



TRANSCRIPT: NIIT Technologies Ltd Q1FY2021 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 Q1 FY'21 Earning Conference Call of NIIT Technologies Limited. 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 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 at NIIT Technologies. Thank you. And over to you, Mr. Singh.

Abhinandan Singh: A warm welcome to all of you to our Q1 FY'21 Earnings Conference Call. You would have received our results by now. Those are also available on our website, www.niit-tech.com.

Present along with me on this call are our CEO Mr. Sudhir Singh and our CFO Mr. Ajay Kalra.

As usual, we will start this forum with opening remarks from our CEO and post that we would open the floor for your questions.

With that, I would now like to hand over the floor to Mr. Sudhir Singh, our CEO. Over to you, Sudhir.

Sudhir Singh: Thank you, Abhinandan and very good evening and very good morning to you across the world, folks. I hope that your family, your loved ones, your team members and you yourself are safe and healthy. I sincerely appreciate your taking the time and joining us for this conversation today and especially in the late hour in India today. As planned, I shall now share details about quarterly performance and our perspective on the outlook going forward. I shall start with the revenue analysis for Q1. Before I do that, let me point out what might already be obvious to many of you. Historically, NIIT Technologies had one of the highest exposures within its peer set to the Travel, Transportation and Hospitality industry. There has been significant challenges in the Travel, Transport and Hospitality industry, revenues from which contributed 28% to NIIT Tech's total revenues in fiscal year '20. A partial reflection of that stress induced in the Travel industry, and its ripple down effect on us was expressed in our last Q4 of fiscal year '20 results, where our firm had grown only 3% sequentially in constant currency terms.

In the quarter under review, Q1 fiscal year '21 on an overall basis, consolidated revenues declined sequentially by 6.8% in constant currency terms to Rs.10,570 million. In reported terms, the revenue declined 4.7% sequentially.

Despite the pandemic related headwinds, all our verticals, except the Travel vertical, grew sequentially in Q1.

In Q1, our Insurance services business grew 1.9% quarter-on-quarter, contributing to 33% of the firm's revenue.

Our BFS business grew 6.2% sequentially and contributed to 17.2% of revenue.

Other segments collectively expanded 8.6% quarter-on-quarter and they now represent 30.4% of the overall revenue.

The Travel vertical, which as I noted earlier was the only vertical that declined by 31.6% quarter-on-quarter and now contributes to 19.4% of total Q1 revenue. Excluding the Travel vertical, the rest of the firm registered a growth of 3.2% quarter-on-quarter in constant currency terms and 5.1% in reported terms during the quarter. This reflects the fundamental underlying strength of the business. It is also, we believe, in line with the benchmark we have established over the last 12-quarters of driving consistent, resilient, and robust growth.

Geo-based cuts for the quarter were as follows: Americas, EMEA and rest of the world including APAC contributed 47%, 36% and 17% respectively to the revenue mix.

The top five clients now contribute 26% of the total revenue and the top-10 and the top-20 contribute 38% and 52% of the total revenue respectively. Broad-based growth is reinforced by the number of million dollar plus clients which stood at 107 this quarter, up from 91 accounts 12-months ago and 106 clients last quarter. Onsite revenue represented 62% of the total revenues and were down from 65% in Q4 FY'20.

With that I shall now move on to the margins and the operating profit for Q1.

We are pleased to report that in a very tough quarter with severe drawdowns on account of COVID-19 related issues and in our case, particularly in the Travel industry, we delivered healthy EBITDA of Rs.1,806 million, translating into an EBITDA margin of 17.1%. While the EBITDA margins are robust, there is a sequential 80 bps decline in margin. A 40 bps decline out of that 80 bps is on account of hedge losses, the remaining is on account of lower license revenues from the NITL business. After baking in the impact of RSUs granted to the leadership team in March 2020, EBITDA post RSU cost for the quarter stands at Rs.1,686 million.

Our ability to contain revenue impact on severely affected segments like Travel, grow the rest of our business despite the pandemic combined with a very strong operational rigor during a difficult quarter were the key drivers behind the current quarter EBITDA margin performance.

During the quarter, we took a hit on account of exceptional items of Rs.180 million. This reflects provisions against outstanding in a few travel accounts which have either gone into voluntary administration or are cash stressed because of the current macro environment. We have evaluated our travel accounts and have made prudent provisions. We do not expect to make further significant provisions in the quarters ahead. As a result, our net profits contracted by

29.7% over the last quarter to Rs.799 million. The tax rate for the quarter stood at 23.9% from the PBT.

Moving on to the Order Intake Section. The order intake story is very positive. We secured fresh business of US\$186 million during the quarter. Out of this US\$186 million order intake, the US contribution stood at US\$85 million, EMEA was at US\$70 million and we secured US\$31 million from the rest of the world.

The deal signing momentum continued from the previous quarter. We signed three significant deals in this quarter. The first deal was in the BFS vertical where we signed a \$30 million plus multi-year deal. The other two deals were in the Travel vertical. First of these two is a \$15 million EN deal to be executed over 18-months in the travel tech space. The other one was a win as part of a vendor consolidation exercise at a large airport where we have displaced all other existing vendors.

