augmentation continues. It will continue, though we feel very pleased with the quality of the hires over the last year across quarters. So summarizing, structure as of now after the last reorg is stable and we think that is going to be the structure we will roll with. Leadership hiring, again very pleased with the number and quality of the Tier-I hires we have done, but that will continue to be an ongoing process across levels that we will work on.

**Sandeep Shah:** Okay. So will this lead to any further investment in SG&A or will you like to compromise margin for a quarter in the near-term which may benefit you in the long-term?

**Sudhir Singh:** We will not compromise margins, we will not compromise margins this year we expect margins to go up, though obviously the investment around sale hiring will go up but we will maintain margins and at an aggregate level we will contain SG&A.

**Sandeep Shah:** Second, Sudhir, I think you had a target of doing seven to ten new client additions, which you have been doing, and also in terms of at least adding two large deals every quarter which has also been done, so you are clearly walking the talk. So these targets continue to remain going forward and you remain confident that with the addition of the senior management these targets have more upside potential rather than being stagnant?

**Sudhir Singh:** We continue to be confident, Sandeep. I think as we said we walked the talk over the past few quarters, we are absolutely committed to making sure that we continue to walk the talk. The number of seven that you see we believe is a sustainable number on an average, obviously there can be variations seasonally, but on an average number of seven that you are looking at is clearly a number that we believe is absolutely sustainable on a go forward basis.

**Sandeep Shah:** And second, in terms of Travel & Transportation, some of your peers have registered a good growth in FY18, but for us in NIIT Tech there are some client specific issues. So in FY19 you believe it could be a growth driver for you?

**Sudhir Singh:** I believe very strongly, Sandeep, that FY19 travel will grow and it will be a growth driver for us. If you actually look at the travel vertical, it is interesting, last quarter three travels did grow after many quarters sequentially at 4.4%. This quarter it is being flat and I honestly expected it to grow



but a lot of the pipeline that we have built up, the ramp-up was slightly delayed, but effective quarter one itself we hope to see a turnaround and at an yearly level we absolutely expect travel to be a growth sign.

**Sandeep Shah:** Okay. So one of the busiest airports which are added as a client is it in the western market or it's in the Asia market?

**Sudhir Singh:** It is in the EMEA region.

**Sandeep Shah:** Okay. I have a few bookkeeping questions, so I think on acquisition liability there is a considerable increase of close to Rs. 90 crores - Rs. 95 crores, so I do agree this could be in terms of revaluing the earn-out payments to the Incessant. So I think based on my calculation Incessant including RuleTek might have shown a more than 50% YoY growth. So you believe that with increase in the valuation this growth potential may continue going forward, the momentum will continue going forward?

**Sudhir Singh:** And we do share the revenue numbers on a quarterly basis, Sandeep. What Incessant and RuleTek together have done this quarter for us is Rs. 1,009 million. You also know the last quarter numbers which was Rs. 832 million. So, Incessant, RuleTek as a growth story obviously has been a great story for us over the past few years, though it is not 50% it is very, very robust, very substantial growth. And you are absolutely right, the increase in the future acquisition liability that you are looking at is on account of significant ramp-up in the digital engagement at Incessant and RuleTek. We expect the momentum to continue and that is the other reason why you see that the future acquisition liability on the balance sheet that we have has been increased.

**Sandeep Shah:** So this increase in liability also takes into account the future growth and not just the growth which is achieved, right?

**Sudhir Singh:** Absolutely, Sandeep, you are absolutely right. We expect strong growth from these two organizations and the increase builds that in also.

**Sandeep Shah:** Okay. Just on the cash repatriation, last year we had some amount which has been repatriated from foreign subsidiary to India, will that happen with the dividend payment which is due in 1Q?

**Amit Garg:** That will be done, we will be following the same strategy this year also.

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

**Ganesh Shetty:** Sir, just want to ask one question regarding the new deals, whether they are coming with the price comfort and better margins, especially the large ones, can you please throw some light on it?

