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November 2, 2022

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Rotunda Building
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Dalal Street, Mumbai 400 001

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Listing Department
Exchange Plaza
5th Floor, Plot no C/1, G Block
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

Subject: Transcript of Investors/analysts Call – Q2 FY 2022-23 Unaudited Financial Results

Scrip Code: BSE – 500304; NSE – NIITLTD

Dear Sir,

Pursuant to the requirement of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith Transcript of Investors/analysts Call organized on October 28, 2022 post declaration of Unaudited Financial Results of the Company (Standalone & Consolidated) for the quarter and half year ended September 30, 2022.

The same shall be available on our website i.e. www.niit.com.

This is for your information and records.

Thanking you,
Yours sincerely,
For **NIIT Limited**

DEEPAK BANSAL

Digitally signed by DEEPAK BANSAL
Date: 2022.11.02 20:59:00 +05'30'

Deepak Bansal
Company Secretary &
Compliance Officer

Encls : a/a

“NIIT Limited Q2 FY23 Earnings Conference Call”

October 28, 2022

MANAGEMENT: **MR. VIJAY THADANI – MANAGING DIRECTOR & VICE CHAIRMAN, NIIT LIMITED**
MR. SAPNESH LALLA – CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR, NIIT LIMITED
MR. KAPIL SAURABH – INVESTOR RELATIONS & M&A NIIT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the NIIT Limited Q2 FY23 Earnings Conference Call.

As a reminder, all participants' 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. Vijay Thadani, Managing Director and Vice Chairman of NIIT Limited. Thank you, and over to you, sir.

Vijay Thadani: Thank you, and good afternoon to each one of you, and good morning or good evening, as the case maybe depending on where you are in the world. First of all, thank you very much for giving us your time to listen to us and the progress of NIIT over the last quarter. We are extremely grateful to you for your interest. And I do know that you have many other meetings to attend. So, we will keep our briefing brief and leave more time for your questions.

The agenda of today's call is to discuss the business performance for the quarter ending September 30, 2022. And the only opening comment that I would like to make is that despite turbulent macro environment, all our businesses, SNC Skills and Careers, including RPS Consulting that we had acquired last year, as well as CLG have achieved double-digit growth on a year-on-year basis.

As indicated in the Pre-Quarter 2 and during Earnings Update, there was steeper than anticipated impact of environment on CLG business, which did impact our Q-o-Q growth, and to that extent, Sapnesh would explain that details. But what is important is that the business continue to add new customers and maintain this velocity of customer acquisitions and 100% renewal rates.

So, there is a great potential for the company in future in both businesses, and we are committed to deployment of the cash in the balance sheet for further investments in profitable growth and new capabilities on the back of the investment that we made in a company called KNOLSKAPE in last quarter.

So, with this opening comment, I would like to hand you over to Sapnesh to provide details of the operating performance. And then I will give a very brief overview of the reorganization process that the company is going through and then we will open it for Q&A. Over to you, Sapnesh.

Sapnesh Lalla: Thanks, Vijay, and thanks, everyone, for joining. Like Vijay pointed out, we appreciate your time, and we know how busy you are and therefore, really, really appreciate your presence. To provide you with the highlights, I'll start with NIIT overall and then get into each business respectively.

Our revenue stood at INR 3,922 million. This was up 24% year-on-year and was down 3% on a Q-o-Q basis, primarily due to a steeper-than-expected compression in a large customer at CLG. I will cover this detail when I discuss the corporate learning business with you.

The EBITDA stood at INR 560 million. The EBITDA margin at 14%. The EBITDA includes impact of wage inflation effective July 1, a steeper-than-expected compression in some customers with CLG, product mix changes, as well as a pickup in travel and premises cost this quarter, which we had anticipated earlier. We also continued to make some acceleration in the growth investments that we started making earlier this year, specifically with respect to our business in CLG as well as in SNC.

The net other income showed was at INR 103 million. This includes treasury income of 137 million and exceptional expense of INR 41 million related to various strategic initiatives that we have at play at this time. The tax was at INR 96 million for the quarter. The profit after tax was at 396 million, resulting in an EPS of 2.9.

In the Corporate Learning business, the revenue was at INR 3,004 million. It was up 10% year-on-year. As shared and as pointed out by Vijay earlier, the revenue is down 4% Q-o-Q. And in constant currency terms, it was up 5% year-on-year and down 5% Q-o-Q.