We signed 11 new customers during the quarter. Order book executable over the next 12-months now stands at US\$ 465 million which is up 18% year-on-year.

Our ability to convert the strong deal pipeline that we walked into this quarter with, allied with our successes in enhancing our wallet share in key accounts even during challenging times, gives us the confidence that we shall bounce back very strongly in the current quarter which is Q2.

I shall now give you a quick flavor of the delivery engagement milestones and the technology and domain capability generation across our operations factory. Our push to engage with the emerging technologies continues to differentiate our solutions and our investments there and continue to reward us handsomely.

The Digital and IP part of our business is now more than 40% of our aggregate revenues. We have always maintained a very high bar when it comes to classifying revenues as Digital revenue. One of the parameters that we actively track when we classify a revenue stream as Digital, is the margin secured from that stream. Our clear expectation has always been that true Digital and true transformation linked revenue should always have a price premium associated with it and should always come at a higher margin. Over the last three years, the growth of our digital portfolio with its associated higher margin profile has led us to being one of the highest margin firms in our mid-tier PSS.

Our investments in cognitive, cloud, digital and automation continue and we have added focused investments in Blockchain technologies into that mix. A large public sector client in Europe is leveraging a Blockchain trust framework to serve its customers. NIIT Technologies is building a new, innovative and automated solution with self-service capabilities on Blockchain technology to deliver a secure, distributed and trusted solution to all citizens of that country.

On the Cognitive front, a significant client has retained us up to help them monitor and moderate “hate speech” in online and various channels. We are creating a solution that uses Artificial Intelligence and Machine Learning to determine if the video and audio feed contains “hate speech” in multiple languages. Our Cognitive IP involving Customer Vision and Speech Recognition uses a real-time analysis to identify, isolate, and blank out the “hate speech” with no human intervention.

On the operations front for one of our clients, a large audit firm, we are driving transformation across their audit case management processes, bringing in change and control by leveraging digital process automation, including document management, offline case processing, internal collaboration, context sensitive knowledge repository creation and a reusable electronic audit toolkit. This is now live across five sites and will be scaled to 180 sites and 30,000 users.

During the quarter, at one of the largest airports in the world, we created and deployed a COVID response application within six weeks from ideation to deployment. This provided a single view navigation for travelers across repatriation options, boarding, shopping, eating, safety and social distancing to aid adjusting to the new normal.

We partnered across multiple initiatives of a hospitality major to ensure they are ready with new property openings, increasing operational throughput by 184%. During these tough times, we are helping the client on a co-innovation journey to create high impact use cases, leveraging artificial intelligence and machine learning (AI/ML) and Innovation as a Service offerings. We have added travel and hospitality specific solutions around “Digital Touchless Check-in” and “Travel Risk Rating Engine”, both of these focused to help build trust with their customers in the post-COVID normal.

For a large global bank, we overhauled the payment processing and also implemented an AI/ML-powered HR platform solution to better manage talent. We also launched a co-innovation lab for a leading US bank focused on banking gateways, ML algorithms and business orchestrations to provide responsive solutions across various channels.

In the Digital Process Automation space, we have created industry-based services for quick pandemic loan disbursement, chatbot-based customer service, upgrade and migrations, and have launched the Pega factory, enabling quick deployment and outcome-based differentiators. There are two examples. For a leading NA-based insurance firm, we deployed omni-channel customer service and chat bots improving customer response time by 35%. And for an Australian client, we leveraged the Pega factory to launch multiple COVID-19 solution related offerings to their customers.

In the Insurance Exact Max space, the “Exact Max” product of our AdvantageGo Insurance suite, we have added innovative and complex data science algorithms to ensure scale and

accuracy and predictions of underwriting and risk models. Our Salesforce and our Mulesoft practices have seen significant uptake with several net new logo additions in this quarter. Our proprietary Mulesoft Product Migration framework, which reduces the cost of migration by 60%, is again seeing a material demand uptick.

In summary, the Operations engine continues to actively drive differentiation-based growth. And that, as I noted earlier, was reflected in the fact that even in a quarter like this, other than Travel every business grew sequentially.

On the people front, total headcount at the end of the quarter was 10,598. Utilization during the quarter was 77%. Attrition stood at 11.84%.

Balance Sheet Highlights: Cash bank balances stood at INR5,457 million, which is a decrease of INR3,908 million over the previous quarter. During the quarter, the firm concluded a share buyback, which amounted to INR3,370, paid out a dividend totaling to INR690 million and bought additional stake in WHISHWORKS and the consideration for that was INR690 million. The capex spend during the quarter was INR354 million. The debtors at the end of the quarter stand at 71-days of sales outstanding.

Hedge position, quick commentary: Outstanding hedges are US\$75.8 million at an average rate of INR75.55 to the US dollar. In British pounds, we have 22.58 million outstanding and that is at an INR rate of 95.42 to the pound. In euro, it is 4.97 million at INR84.95 to a euro. And in Australian dollars it is 4.37 million at INR49.86 to the Australian dollar.