- Sudhir Singh:** The deals are coming at broadly the same margin that the rats of the business has.
- Ganesh Shetty:** And sir my second question is regarding our inorganic growth strategy as we have done a very good acquisition in the past like RuleTek and Incessant, are we looking for any further acquisition in digital space for strengthening our digital offering?
- Sudhir Singh:** So, Mr. Shetty, we will continue to be on the lookout for attractive opportunities as we always are and as we have in the past. So, our position there has not changed, we will continue to look at the market, if we find something that is interesting and synergistic we will go for it.
- Ganesh Shetty:** And sir, I want to congratulate you for best attrition rate of 10.5%; I think this is the best ever we have ever achieved. Can you throw some light on this on how the time may be in the future for attrition and the talent retaining, can you please throw some light?
- Arvind Thakur:** As you know we have a very strong focus on our people and particularly since our genesis has been from NIIT we are a very strong learning organization. The motivational characteristics of technical people is unique, it is not driven as much by compensation, compensation has been aligned to the market and be fair and equitable. But what we are really looking at is to be current in terms of the knowledge as well as their ability to work on exciting new engagements. So there is a strong emphasis in the organization as a learning organization to invest in development of people which is what keeps them motivated and engaged with the organization.
- Moderator:** Thank you. Our next question is from the line of Rahul Jain from Emkay Global. Please go ahead.
- Rahul Jain:** Just one thing, there is one data that we give on 12 months executable book, this number is up 6% for this quarter or may be on a YoY basis. If we see this 6% growth and we try to correlate in terms of the commentary that we would possibly grow at double-digit rate and we also talk about growth in the client spend in the top 20 front, so how can we try and corroborate this from a existing order book perspective or is this more too driven from a pipeline given the kind of spend they are going to do and our ability to win those contracts?
- Sudhir Singh:** So, let me just attempt and answer that question. If you look at our order intake that is \$145 million for the quarter. I know you were referring to the executable over the next year. There are two things that we need to break in there, if you were to do a simple arithmetic and actually just add up the order intake over the last one year that number comes to \$507 million. What has happened is two things, one, in the orders executable there is some impact with a modest draw-down that we had called out two quarters back. More importantly, the nature of work that we are getting and the contribution of digital to our aggregate revenues has been climbing up very, very sharply. Digital today is a quarter of our global revenues and digital as you know tends to be a revenue stream that tends to be shorter term and not a three, five or a seven year cycle. Hence, while the order intake is very healthy, the order executable is not reflecting that entire increase into the cumulative number.

**Rahul Jain:** My question was other way around, if you see this 12 months executable order of 6% growth this may clear visibility that this 6% growth on this base is going to come over the next four quarters. And if I have to correlate this with a double-digit number, that incremental number would come from the digital pocket which you just spoke about. So, is that a significant contributor to this? And secondly, if we see our incremental revenue for this year more than 50% of this revenue has come from Incessant, so do we see that traction would be more again driven by that subsidiary or it would be more uniform across?

**Sudhir Singh:** So, the answer to your first question is, you are absolutely right, it is the digital revenue stream that is going up that is going to account for this difference. The answer to the second question is, we expect Incessant and RuleTek as I said to continue to grow robustly, but the growth will be more evenly spread out, we do not anticipate anywhere close to half of our absolute growth coming from Incessant and RuleTek, we expect the growth in fiscal year 2019 to be more broad based.

**Rahul Jain:** And on the comment that you said that the top 20 client budget, of their view on their spend, looks good so is it more to do with their actual commitment on the project we are going to pursue or is it to do with more wallet share kind of a thing in those customer for us?

**Sudhir Singh:** I think is a mix of both. So, as I said, at this point every year, at the beginning of the calendar year or at the end of the first quarter of calendar year we start getting very good sense in terms of what the budgetary spend around technology for clients is. This year we find that the spend numbers that have been budgeted by our top 20 client organizations on an average seem to be materially higher than the numbers that they used to have at the same time in the previous calendar years. So that is one reason why we find the outlook to be clearly positive. The other reason why we find the outlook to be positive is the growth momentum that we are seeing is now more evenly spread across our top 20 clients as well and we expect our wallet shares across these top 20 clients also to go up as we target the growth numbers that I have talked about.