The EBITDA was at INR 535 million. The EBITDA margin was at 18%. The EBITDA was impacted on a quarter-on-quarter basis based on account of the planned wage hike during the quarter, as well as the lower revenue during the quarter, including the steeper-than-expected compression in one of the large customers.

During the second quarter, NIIT hosted its flagship annual customer event conference 2022 in Miami in the United States. NIIT could not hold this event in person over the last 2 years due to the pandemic, but it was heartening to note that the participation in the event was robust and the feedback very, very encouraging and seen like a strong endorsement of the trust that customers have in NIIT.

The investments in sales and marketing continue to drive new logo addition in Q2. NIIT, the CLG business of NIIT signed 3 new customers as MTS customers. And this includes one global aviation company, one IT/ITES company and a large multilateral ad agency. In addition, the company renewed 3 contracts that had come up for renewal, thereby maintaining its 100% renewal record.

We see a robust pipeline for conversion in Q3 and Q4 and see strong velocity of customer adds as we look ahead. The MTS customer tally at the end of this quarter stands at 70, and the revenue visibility at the end of the quarter is at $305 million.

We continue to see a healthy pipeline, as I mentioned earlier, as well as opportunity for expansion of wallet share with our existing customers. The sharp increase in volatility in the macro environment last quarter caused a steeper-than-anticipated compression in customer spend. We expect the pace of consumption to pick up as the uncertainty starts to subside.

Despite the near-term volatility in spends, I think it is prudent to continue to invest in long-term growth of the company given the significant potential in front of us. We hope these investments or actually, we expect these investments would help us increase our wallet share, as well as penetrate new markets and customer segments as we look ahead.

In our Skills and Career business, the revenue for the quarter was at INR 918 million. It was up 119% on a Y-o-Y basis. On an organic basis, the growth was 29% year-on-year, driven by growth in the flagship StackRoute and TPaaS products. The StackRoute and TPaaS products grew 35% year-on-year and contributed 40% to the SNC revenue in the second quarter.

The EBITDA was at INR 25 million as compared to a loss of 47 million in the previous quarter. The business has emerged as a leading digital learning business across domains for both career seekers as well as working professionals, leveraging the strength of our brand, deep expertise and pedagogy, and the use of technology and learning. This business provides training in emerging digital technologies, a segment that is continuing to see a significant war for talent as well as high attrition levels.

We continue to see a multi-year cycle for growth and demand for skill talent across our customers, which include global system integrators, global capability centers and leading enterprises in India. Our B2C go-to-market is ramping up and helping our learners achieve strong career outcomes. Learners who join us, have been getting offers that are almost twice the average starting salaries for on-campus hires with recent starting offers as high as 10.5 lakhs per year.

In terms of balance sheet, our balance sheet metrics continue to be strong. DSOs continue to improve and are now at 46 days versus 49 days as of last quarter and 57 days a year ago. The net cash position improved marginally to INR 12,597 million versus 12,593 previous quarter. This includes the impact of annual variable compensation that gets paid in the second quarter.

As of September 30, 2022, we have 3,299 NIITians within NIIT, and this was up 59 on a quarter-on-quarter basis.

During the quarter, NIIT entered into a definitive agreement with KNOLSKAPE Solutions PTE. Ltd for an investment of US$2 million. This investment enables NIIT to bring more value to customers in the area of leadership, professional and digital skills.

In an increasingly hybrid work environment, KNOLSKAPE's platform and portfolio of AI-driven immersive simulations coupled with NIIT's managed services approach to help organizations prepare for a digital first future-ready workforce. The investment is expected to close post completion of certain CPs.

While the environment remains dynamic, the company expects the CLG business to get back to quarter-on-quarter growth starting Q3 and achieve high single-digit year-on-year growth for FY23. Margins are expected to stay at the Q2 levels in the second half of the year. For the full year, we expect the margins to be a shade below 20% for the year.

On the other hand, for the SNC business, it remains on track, and we retain our expectation of growth of 50% on a year-on-year basis for FY23. During the quarter, NIIT continued to win new customers in line with expectations, along with maintaining 100% track record. This points to the strong competitive positioning and the trust that the company enjoys with its customers, as well as strengthening of the business for the medium to long term.

Despite the near-term volatility and training consumption, the strategy and long-term opportunity of its business remains intact. NIIT continues to see a large market opportunity in both its businesses and is committed to deployment of cash, as Vijay pointed out, use the strength of its balance sheet to make further investments, profitable growth and new capabilities.