Finally, the last section around the outlook for the future: As you are aware, in the past as a firm we have stayed away from offering a guidance. However, in May during an annual results presentation, given the exceptional circumstances surrounding our organization with its high exposure to the troubled Travel sector during the pandemic, I had shared our plans around revenue growth and margin outlook for the near-term. At that time, I had told you that we were expecting a single digit sequential revenue decline in Q1. Our Q1 performance you will note has been in line with that commentary. I had also shared that we expect to see a sequential revenue growth in Q2 and that our intent was to stay at or near the head of the pack of IT service providers in organic revenue growth for the full fiscal year '21.

With Q1 now firmly behind us, I would like to restate that we are confident of maintaining that guidance. Based on the signed deals and the late-stage large deal pipeline ahead of us, we expect to see a sequential revenue growth of at least 7% in constant currency terms in Q2. This growth, along with the rollback of one quarter discounts we have negotiated with some non-airline Travel clients, should also result in material margin expansion by around 150 bps sequentially.

I would like to affirm that our growth for the full fiscal year '21 in constant currency terms is expected to be in the mid-single digits. Driven by better operating leverage and sustained efficiency measures, we expect our EBITDA margins for the full year FY'21, before RSU costs, to be the same as fiscal year '20 margins, that is 17.8%. You will recall last quarter I had indicated we might be around 17.1%.

That outlook commentary brings me to the end of my opening remarks. And I now look forward, ladies and gentlemen, to hearing your comments and to addressing your questions. Back to you, Abhinandan.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashish Aggarwal from Principal AMC. Please go ahead.

Ashish Aggarwal: Just a couple of questions. First of all, in this quarter, there was a sharp jump in revenues from India. Any specific reason around that? And secondly, this strong guidance for Q2, is it predicated on a sharp increase in the Travel & Transportation vertical?

Sudhir Singh: Thank you for the question. Ashish. The India revenue this quarter saw a jump largely because of achievement of a milestone in a pan India implementation of a Pega based application that we had done. That is answer one. In terms of the guidance going forward, the guidance that I have offered you of at least 7% sequential growth in Q2 over Q1 in CC terms, is predicated on a set of factors. It is not linked to exceptional growth that we anticipate in Travel. As you would have noticed, other than Travel, every other vertical of the firm has grown. Travel has now declined to being only 19.4% of the firm's revenue. More importantly, the airline segment of our portfolio after the recent contraction only represents 5.5% of our aggregate volumes. We do not expect any further declines there. We believe it's contracted to a bare minimum. The confidence around revenue growth comes from the order executable that currently is locked in at \$465 million which is 18% year-on-year, higher than last year. It comes from the order intake of \$186 million that we got in a pandemic-infused quarter and that number was 6 million higher over the previous quarter. And it comes on the back of the three material deals that we have signed in that quarter itself. Incidentally, beyond the three deals that I referenced in the commentary, in the current quarter, which is Q2 that is ongoing, in the month of July there are two other material deals that have also been signed and are not part of my commentary. So, a lot of the confidence stems from that as well. Finally, we had talked last time around about the traction that we have seen in newer areas like healthcare and in the government sector outside India, in Europe and in Australia. That momentum continues. That momentum was also responsible for, other than Travel, the firm having grown 3.2% sequentially quarter-on-quarter in CC terms. Fundamentally, that is where the confidence around Q2 numbers, revenue jumping up by at least 7%, is stemming from, and that is where the full year guidance also stems from, Ashish.

- Moderator:** Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.
- Sudheer Guntupalli:** Just curious, your overall headcount witnessed almost a 5% sequential reduction and onsite headcount witnessed 8% sequential reduction. Despite that utilizations witnessed a slight dip and gross margins witnessed a sharp contraction of around 280 basis points, so how do we reconcile these three variables?
- Sudhir Singh:** When you look at the gross margin, the dip that you see, Sudheer, is a function of the pricing pressure that came in, and came in particularly in the travel sector. On the EBITDA margin front, if you actually adjust for hedge gains and losses, both in Q4 and Q1, EBITDA would have been at about 17.5% this quarter versus 17.8% last quarter. EBITDA was also sequentially lower because of the lower license revenue that we recognized at NITL. Those were the parameters which kicked in. On a go-forward basis, the margin guidance that I have given of a 150 bps sequential increase, is largely because the headcount reduction, and more importantly, the other efficiency measures that were instituted through the quarter, are likely to start giving us full quarter impact Q2 onwards.
- Sudheer Guntupalli:** That means you are suggesting that the headcount reduction has actually happened towards the end of the quarter, which is why the benefit of that is not seen in utilization and gross margins, is that the correct understanding?
- Sudhir Singh:** That is correct, Sudheer. The headcount reduction and the other efficiency measures were executed through the quarter and the next quarter will see the full impact of those measures kicking in.
- Sudheer Guntupalli:** And over the last few years, while the growth and margin performance has been very strong, your cash conversion has steadily gone down from let us say, 100% OCF upon EBITDA four years back to 40% in FY'20, even in this quarter there is an exceptional item that seems to have impacted the cash flows. So what is the outlook on the strong growth and margins actually translating into strong cash conversion?
- Sudhir Singh:** Sudheer, the OCF in the current quarter was 67% and free cash flow was 63%. OCF to EBITDA in Q2, I expect that to decline because clients in travel vertical have negotiated stretched payment terms for invoices raised in Q1. But on a full year basis, we expect the OCF to be better than fiscal year '20, than last year.
- Sudheer Guntupalli:** That improvement will be driven by because despite the first half seeing a bit of a stretch, you are saying in the second quarter, you will see a bit of stretch. Despite that, if your expectation is that FY'21 will be better than FY'20, so, what would be driving that delta?