**Rahul Jain:** And lastly if you could share what could be the growth in this top 20 on the budget perspective?

**Sudhir Singh:** Are you saying what is the growth that we expect from our top 20 clients, Mr. Jain?

**Rahul Jain:** So, their spend data which you are saying is up YoY, so is this number up by whatever, 2%, 5%, 10%?

**Sudhir Singh:** It is a very disparate number, because it largely comes from three different industries. But whether it is travel, whether it is wealth and asset management and whether it is insurance P&C, it is up all across is what we have done.

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

- Sandeep Shah:** So we are expecting cash repatriation in the 1Q as well, right, and the quantum could be similar on YoY?
- Sudhir Singh:** Yes, more the same.
- Sandeep Shah:** And just on the GIS side on a YoY basis there is a decline, so is it the administration or procurement issues which we were facing are largely behind and it could be on a YoY growth trajectory in FY19?
- Arvind Thakur:** That is right, that is absolutely correct. So, as we had shared with you the procurement process has shifted from DGS&D to the new platform and it took a while before our products and services could be registered on that platform which prevented procurement activities to be carried out. But now that has happened and so we can expect growth in GIS in this year.
- Sandeep Shah:** And just two things, the absolute capex, the fixed asset capex which we expect in FY19 excluding the payouts which we may be making for the acquisition, what could be the tax rate for FY19?
- Sudhir Singh:** We expect the tax rate to be in the range of 24.5%.
- Sandeep Shah:** And the pure capex, excluding the payout for the acquisition?
- Sudhir Singh:** Around Rs. 75 crores we believe to be the number.
- Moderator:** Thank you. We have a follow-up question from the line of Rahul Jain from Emkay Global. Please go ahead.
- Rahul Jain:** Sir, you mentioned the incentive program that would be next step forward in terms of the process that you have initiated from your end leadership development. So if you could share you're thought on that how it would be linked and aligned and how it should help us in building the momentum?
- Sudhir Singh:** Yes, there are a few important aspects that underpin the incentives and the goal setting structure that we have. And incentive and goal setting as you recognized are linked. The first thing that we have done is we have very clearly called out very sharp number based large deal goals for said leaders, large deal goals. And we have significantly increased by a factor of about 2.5 the payouts to be made in the event of large deal realization. You will recall that in fiscal year 2018 we have signed seven large deals and it is our intent to grow that number. The second thing that we have done is that we have increased accelerators for key parameters around revenue and margin for sales leaders who will be in the market to incentivize them further to move the revenue vector. Those from our perspective are the two biggest changes done to the incentive structure policy, goal sheets also as part of this process have been significantly rationalized, the number of

parameters has been limited and revenue and margins has been prioritized very, very highly with stronger payouts for over achievement against these numbers.

**Rahul Jain:** And if you could share the segmental revenue which we typically share on ROOM, Proyecta, Morris.

**Sudhir Singh:** Absolutely. The quarter four number for NMTL was Rs. 289 million, the quarter four number for GIS was Rs. 424 million, quarter four number for Incessant and RuleTek together was Rs. 1009 million, the quarter four revenue number for NITL was Rs. 444 million.

**Rahul Jain:** And respective margins?

**Sudhir Singh:** Margins for the NMTL were 14%, GIS 30%, Incessant plus RuleTek taken together 25% and for NITL 24%.

**Moderator:** Thank you. Our next question is from the line of Pankaj Kapoor for JM financial. Good afternoon

**Pankaj Kapoor:** A couple of questions, Sudhir. First, will it be possible for you to give a sense of the order booking, what would be the percentage of digital deals and can you give a comparable number how it was last year same quarter? That is the first question. And second question, with the higher incentives for the sales teams do you think this can put some pressure that should lead to higher SG&A expenses? So when you made the commentary of margins improving is that factored into that? Thank you.

**Sudhir Singh:** Getting back to the first question around digital deals contribution to the \$145 million, we do not have that breakup, digital versus non-digital. Though interestingly the digital component in the two large deals that we talked about was very, very high. Specific to the second question, we have built in potential incentive payouts against materially higher revenue to the sales people under the incentive structure in our margin calculation. And after having built in we remain confident that margins will go up next year.

**Moderator:** Thank you. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

**Ashish Chopra:** Sudhir, just in terms of the margins, so should the trajectory also be expected to be similar to previous years wherein we do tend to typically see a fairly sharp drop in the first quarter because our wage hikes are all at one go and then it kind of builds through the course of the year or would you expect it to be slightly different with the anticipation of revenue spread across quarters?