Summarizing, we continue to see large opportunity and a strong multi-year growth potential for both our businesses, a strong competitive position and the right to win in markets we operate in. Our near-term uncertainty has had a short-term impact on our financials. We expect growth in CLG to pick up in H2. The growth in SNC business remains on track. We expect to remain on track to deliver approximate or a margin of a shade below 20% for CLG and a small EBITDA profit for the SNC business for the whole year.

Thank you, and Vijay, back to you for a brief on the reorganization.

Vijay Thadani: Okay. Thanks, Sapnesh. A very quick brief on the reorganization. As mentioned in the last time, we had filed an application with NCLT. And NCLT also had the first motion hearing. And based on that, the shareholder and creditors' meeting is scheduled for November 15, for which I think the invite was sent in October and the e-voting will open from November 11 to 14.

So, the project is on schedule, and we do hope that based on this, the second motion hearing will be filed. And therefore, in one of the quarters next year, in the next financial year, we hope to complete the reorganization exercise, which is a demerger of NIIT Limited into NIIT Limited and NIIT Learning Services.

So, I'll stop here. If there are further questions, we will be very happy to answer. Other than that, we have covered all the grounds. So, now we will open it for Q&A. Operator?

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Sapnesh, you did allude to this in your opening remarks with regard to the rundown of the CLG business. The understanding was that just ought to come back in Q3. If you just flesh out the answer a little bit more, are we on full track for recovery? And secondly, we have been given to understand in the past that H2 sees impact of budget flush in terms of the clients and so keeping that flush perspective as well, how are we treating H2?

Sapnesh Lalla: So, there was a part of your question which I couldn't completely figure out, but let me try to restate what you said and see if that's what you were looking for. I think what you wanted to know was how is H2 looking and in light of the budget flush that we have had in the past, specifically in Q3, most years, is H2 looking any better than H1? Is that what your question was?

Baidik Sarkar: That's right.

Sapnesh Lalla: Okay. So, while there is a budget flush at the end of December with most of our customers, specifically most customers in North America. But this year, given the uncertainty in the environment, we are not sure whether organizations will be allowed to spend their budgets or will they be asked to return their budgets. So, from an overall perspective, I do think we will see growth on a quarter-on-quarter basis as compared to where we ended in Q2, both for Q3 as well as Q-o-Q growth as we get into Q4. But I am not sure if the impact of the typical budget flush will be as significant as we have seen in the past.

Baidik Sarkar: Sure. So, secondly, our order book has now been flat for two quarters. Is there visibility of acceleration there? And importantly, is this impact of the steep run-up in order book that we witnessed in H2 of last year? Is that already reflected in our reported revenues? Or is there a probability of some amount of scale up from last year's order book's scale up?

Sapnesh Lalla: So, our visibility, you are right, our visibility has been a little flat over the last couple of quarters. Part of it is because a lot of our renewals are pegged in our Q3, which is October, November, December, and sometimes some of them slip into January. So, that's one. And given that we have a number of renewals on deck and we expect to close those renewals in Q3, so you will see that adding to the visibility. The second is, like I pointed out, we have a very healthy and strong pipeline, and we expect to close the number of contracts in our Q3, which should also add to the visibility.

Baidik Sarkar: Sure. On the domestic Skills and Careers business, Sapnesh, while TPaaS and StackRoute have grown Y-o-Y, what explains the flattest trajectory sequentially because the domestic hiring environment in India is still very robust, right? So, if you could just throw some color on that. And importantly, we had a certain expectation of acceleration here in the years to come for FY24, FY25. Is there a reason to believe that that revenue acceleration is still on track? Or has there been a change in trajectory there? And should that acceleration happen is it fair to expect the beginning of mid-level kind of margin starting FY24, domestic skill business?

Sapnesh Lalla: So, the India business specifically is a seasonal business. So, the best way to look at it is on a Y-o-Y basis rather than on a Q-o-Q basis. We expect that the India business will return a growth of upwards of 50% for the year and continue to be robust in the coming years. But from a hiring trend perspective, it is seasonal, and therefore, the onboarding part of our business continues to be seasonal and it reflects the growth or the Q-o-Q growth reflects that. I think you had a second question about the likely profitability of this business as we go into the next year.

Baidik Sarkar: As well as the acceleration in revenues in '24, '25.