Sudhir Singh: The delta is getting driven by significant efficiencies coming in the non-Travel portfolio of our business which anyway has been behaving very differently from the Travel portfolio in almost any other aspect, Sudheer.

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

Madhu Babu: On the large deal wins, are they more horizontal-led IMS or the cloud migration or Pega or more of like a full stack service offerings? And second on the healthcare and government vertical deals you have mentioned, could you give more view on that?

Sudhir Singh: If I look at the three deals that I referenced right now, one of them as I said, came from the financial services sector, two of them came from the Travel sector. The financial sector deal was a mix of domain advisory-led conversation that culminated in a solution that was largely horizontal-centric. It was infra and testing based. The Travel wins were essentially a function of digital or digital front-end followed by an intermix of technologies. And the third material win that we had, had a very strong component of rebadge which was centered more around Cloud and Infrastructure. On the healthcare front, last quarter, I talked about a material client where we had ramped up the business to 100 employees within the quarter itself. Traction within that client relationship continues to be very strong. And we expect further ramp ups in that client relationship in this quarter and the subsequent quarters. Importantly, we signed another material client relationship in Q1 in addition to the relationship that I had referenced in the May annual RESULTS investor call.

Madhu Babu: On the government vertical?

Sudhir Singh: Government vertical for us outside India continues to be a space that has seen traction, particularly in Europe and in Australia. The work that we are doing here has a stronger Automation and Digital flavor. And the government, as you are aware, is a space where spending has continued unabated across Europe and Australia despite the pandemic.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global Financial Services. Please go ahead.

Manik Taneja: Sudhir, I just wanted to get your thoughts on a couple of things. How should we reconcile the headcount rationalization or the reduction that we have seen in the current quarter with the outlook that we are sharing for Q2? And secondly, we have seen a significant shift in terms of our delivery of business in the current quarter. Is that a sustainable trend going forward given the macro environment, your thoughts on that?

Sudhir Singh:

The headcount number reduction that you see is a reduction that was not done uniformly across every business. There was a very strong bias towards corrections on the travel side of the business. Also, other businesses, especially businesses that have been growing, have seen an increase in headcount during the quarter. We do not expect the efficiencies that were introduced outside headcount reduction to impinge on our growth which is why when I did offer the growth guidance, it was not a broad fiscal year growth guidance, but a more immediate Q2 growth guidance as well. The shift in the delivery format that we see, which essentially has translated into more work from home, so far has been very successful for us, Manik. As I said, other than Travel, which was really a demand-induced contraction, the firm has grown 3.2% sequentially. That is largely a testament to the commitment of the team. And it is also a reflection of the seamlessness with which we have been able to transition over. My belief is that work from home is essentially going to be the norm for most, if not all of Q2. And at this stage, basis the conversations that the team and I have had with our clients, and the conversations that we have had with our own internal stakeholders and employees, we believe it is a sustainable model, all the way till the end of Q2. We will reassess when we come to the end of Q2 to see changes if any that need to be made from Q3 onwards.

Moderator:

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

Sandeep Shah:

Sudhir, last time you said airlines is 14%, this time it has gone to about 5% of the revenue. So just mathematically, if you look at, it looks like airline revenues have actually gone down by more than 50%-55% QoQ, while the total Transportation vertical has gone down by 31%-32%, so outside airlines, you have seen a growth. These numbers are correct?

Sudhir Singh:

Absolutely correct, Sandeep. The numbers that I shared last quarter were that the Travel vertical was 28% of the overall firm. And I had said that 46% of that 28% which is 13% was airlines. I can confirm that 28% has now contracted to 19.4% and that effectively the net decline across Travel and across the firm's revenues has been led by the airline segment. The airlines revenue now has fallen from 13% to 5.5%. We believe and I believe that we are operating at bare bone support spend levels for airlines which is not going to fall any further. Your observation around the fact that the contraction has been led within Travel and within the firm's revenues by the massive contraction, not just contraction, of the airline revenue is absolutely correct. The other segments in Travel have not fallen. You will recall last time I had said we look at Travel as a composite of five or six sub-segments, airlines, travel tech, airports, hospitality, surface/rail transport and logistics. The other segments have held within Travel and outside Travel of course as I said, every other business put together has grown 3.2% sequentially.

Sandeep Shah:

Just on margin guidance, when you say it is 17.8% before RSU, are you talking in a constant currency when the rupee-dollar last year was 71-72, right?