**Sudhir Singh:** We expect the seasonality in the quarter one to play out, which is what we referred to. We expect the trajectory to be the same, though the absolute data points to be higher for the year.

- Ashish Chopra:** And just secondly from my side, as far as the Travel & Transportation vertical goes, so while the outlook based on the current outlay remains very positive, see we have had seen some volatility in that spending with respect to macro indicators such as oil prices, etc, would you tend to foresee that as a risk or given the kind of programs that you are witnessing the spending go vain, you would think that is not really much of an issue?
- Sudhir Singh:** On Travel, Ashish, we have seen some very key growth drivers for the industry itself, beyond just the macro indicators that I talked about around passenger travel. Travel right now is actually undergoing as an industry a very, very significant digital lead transformation whether it is airlines, whether it is airports or whether it is the travel tech firms, all of it seems to be centered around the digital base transformation. And the deals that we had cooking and the pipeline which we expect to start realizing revenues again starting from short-term itself are deals that are actually coming from that side of the demand cycle. So travel, as I said, we expect the growth to come in and we expect the growth to come in on the back of very strong demand from the travel and transport sector around digital-led business transformation.
- Ashish Chopra:** And lastly from my side, if you could just share or throw some rationale behind extending the payout for Incessant by an additional year versus the 30% that was scheduled to be acquired in terms of remainder stake in this year itself, just a thought on that would be helpful?
- Arvind Thakur:** So, I will attempt to answer that question. Basically, we are looking at a leadership change in Incessant and we felt it was prudent for the founders to continue for another year and that is why we restructured that so that they have an incentive to stay on for another year. The new leaders are already in place but it is good to have an overlap with the founders so that we continue with the growth momentum.
- Moderator:** Thank you. Our next question is from the line of Govind Agarwal from Antique Stock Broking. Please go ahead.
- Govind Agarwal:** See, if you could share the profit contribution from Morris, from Incessant and from GIS business for FY18?
- Sudhir Singh:** You are talking about margins, right, Mr. Agarwal?
- Govind Agarwal:** No, not the margins, I am asking about net profit to arrive at the monetary interest number.
- Sudhir Singh:** That is normally captured in the statutory books. These are business numbers that we have shared with you right now, that is going to come in the results that we have shared with you.
- Govind Agarwal:** And other thing, if you could share some color on the ramp-up of large deals you signed in the last two quarters, you signed almost nine deals in the last three quarters, so how will you ramp-

up, if you could give some schedule in Q1 or Q2 or how will they ramp-up in FY19, it will be helpful.

**Sudhir Singh:**

So if I look at the two most recent ones which we signed, I talked about \$35 million new order from a new client, the ramp-up of that is underway, the transition is happening as we speak and we will start realizing the revenues starting the quarter that we are in right now. The other deal that I talked about from quarter four which was an RPA driven pay as you use transaction-based model also kicks in starting quarter one of this year itself. You are right the large deal momentum has been building up, we signed two large deals in quarter four, you will recall we signed three large deals in quarter three and we signed one each in quarter two and quarter one of last year. The deals that we signed in quarter three, one of them was centered around insurance, that deal again the transition has been over and revenue has already started flowing into our books in quarter four. So all the Q3, Q2 and Q1 deals, the steady state revenue has started getting realized, the Q4 large deal their steady state revenue will start flowing in starting Q1. The revenue off-take that you have seen quarter-on-quarter for the last three quarters has also been a function of these large deals and their revenues getting baked.

**Govind Agarwal:**

And you have already been giving a number of how many deals you signed in every quarter, so if you could share the number this time also?

**Sudhir Singh:**

We signed two large deals in the last quarter. Is your question how many will be signed in next quarter?

**Govind Agarwal:**

Yes, with GIS numbers for last few quarters.

**Sudhir Singh:**

So, if you look at overall last year four quarters we signed seven deals overall, in quarter one, one; quarter two, one; quarter three, three; quarter four, two. Now you will recognize there can be some ups and downs in terms of quarter specific deal signing, but against the seven that we signed last year we feel we will sign at least a higher number than seven in the year that is coming. So it is going to be a higher number that is what I can commit to you now, a large number than this year.