Sapnesh Lalla: And so, we expect the revenues to be on a strong trajectory going forward. We think that the India business has a long-term strength, and we are well positioned to capture a lot of that optimism, specifically as you look at the shortage of skills, the high attrition rates and so on and so forth, and the fact that we are well positioned not just in the career seeker space, but also in the working professional space. And we are continuing to make significant investments in our digital B2C go-to-market. It should also start to add to the growth potential.

In terms of profitability, like I pointed out, this year is likely to be close to breakeven or a little bit of profit for the SNC business, but we expect that that is likely to grow in the next year and from thereon. Eventually, this business should become a mid-teens to 20% profit business.

Baidik Sarkar: And are we close to hiring the requisite leadership for this business? Or is that a call you will take later on closer to the demerger?

Sapnesh Lalla: Like I had pointed out, we have a very strong operating management team, and we are considering all options from a leadership standpoint both internal and external.

Moderator: The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha: So, I was talking about expectations of margins in Q3 for CLG business. So, why are we expecting flattish margins despite the fact that salary hike impact has already baked into Q2 numbers? And you are also talking about Q-on-Q growth. So, shouldn't margins look upwards in Q3?

Sapnesh Lalla: I don't get paid salaries in Q2 alone. I get paid salaries in Q3 also. But that having been said, the softness in the macro environment and the investments that we have to create growth in spite of the softness in the macro environment will keep the margins a little flat for the next couple of quarters. But after that, we should start seeing growth in margins as well.

Shradha: And also, can you highlight the kind of investments of close to Rs. 41 million that we did? What are the strategic initiatives that we undertook? And what are the kind of results you are looking at from these initiatives?

Sapnesh Lalla: Like we pointed out, we have a mandate to make inorganic investments. You saw some of those come through in terms of a small investment in KNOLSKAPE, but we have a basket of such initiatives going on. And some of those initiatives are requiring external help against which we are spending.

Shradha: And sir, in your Skills and Career segment, if I look at -

Sapnesh Lalla: I was saying that as soon as some of these initiatives come close to maturity, of course, you will get to know.

Shradha: Sure. And sir, on your Skills and Career business segment, if I look at the revenue excluding RPS, that number shows decline both from a Q-on-Q and a Y-o-Y perspective. So, any comments there?

Sapnesh Lalla: I think it showed a growth of 29% from an SNC organic business perspective, and that is on a higher base. So, I think that business continues to have strong potential. And like I had pointed out, we are investing, continuing to invest in our NIIT digital go-to-market, and we expect these investments to start aiding growth as we look ahead.

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

Siddharth Basi: Firstly, congratulations on the numbers. One was a little worried when one read the mid-quarter update. But I think in a tough business environment, we have done a good job. And I am rather pleased with our management that, you know, we are able to wait through such difficult times with such finesse. So, firstly, congratulations on that.

Sapnesh Lalla: Well, thank you. I appreciate your kindness.

Siddharth Basi: So, my first question would be with regard to, you know, this is like dichotomy that I am not able to understand. So, whenever the Federal Reserve Chairman speaks, he talks about a tight labor market. He talks about the fact that there are enough people still employed in the labor force. The hiring is still strong. In such an environment, then shouldn't our growth actually be higher because while more people are being onboarded in the U.S. economy in jobs, therefore, they would still need training. So, why is it that we are feeling a sort of lack of growth in the CLG side of things because the U.S. for all intents and purposes, the labor market in the U.S. is very tight, and there are more and more job additions happening on a week-on-week, Q-on-Q basis, I understand RECO is a one off events which has impacted margins, but I am talking generically in terms of the U.S. job market. And then I will just ask a few questions after this one, please.

Sapnesh Lalla: I think, it's a very good question. I think, there are two forces that are at play, but each is playing off of other. While the labor market is very tight, but that specifically, the tightness in the labor market means wages are higher and wages are higher and therefore, inflation is higher. And therefore, the Fed is trying to pull the economy back by raising the interest rates. And what that just doing is telling most large organizations that recession is just around the corner.

Now for recession to hit, the unemployment rate will have to move from the current unemployment rate of about 3.5%, 3.6% to about 5%. And so given what Mr. Powell has said that he would continue to tighten the supply of money till there is control on inflation because inflation going out of control would mean much worse for the economy as compared to a recession.

So, most corporations are expecting a recession. And when they are expecting a recession, that's creating uncertainty, and therefore, they are curtailing expenses, which are discretionary in nature, as well as capital expenses. So, that's what causing the expense on training to be compressed. I know I tried to connect a number of economic factors, but I hope I have made some sense.