- Sudhir Singh:** That is correct.
- Sandeep Shah:** So in that scenario margin may be higher with the rupee-dollar at 75 versus 70.5 for FY'20. It has an upside bias because of the currency.
- Sudhir Singh:** I will have to get back to you on that, Sandeep. But at this point in time, at an aggregate level, as we look at the margins, we are looking at holding on to the last year numbers. The upside bias and whether we can commit to that or indicate that at this point in time is something that I am yet to close on
- Sandeep Shah:** Okay. Just last question. Last two quarters if you look at, almost Rs. 27 crores worth of provision for doubtful debt which has happened, which may be close to 2.5% of the travel vertical as a whole. So, are you expecting any write-backs or you believe this is actually a sunk cost and unlikely to get recovered as a whole? And you are saying there may not be material increase, but you still expect some provision for doubtful debts. And a follow up to that, is there any systematic risk in any of your client lists within airlines or outside within the top 10 accounts as a whole?
- Sudhir Singh:** We do expect to see some of those provisions getting reversed during the rest of the current fiscal year, Sandeep. We have done the write-off in this quarter after doing a very thorough analysis of all our clients, particularly our travel clients. We have been very prudent, we have been very conservative around doing the provisioning. Which is why I said, I do not expect any significant, any material provisions to be made in the rest of the quarters. As far as the systemic risk around top 10, top 20 clients is concerned, we have done that analysis, detailed analysis. And at this point in time, standing as we are, looking at the top 20 clients, we do not expect any systemic risk coming and hitting us unexpectedly in the future.
- Sandeep Shah:** Okay. And in July, you signed even two large deals. This is the last question. And thanks to the management. Actually you said that in the initial remarks, or am I actually wrong in presuming that?
- Sudhir Singh:** No, Sandeep, you are absolutely right. As I had noted, in quarter one we signed three significant deal, material deals. One of them was a \$30 million plus deal in the financial services segment. In addition to those three, in the month of July, we have signed two material deals, one of which is a \$30 million deal. So you are right, these two are in addition to the three that I referenced before.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just two, three questions, first about the Travel. Considering airlines now largely bottomed out, but how you expect that recovery to play out? Do you expect that recovery maybe a couple of quarters away, or you think it will be much longer kind of thing for them to recover?

Second question is about the digital revenue. I think in the earlier conversation you in your prepared remark you indicated digital is 40% of revenue, but in your presentation it is 34%. So I don't know, whether I am missing something which you can clarify the thing. And lastly, can you provide the revenue and EBITDA performance for NITL and WHISHWORKS? Thanks.

Sudhir Singh: Sure, Dipesh. When it comes to the Travel and the airlines recovery, at this point in time we have not baked in a recovery for the rest of the fiscal year. If there is a recovery, the revenues that might flow to us as a consequence of that would be an upside. But in the projections that we have shared and in the internal planning that we are doing, we have assumed that till the end of March there will be no recovery in the airline segment. When we speak to our clients, there we sense a clear hope that around the holiday travel time, which is around December or January, they expect to start opening their wallets. But we have not baked it into our projections and into our assumptions.

Second, as far as digital revenues are concerned, the number of 40% that I shared with you was a composite of what we classify as Digital and what we classify as IP revenue. IP revenue is 6%. IP revenue, as you know, is a digital platform, the whole AdvantageGo and the MonaLisa travel platform that we have, which is digitally powered, and additionally 34% is classified as Digital revenue in our case. So that 34 plus 6, 40% percent is what I was referring to.

The third question that you had, Dipesh, was centered around the revenue and the EBITDA numbers for NITL and WHISHWORKS. For NITL, the revenue was INR 663 million for the quarter, and the EBITDA was 23.5%. For WHISHWORKS, the revenue was INR 496 million, and the EBITDA was 20.4%. So those are the answers to the three questions that you had, Dipesh.

Dipesh Mehta: Sir, just follow-up on the number which you provided. Now, NITL and WHISHWORKS, both seem to have a tough quarter. I am not worried, because WHISHWORKS we have relatively have less of a history. Can you help us understand the nature of that business, how it is likely to change considering our post-COVID era? Thank you.

Sudhir Singh: Dipesh, WHISHWORKS, so let me step back. Quarter four (Q4) for WHISHWORKS is always a big quarter. And the relative decline that you have seen is a seasonal decline. For the full year I expect WHISHWORKS to possibly be the fastest growing business of the firm, NIIT Technologies. The integration has gone off seamlessly. It's a digital integration business. Mulesoft has been acquired by Salesforce and they have become a good engine for us to drive revenue, both in the Salesforce and in the Mulesoft ecosystems. So that's how we see the

WHISHWORKS business panning out on a go-forward basis. NITL has a very significant order pipeline at this stage, that business you would have noticed has a margin profile that is very strong. And given the order pipeline that it has, I expect it once again to turn in a really strong performance over the remaining three quarters of this year.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Just two questions from my side. One is on the Travel vertical again. As you mentioned that we are not building in any recovery from the airlines front, so is it safe to say that the Travel vertical as a whole, in your belief, would have bottomed out in this quarter? Or do you believe there could be some more pain in the coming quarters? I am sorry if you have answered this already, I got disconnected in between. But could there be more pain in the coming quarters? Notwithstanding our guidance, I know that it stays where it is. But could there be more pain in the Travel vertical in the coming quarters in some format? Or is it the bottom that we have in this quarter?