**Moderator:**

Thank you. We have a follow-up question from the line of Sandeep Shah from CIMB. Please go ahead.

**Sandeep Shah:**

Sudhir, I think on the client mining to be one of the areas which is like a work-in-progress for NIIT Tech, though off late it has been improving. So in your reorg what kind of solution you are putting in terms of a client mining, can you just give some color on that?

**Sudhir Singh:**

So two or three flavors around client mining. One, the fact that we have restructured ourselves more around vertical centric organization means that the domain injection into the existing large clients will increase. We found out through our experience that it is far more relatable for a client

to have a client partner walk in and talk industry impact rather than talk technology only. So that transformation and that pivot helps us on that front. The second thing that we are doing is as part of the larger leadership augmentation at the front end we have very closely over the last two quarters been looking at the client partners that we have servicing our top 20 clients. The process that I talked about around business unit heads, newer faces being added and augmented to the team is something that is already underway across the top ten accounts as we speak. So we are adding newer fresher talent to the existing front end client teams and that process will continue to move ahead.

**Sandeep Shah:**

And second in terms of Incessant, I think it is driving a strong growth and it is likely to remain a driver. So can you give us some color, because when we acquired Incessant it was a more BFS heavy, so can you give some color in terms of their cross selling to different verticals to your existing accounts and the integration of their sales team with your sale steam?

**Sudhir Singh:**

Absolutely, Sandeep. So if were to look at integration aspect of Incessant and also RuleTek subsequent acquisition that Incessant did, that is the process that got materially very significantly accelerated in the last one year. Our cross sell of Incessant, particularly RuleTek capabilities Incessant into NIIT Technologies client has got accelerated. The biggest successes that we have noticed to date have come from the insurance vertical, BFS is a space where we have a lot of promise that we see coming in and we have already had an outreach from the product company itself which they are centered around to try to co-create a travel story across NIIT Technologies and the product that they have competence around. So short answer to your question, the cross sell has become very effective and the cross sell has now realigned because that has resulted in a lot of the growth that the Incessant and RuleTek combined entity has showed us.

**Sandeep Shah:**

And just on the large deals, I think it is very encouraging to see an increasing number. So, Sudhir, is it more organic focus or also tie-ups with advisor is helping you, so what is driving this confidence and momentum?

**Sudhir Singh:**

So, Sandeep, our observation is that the really large deals which used to be the market, the \$100 million, \$200 million, \$300 million, \$400 million deals, that number has shrunk and that was a number that was largely advisor driven. Large deals as we have shared with you in the past for us are \$20 million deals. As of now we have in our pipeline a few large deals where we are in conversations along with advisors who pulled us in. But the recent large deals, the two that I talked about were large deals that we created with our sales and capability teams working together. We have incidentally, to your question one piece that missed talking about is, as part of our deal structuring we have created an internal organization which is focused on partnership and alliances under one of our senior most leaders, and that is an organization that we regard as being another growth vector for us which will create more structured and sharper alliances, both with deal advisors and product players and hopefully be another channel for driving growth.



**Sandeep Shah:** And just last question, I think mid-cap companies with high client concentration generally face client specific issue on a recurring basis. So entering FY19 do you believe this could be a risk which can impact your growth, are any kind of such discussion with any of your clients happening which may give you some negative surprise?

**Sudhir Singh:** No, the answer is a very emphatic no. We have seen no risk to the existing top 20 clients that we are working with around relationship unraveling; we see very strong material upside, some of it is driven by the macroeconomic environment, we think a lot of it is also driven by the work that we have done around mining, around leadership changes, around incentive changes and around sharpening of focus around domain depth of our organization.

**Moderator:** Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Sudhir Singh, CEO, NIIT Technologies for closing comments. Thank you and over to you, sir.

**Sudhir Singh:** Thank you. I want to thank everyone of you folks. I know it is late in the evening, especially for the folks who are out here in India. Thank you very much for making time for this conversation. We are looking forward to meeting and hosting all of you at our campus in Greater Noida next Wednesday on the 9th of May. And we would love it if you were able to make it there. Thank you once again.

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

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**Note:**

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