Siddharth Basi: So, then my next question is like yesterday, everyone saw the numbers of Facebook, Google, Microsoft, Amazon, their prices collapsing as well in the market in the U.S. So, if these companies are already playing for recession, would there be a certain sanctity to the guidance that you are providing now that even if recession hits, we at NIIT should be able to hold these margins and these revenue growth even if there is a recession in the U.S. because as you said, we are already feeling the impact of the recession because it's already there in the company's mind. So, once the news comes out, it almost becomes like a buy the rumor, sell a new sort of a thing. So, is there a sanctity to our guidance then that, you know, even if the U.S. does go into recession, we should be able to maintain the EBITDA in CLG right now and our SNC growth? Or then would they be subject to downward revision again?

Sapnesh Lalla: See, no, I don't think anyone can guarantee anything. But what we are seeing, we just, like I pointed out, we just had our annual customer event. We are seeing a very strong endorsement from all of our customers and their desire to continue to work with us. Nobody can guarantee how much training they will consume, but what they are saying is they will continue to work with us. That's one.

Second, and currently, their training consumption which had gone up a little bit in the previous fiscal year has gone back down to COVID level. So, we expect that the uncertainty ahead of us is not a hell of a lot more than the uncertainty that was there during COVID. So, we expect that the consumption would be approximately what it was during the COVID time. It will take a little bit of time to get back to pre-COVID levels, but it should not drop below the COVID levels. That's one.

Second, during these last few years, we have had high velocity in customer acquisition. And we are expecting to continue to increase that velocity of customer acquisition. So, that should add to or that should create a growth momentum for us, that while the customers are going to spend less than we had expected them to spend, but they will still spend at, say, COVID levels and therefore, will result in the step function growth. So, that's the thesis that we have used to come up with our numbers. Again, like I pointed out, these are projections and the fact that they're projections means that they are based on a reasonably robust set of criteria. Of course, in an uncertain market, the criteria can change.

Siddharth Basi: So, my third question would now be towards the India business. Since the Indian economy is doing recently well, are we seeing further acceleration even say, with respect to our acquisitions?

Like, for example, we had the EdTech Summit at the NIIT University, and we had some great speakers speak. And so there were two things I wanted to ask. Mr. Pawar there mentioned the 80-20 rule, where he was talking about 80% gross margin and 20% cost on advertising and other expenses. So, are our acquisitions going to be like that? Or are we even willing to do some companies which are loss-making at the moment, but we are still looking at them from the point of view of acquisition?

Secondly, Mr. Sanjeev Bikhchandani was also there, and he has been known to acquire a lot of things. Now I am assuming there is a close relationship with management. So, are we, therefore, also looking at just putting in money like a sort of a private equity EdTech firm where we using our network can accelerate these companies that we invest in thereby getting higher valuations and selling them off? So, having a double play of our core business, plus maybe some EdTech acquisitions using this sort of a mindset in mind where we are looking to accelerate using our network and thereby creating shareholder value.

Sapnesh Lalla: I think you said many things that could formulate a reasonably complex strategy for acquisitions for a company our size. But what I would say to you is that our inorganic strategy is focused around profitable growth. We will invest in organizations that are and have potential for profitable growth both in the United States as well as in India.

Siddharth Basi: Sir, is there any acquisition which is like at the moment, which we are looking to close within, say, this quarter or the next? Or that would be hard to comment on? And secondly, sir, what is the impact of dollar appreciation on our EBITDA because see, dollar has gone up to 82. So, in this quarter, are we seeing tailwinds to our EBITDA margins because it's already one month, so this quarter is also over. So, how are you seeing that impact?

Sapnesh Lalla: So, I think you have two questions. One was for me to comment on acquisitions that might happen with respect to timing. I certainly want to stay out of jail. So, I will let you know about it once it's happened.

Then you had a second question with respect to impact of foreign exchange. We have had some impact of foreign exchange on our revenues. We had an impact of 4% of foreign exchange on the revenues. However, given that euro and GBP has been down, the impact on profitability has not been very rapid.

Siddharth Basi: Thank you so much, sir. All the best for the future. And hopefully, we will be again having a conversation in better global, globally better times. Thank you so much.