Sudhir Singh: Vibhor, we strongly believe that all the pain that could possibly have been inflicted upon us by the Travel vertical is done and dusted. As I have noted, last quarter airlines contributed 13% to the firm's revenue, they are already down to 5.5%. Under no possible scenario do I see travel declining any further. Travel, from where it has reached in quarter one, will only go up and will go up sequentially. As I had also noted in response to an earlier question, we have baked in no recovery in airlines or a significant recovery for the rest of the year as well. If there is a recovery, that will only be an upside to the projections and the guidance that we have shared with you.

Dipesh Mehta: That is great to hear. Just last clarification now from my side, if I can. So the full year guidance that you have mentioned of mid-single-digit growth for FY '21, that would be in constant currency terms, right?

Ajay Kalra: Mid-single-digit growth is in constant currency terms, that's correct, Vibhor.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Very heartening to see a positive guidance from you. I just had a follow-up from Dipesh's question. The digital number that you have provided this quarter, that is 34% of total revenues, the comparable number last quarter was 38%. Just wanted to understand, is Travel responsible for most of the decline that we have seen this quarter? And I just have one more question relating to margins.

- Sudhir Singh:** Sure. So let me answer that question, Vimal. And thanks for the follow-up to Dipesh's earlier question. The decline that we see as a relative contribution is on account of two factors, one, WHISHWORKS revenue which gets classified as digital revenue, sees a seasonal dip in quarter one over quarter four. And the second reason, you are right, is, a lot of the development work in the digital space that we were doing for Travel clients, particularly Airline clients, contracted in the quarter, that is what explains the 34% versus the 38% number.
- Vimal Gohil:** Fair enough. The second question is regarding margins. What I do observe is this line item of the purchased goods, some of the hardware related costs have gone up to almost Rs. 53 crore this quarter. And I believe that would be for our India led revenues. And if you probably would have normalized these hardware related costs, our gross margins would have been much better. Where do you see this line item going, going forward?
- Sudhir Singh:** I am going to request auto CFO Mr. Ajay Kalra, to address that question. Ajay, can you step in, please?
- Ajay Kalra:** It is going to remain flat, Dipesh, and this is DC/DR cost and therefore we believe that it is going to remain flat on this one.
- Vimal Gohil:** So you do see this Rs. 53-odd crore worth of hardware cost recurring every quarter?
- Ajay Kalra:** It will decline in the next few quarters. And it is at the highest level in this quarter.
- Sudhir Singh:** Ajay, while you are speaking, can you also please confirm what I said in response to Sandeep's question around margin guidance for the year and the currency implications?
- Ajay Kalra:** The margin guidance, yes, Sudhir, I can confirm that. The margin guidance is on a constant currency basis. And it is going to be 150 basis points up for Q2.
- Sudhir Singh:** Okay, thank you. Sorry for that interruption. We are back to the question queue folks.
- Moderator:** Thank you. The next question is from the line of Hrishit Sitwala from Matsya Capital. Please go ahead.
- Hrishit Sitwala:** Just a question around the constant currency guidance. So, when you all say constant currency, it is the USD number adjusted for the CC headwinds and tailwind, right?
- Ajay Kalra:** That is correct.
- Hrishit Sitwala:** So, the mid-single-digit number is basically ex the headwind that you all will face in this financial year?

Ajay Kalra: It will depend upon the fluctuation of the currency and how the currency behaves. But yes, on the constant currency we are talking about mid-single-digit.

Hrishit Sitwala: Thank you. And I just missed the number that you all reported in NITL. Could you please repeat the number?

Sudhir Singh: The NITL number in Indian rupees for the quarter was INR 663 million, and the EBITDA was 23.5%.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: I just have a question on your sales strategy, if you can highlight that how have you captured yourself, vertical wise or is it at the same as I go and try to help the business in every vertical? In what manner is incentive for allied. And on the similar line, if I look at your people composition, I have seen a significant jump in the sales people, from 140 last year to around 184, which is more than 30% increase in a period of just one year. And out of that nearly 14 has come just in the last quarter. Just wanted to understand this aggressive sales push, is it the right time to go for this kind of hiring or what is making you so confident to go aggressive on hiring sales force?

Sudhir Singh: Thank you for the question. We have hired 14 incremental people in the last quarter. And that is a reflection of the confidence that we have in the pipeline that we have, and in our ability to translate it. The addition of 14 was not sales addition only, it also included people who joined our advisory, the industry advisory function that we have, and the pre-sales solutioning team that we have, which works in tandem with the sales team. As you would have noticed, after the 6.8% sequential decline, the fact that we are talking about an annual mid-single-digit constant currency growth means that we will have to set a fast pace, and we feel confident that we will get there. The sales, the advisory and the presales net addition is in light of those plans and the existing pipeline. I also want to point out that these 14 people classified as sales also include client partners and account managers who run the new logos that we opened which need to be mined with speed and intensity.

The second question that you had, Vaibhav, was centered around how are we structured. We are essentially structured around an industry axis. The horizontals, in our case happen to be all the different streams under digital, including automation, cloud integration, data, quality engineering, and infrastructure, along with the BPO. The sales team is aligned by industry verticals and by geos, and that is how we go into the market.

Vaibhav Badjatya: And about the incentive structure, can you just highlight broadly, are the incentives dependent more towards sales or if you can broadly specify the specifics?