Sapnesh Lalla: Sounds good. Thank you. And again, thanks for your kind words.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: So, most of my questions have been answered, and the management did a wonderful job at answering all the detailed questions. So, my question was a bit more about our long-term approach. So, what as I see at in these uncertain times we are investing and purely making a very good foundational base. So, what do we see, what is our aim for maybe next 3 years FY25 or something that we could share so that, you know, we can get a good favor of our long term? Because I think we will be able to achieve a lot of good growth when the environment is in our favor.

Sapnesh Lalla: You are very right. I think two quarters ago, we created a goal for ourselves for the CLG business to reach $450 million by FY27 and a 5-year plan for the SNC business to hit 1,200 crores. And we are staying true to that plan. While I know that the soft macroeconomic situation is not going to allow us to achieve as much organically as we had expected, but the strong balance sheet that we have, we will use that balance sheet strength to be able to achieve that growth.

Vijay Thadani: Just in the interest of time, we are at 4:10, and I think there are a number of people asking questions. Just if you can request everybody to keep their questions brief and maybe maximum two questions at a time and we can have another round.

Moderator: Thank you. We will take the next question from the line of Nemish Shah from Emkay Investment Managers.

Nemish Shah: So, I just wanted to understand the sequential dip in the CLG business that we are seeing. Will that be primarily attributable to the large client that you called out in your opening remarks or?

Sapnesh Lalla: Mostly right, that's exactly how we have guided. But there is some compression with our existing customers also. So, it's a combination of a significant compression in a large customer and some compression with our existing customers owing to the current economic situation.

Nemish Shah: So, ex of that large customer also, there would have been some decline on a substantial basis. Is that understanding correct?

Sapnesh Lalla: No. I think, like I pointed out, we saw compression in some of our existing customers. We saw a significant compression in one customer, as we have pointed out. And that's really the core to the Q-o-Q decline

Nemish Shah: And I just wanted to understand the guidance that's the sequential Q-on-Q growth that you guided for in the coming two quarters, does that include any inorganic acquisition as well? Or it is from the current business?

Sapnesh Lalla: No, this is organic.

Moderator: Thank you. The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Just one thing. The client addition has been very strong for us. Is there some metrics or, you know, if you can share ex of the ramp down of a large account, how the growth has been? And I mean, the majority of last 12 months addition in the customers, how could, I mean, if you can share something about how these clients will ramp up? And is there is some slowness in the ramp-up of these accounts given the macroeconomic situation?

Sapnesh Lalla: So, I think like you pointed out, we have had strong new contract additions. The velocity is good. We have been adding at about three new customers each quarter. Like I pointed out, answering the question of a previous caller, while we had significant compression with one of our customers, we did see a number of our other customers hitting COVID levels, which had improved in the previous year.

So, a number of customers had increased their consumption in FY22, but they are trending towards COVID levels of training consumption given the uncertainty and deferment and avoidance with respect to discretionary expenses.

The new customers that we have added are starting to contribute. It often takes about 5 to 6 months for a new customer to get to a material level. And for example, currently, we had three customers who are in transition, and we expect to see those customers to start contributing to our top line and bottom line starting Q3.

Sameer Dosani: Understood. So, two follow-ups here. One is, is there some slowness in the ramp-up for the new customers? One is that. And second, Yes, I think, for now that's it.

Sapnesh Lalla: I won't say there is a slowness in ramping up. Like I pointed out, it often takes 3 to 6 months for the customer to transition their work to NIIT, and I think we are seeing that side.

Sameer Dosani: And the other follow-up was, I mean, obviously, we are confident that ramp down from the COVID level won't happen, right? That's our understanding. Right? And is there some risk to that assumption of ours? How do you see that?

Sapnesh Lalla: It's hard to tell. COVID was unprecedented, and what at least I am able to see doesn't seem to be unprecedented. COVID saw unemployment levels become very significant. We are not seeing that. So, I think while there is uncertainty, we don't see the environment anywhere close to being as similar to COVID levels.

Sameer Dosani: So, there can be some more pressure now given, I mean, the situation is evolving, right? So, do we expect this to happen? You already have seen volumes going down for some of our customers.

Sapnesh Lalla: I didn't follow your question.

Sameer Dosani: So, I am saying FY22 has seen some recovery in terms of volumes from COVID. Now all these customers are again adding back to COVID levels. We are reducing volumes, right? So, do you think there is more to come in terms of decrease in volumes? That's it.

Sapnesh Lalla: No. Like I pointed out, see, when people see uncertainty, they pull back. But when they see continued similar situation, they will start releasing because they have to run their business as well. So, we are seeing a little bit of jerkiness in response, which is human, but as organizations start looking at the future and say, okay, this is reality, what are we going to do, they will start increasing their spend on training.

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

Aman Shah: Sir, just wanted to know the acquisition of KNOLSKAPE that we did. It appears like we will be acquiring 5.88% in that. What is our nature of investment in this company? It does not look to be strategic given the small stake that we have post conversion. So, is it more of a financial investment? Or how are we going to use this as a synergistic way to our growth?

And second is on the consideration that we gave for this company. Based on trailing revenue, it appears like 7x of sales multiple that we would pay. So, is that like a fast growth rate that we are seeing on sales that that's why we had this consideration paid off?

Sapnesh Lalla: So, I would want to point out first that it's not an acquisition. It is a strategic investment. Second, it is a fast-growth company. Third, their products have synergy with the way our customers consume training. They are simulation oriented. It gives us the ability to bring their portfolio of products and combine that portfolio with our managed services way of offering training in a managed training services form. So, it is synergistic, and that's the reason for the investment.

Aman Shah: And sir, the second was on this MTS customer. Last year that we had 16 customer additions to our MTS end. H1, we already have around 7 customer additions. Is there some visibility of the -- we will have a growth in the total addition of MTS customers in FY23? Would you think of some visibility is there?

Sapnesh Lalla: Yes, we have a very strong pipeline, and I think we will be ahead of the numbers that we did in the previous year.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: So, this is more of a bookkeeping question. You have 3,300 staff. So, what would be the approximate breakup of the staff, I mean, in terms of what kind of work they are doing?

Sapnesh Lalla: We are a training company. So, our staff includes people who create training materials, people who deliver training, which is instructors, and people who administer and manage training programs. That's really a large majority of our staff.

Jay Daniel: And sales and marketing would be?

Sapnesh Lalla: Yes. I mean, sales and marketing is a much smaller percentage. But the large bulk of our staff are around creation of training materials, delivering of training and management of, large scale management offering.

Jay Daniel: Because your physical infrastructure has closed down. So, I was just wondering, I mean, why do you require so many people?

Sapnesh Lalla: Because we create and deliver a lot of training. We are among the top 5 provider of managed training services in the world.

Jay Daniel: And this project retailer, if I were to look at your block professional and technical outsourcing expenses around 75 crores, and they have gone up quite substantially on a year-on-year basis. So, is this completely variable in nature? Or how do we look at these costs?

Sapnesh Lalla: Yes, these are variable in nature.

Jay Daniel: Because it's gone up more than revenue. That's why, I mean, your revenue growth has not been to the extent of increase in this cost.

Sapnesh Lalla: Yes, we have increased variability.

Moderator: Thank you. The next question is from the line of Sameer Dosani from ICICI Prudential AMC.

Sameer Dosani: Just one clarification. So, we have already pointed out that our CLG business is more towards the regulatory side of the service. So, hiring freeze by a lot of these companies globally, is that impacting us? Will that affect us? Or how should we look at it?

Sapnesh Lalla: Here's how I would say it. About 35% of our business comes from technology and telecom companies. And the hiring freezes are predominantly or at least what we have heard so far are predominantly from the tech sector in the United States. And a lot of what we do is to teach technical skills to employees of tech companies or telecom companies. And if they hire less, then it does impact consumption of training.

Sameer Dosani: And I mean, I don't know whether we can do it or not, but can you discuss, I mean, if you can just break down what part would be the reskilling part and what would be the hiring part? Is there something that we should look? Or is it like overall, it will impact on an overall level?

Sapnesh Lalla: I think it impacts on an overall level. Whenever someone joins a company, they get onboarded. That's the first training that they get. And then, I mean, the more employees you have, the more training you will consume.

Sameer Dosani: And overall, I think there is a trend of moving from customized training to off-the-shelf training. If you can speak about how that trend is playing out? And will that trend actually accelerate or deaccelerate during uncertain macro? If you can just throw some light around that, thanks.

Sapnesh Lalla: Actually, I would say the trend in high-performing organizations is the reverse of what we just said. The large, high-performance companies try to consume training that is designed for them because that's significantly more efficient and effective for them. And most of our customers are of the size that they can afford to go to customized training programs, given their size and scale.

So, we are seeing a trend amongst high-performing organizations who are consuming more customized training programs. And we think that that trend is likely to accelerate and become adopted more widely.