- Sudhir Singh:** I am sorry, I am not able to hear you, Vaibhav, can you speak up a little bit, please?
- Vaibhav Badjatya:** Yes. So on the incentives for the salespeople, because you have really been able to secure new deals quite aggressively in last few years, just wanted to understand actually what has been working for us, because our sales people have been really been able to get the new deals. So, what is so different in our incentive system that is driving this kind of deal wins?
- Sudhir Singh:** Thank you for that question, Vaibhav. Two years back, we had completely rejigged the compensation plan of the sales team. And illustratively, the large deal incentive and the bonus that came for signing a large deal, which in our case is a \$20 million TCV threshold deal, was increased by a factor of, I think close to 4x. The reward, the incentive that the salesperson got for closing a large transaction, if I have my numbers are right, went up by a multiple of 3.8x. If they were making, let's say, \$100, they are now making \$380 over the last two years for signing large deals. That's one aspect to what we have done on the Sales side. The second thing that we did was, we translated the philosophy that we had used three years back when we started recreating the management team by hiring people, preferably only from Tier 1 firms and at very high compensation structures or relatively high compensation structures into the team, we tried to keep for the hunting team the fixed cost at the market benchmark, but the incentives and commissions, we believe basis our benchmarking efforts, are best in class in the industry. On top of that, the large deals bonus gets layered, which as I told you is about 3.8x of what it was even internally two years back.
- Vaibhav Badjatya:** So is it fair to say that if Rs. 100 win is brought in by a sales people, we would pay much larger sum to our sales guy as compared to industry?
- Sudhir Singh:** Our large deals commission structure for the last two years, Vaibhav, basis every benchmarking we have done, is best in class. So, you are right, over the last two years we have been paying this to the salespeople. We also have a very strong compensation plan for the advisory and the pre-sales leaders within the organization who are instrumental in solutioning and supporting the sales team for large deals. That's how we have operated over the last two years.
- Moderator:** Thank you. The next question is from the line of Shraddha Agrawal from AMSec. Please go ahead.
- Shraddha Agrawal:** Congratulations to the management team for a strong outlook for next quarter. Sir, what are the timelines for the pending acquisition of WHISHWORKS stake?
- Sudhir Singh:** So, on the 1st of July we did consummate the Ruletek transaction which got acquired in the first week of July. On the WHISHWORKS front, at this point in time, the acquisition will get consummated by May of next year 2021.

Shraddha Agrawal: And just one reconfirmation, you did confirm that margin guidance for next quarter is in constant currency? But I also want to cross check if the margin guidance for full year is also in constant currency and not on present exchange rates?

Ajay Kalra: That is correct. Our full year guidance is also on constant currency basis.

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

Rahul Jain: Congrats on very strong execution and outlook. My question is on the RSU front. How do we see this cost shaping up for the rest of the year, and subsequently? And also, do we see there could be a need for some more impairment provisioning in Q2, given the stretch payment terms to continue in that quarter?

Sudhir Singh: Rahul, for the four quarters, which basically means the next three quarters as well, the RSU costs will stay flat. As our CFO Mr. Kalra had indicated last quarter, next year the RSU cost will come down to almost half of what it is for this year. As far as the impairment question is concerned, we do not expect any material impairment to be in play next quarter onwards. The team has done a very detailed examination of risks that might have come up, and that is why in this quarter we have taken the exceptional cost that we have into our into results.

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

Dipesh Mehta: Just two clarifications I want. First is about, some of the managements suggested about government support or grants, because various industries were impacted differently, and government supported those industries. Whether we benefited from any of such actions by governments in our Q1 performance or likely to benefit even in subsequent quarters? If yes, if we can quantify that?

Second question is about the WHISHWORKS acquisition. In your press release at the time of equitation, we suggested around 53% stake initially to be purchased. And 57.6% if I go now to the Annual Report. So there is some differences between the amount, 53% and 57.6%. So, if you can clarify what led to the difference? Thank you.

Ajay Kalra: Thank you. On the first question on the government incentives, what we have received is certain incentives in various jurisdictions around furloughs where we got some C&B relief from the government. Though it is marginal, it's not significant, it's around Rs. 50 million to Rs. 60 million. On the second question of WHISHWORKS, 53.6% in WHISHWORKS is fully diluted basis, while the number is on a basic percentage of shareholding. So the 57% is on the basic, and 53% is on the diluted.

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

Sandeep Shah: Sudhir, just one strategy question. Despite the pandemic and your contribution being higher entering 1Q on the airlines, which is most impacted, the \$186 million deal win looks really impressive. And it shows that we are increasing the aggression in terms of the wallet share gains as a whole. So if the demand actually normalizes, one can fairly assume that actually your threshold from \$175 million, which has been increasing Q-on-Q actually has an upside potential in a normal scenario to go to actually more than \$200 million. Because that's the way I think you are running the organization and the culture of the sales team.

Sudhir Singh: Sandeep, you are right. See, if you look at our profile, and if you look at what our traditional historical exposure to Travel was, it's of course now contracted to less than 20%. We were very, very strongly hit. There has been a recent quarter where, if my memory serves me right, our order intake was \$218 million [in Q3FY20]. We have not baked in a recovery this year into the travel sector at all. But if there is a recovery there, and even otherwise, the intent clearly is to start crawling back as fast as we can to the \$275 million threshold that we had established in the quarter over the last four quarters, and hopefully over that also in the years to come.

Sandeep Shah: Okay. And that goal, you would be compromise margin or you still believe the EBITDA margin at 18% is quite maintainable with that goal?

Sudhir Singh: No, we definitely do not want to compromise margins, Sandeep. Over the last two years, we have hit this threshold of close to 18% EBITDA, pre-RSU. That's the threshold that we very clearly want to hold on to. We believe that in the last three years we have grown very aggressively, both revenues and margins. And now that we are at an 18% threshold, we would like to maintain it around 18%, not go up materially, but certainly not go down.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Sir, just continuing the earlier discussion on the sales incentive, any future changes that you are planning in terms of sales incentive? And in the existing plan, are sales people incentives are just linked to deal wins or there is some element of margins that we earn on those deals as well?

Sudhir Singh: Vaibhav, at this point in time, I believe and the team believes that the commission structure and large deal bonus is extremely aggressive. We do not intend to take it up. That structure has been building up momentum in the pipeline over the past few quarters. Of course, the last quarter is an exception, but we will retain that strategy on a go-forward basis for us as well.

Vaibhav Badjatya: And the margin, any linkage of the incentive to the margins that we earn on deals or it is just linked to the size of the deal win on the revenue terms?

Sudhir Singh: Each of the business leaders who have the sales team reporting into them, has as much of an incentive around contribution margin as they do have on revenue growth. That, Vaibhav, is what has allowed us to move almost 200 bps higher on EBITDA in the last three years, while also growing from being about a \$400 million firm to around a \$600 million firm. So the linkage at the senior most levels that drives sales behavior on the ground is very sharp. The intent is never to go for revenue that will compromise the margin platform and the threshold that we establish.

Vaibhav Badjatya: And lastly, most of the deal wins that we are seeing, are those more of a RSQ kind of deals or, I am sure there must be a mix, but what is dominating the deal wins, is it more RSW type of deals or it is client-to-client level deals?

Sudhir Singh: I am sorry, I didn't get, what does RSQ stand for, Vaibhav?

Vaibhav Badjatya: I mean, generally the clients just release their RFP.

Sudhir Singh: Okay. Got it, yes. The complexion of the deals that we have been winning over the last year and a half has changed since we established the advisory business, Vaibhav under John Speight and we have got very senior industry CIOs in that group. We have been investing in that business as part of that 14 people incremental headcount that you talked about in your earlier question as well. The nature of the deals that we are participating in, the conversations have changed to the extent that a lot of them start either with an architecture discussion or with an industry advisory based conversation. If I look at the three material deals that I talked about, the one that we signed in the financial services space had a material intervention that was made by the financial services advisory team as well. So advisory led, architecture led conversations are propelling an increasingly higher percentage of the deal wins that we have referenced over the last six to 10 quarters.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global Financial Services. Please go ahead.

Manik Taneja: Just wanted to check with you with regards to some of the senior level exits that we have seen in the company in recent past. If you could help us understand what has driven some of that attrition in the company? And also, with regards to some of the deal wins that we have seen, would they include a much higher share of onshore led ramp-up in the near-term? And is that what is resulting in strong outlook for Q2?

Sudhir Singh: Manik, in the last three years, 11 out of the 12 CEO directs, which is my directs, have joined the firm. So, if you go back three years, you look at the 12 CEO directs versus the 12 CEO directs

under me, 11 out of those 12 are new. And that change over the last three years has also happened at one level below my directs. One level below my directs more than 50%, I would say, something close to 60% of the folks are new folks who have joined the team laterally, with a very clear preference for having people join us from Tier 1 organizations. These are hungry, ambitious, driven individuals. There has not been a single business head running a material business in the last three years who has joined NIIT Technologies who has put in their papers. It's been one of the most stable senior exec teams in the industry, at least over the last three years that I have been around.

As far as the second question is concerned, as far as deal wins are concerned, and if I just talk anecdotally, of the three that I talked about, the largest deal win of \$30 million plus in the last quarter, primarily had an offshore component to it, and a very small onsite component. One of the remaining two also was on the lines of the financial services win, with a preponderant offshore footprint. The third one had a preponderant onsite footprint. So that's how I would classify it. Two out of the three were essentially very offshore heavy, one of them was onsite heavy, and that anecdotal example in some ways is also translating into the kind of conversations that we have. Wins are not onsite only, or exclusively onsite only heavy at this point in time, Manik.

Moderator: Thank you. 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.

Sudhir Singh: Thank you. I want to thank everyone who joined us for this conversation. I want to thank you for your interest. And I also want to acknowledge and appreciate the fact that especially for the folks in India, you made time for us very late in the evening. Thank you for that. Thank you for your insights. Thank you for your commentary. And thank you for your queries. We look forward to getting together next quarter after the next quarter results. Please do stay safe. And I look forward to speaking to you again. Thank you.

Moderator: Thank you. On behalf of NIIT Technologies Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

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