Sameer Dosani: Understood. And lastly, if you can just throw some light on competition because the number of clients that you are acquiring, and I assume these are big clients, right, the Fortune 1000, Fortune 2000 clients. For a company of our size, how is the competition faring? Is there some struggle? Are we struggling with the volatility in the business? And how are these winning businesses? Because the number of client additions that you've done is very good.

Sapnesh Lalla: At least my read of competition is that we are ahead of the pack.

Vijay Thadani: From declared results of whatever competition we know, we are ahead of the pack.

Sapnesh Lalla: Yes, ahead of the pack.

Vijay Thadani: Our win rates also a number of times we bid, a number of times we win, I think better than this pack.

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

Rahul Jain: Just wanted to understand the way our guidance and performance have played out over last several quarters. We were kind of very conservative in the previous fiscal while we continue to do better both on growth and margin. And now it's kind of with worsening macro moving in the other direction where we are cutting back to that in terms of guidance for growth and margin. So, now when we read your outlook at this point, it's kind of becoming a little confusing from the sense that we were very conservative, and now it seems like we were underestimating the pain. So, in those light, you know, what could be the stand? Is it like now we are far more conservative now in our thought process given that macros are very, very uncertain? Or this is just simple plain vanilla, what is the best visibility you have right now is what you are saying?

Sapnesh Lalla: Look, our goal is to be as transparent as we can be with you. Our goal is not to misguide you. So, you should look at it as a projection that we see is viable.

Rahul Jain: And in terms of the growth and profitability of the CLG business, is there any way that you could say that okay, now with the kind of the business growth and the kind of a cost base and also the mix of virtual versus on-site delivery of the training, what are the ideal growth rate on profitability that one should anticipate in this business on a more structural basis? Even if you give a band, I think that is also okay.

Sapnesh Lalla: See, I think from a mid-term, long-term perspective, this business is a 2020 business, like I have said. Of course, there is uncertainty in the market, and that's creating uncertainty in our forecast and a little bit of choppiness. But I think from an overall perspective, this is a 2020 business. I have said this many times. even when we were growing at 35%, I said the same thing from a long-term perspective, it is a 2020 business.

Rahul Jain: So, basically, like 3 to 5 years CAGR basis, 2020 is an achievable number for this band of the business. And just quickly if I could squeeze in one more, in terms of the new customer addition, which has been quite consistent for us while we are seeing some softness in existing customers in terms of consumption of the payment, so is there any way you are reading that in terms of your net new and existing new deal and also some net, like what is the behavior reading that you can take out? Is it like people want to outsource and those are the customers that are giving you this new opportunity while existing customers, they may have pressure at their own business level is where we are seeing the pain? Is there any clear readout out of the customer's behavior based on the interaction and also in terms of what kind of business they are asking you for?

Sapnesh Lalla: Look, I have been in this business for the last three recessions. And every time there is a recession the outsourcing trend improves. We have seen it the last three times, and we expect to see the same thing. Now this time around, our velocity of customer acquisition actually has been high through the recession, and I expect it to continue to be high because we have continuously made accelerating investments or disproportionate investments in sales and marketing, which we will continue to make.

Second, our position in the market has improved successively as well. So, we expect to continue to increase the velocity of customer acquisition. But like you pointed out, I would echo what you said that as organizations start seeing a recessionary trend, they pulled out, they go towards outsourcing as a method of transforming themselves.

Rahul Jain: So, we may see a pent-up. We can potentially see a pent-up like we just saw just after the COVID that is a possibility given the situation you are sensing?

Sapnesh Lalla: Yes, we will see an outsourcing activity.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Vijay Thadani: If there are no more questions, thank you very much for your time and all the questions that you asked. As I have mentioned before, each of your questions give us an opportunity to think. So, these are very educated sessions for us. And certainly, we take your suggestions as well as comments very seriously.

Sapnesh alluded to that, said it clearly, I am repeating it. Our purpose is to give you a lay of the land as we see it. And there are uncertainties in the environment. Within that uncertainty for us to be able to say what we want to say is based on facts and figures that are available to us. Can these facts and figures change over a period of time? They can, nothing, but we will keep you informed. We do have the benefit of getting to understand it a little faster than you get to now. So, to that extent, we will remain very transparent with you. But at this point of time, we do believe that quarter-on-quarter growth will be possible in CLG as we go forward, and SNC is on a strong track.

So, on this happy end, of course, we will continue to look for inorganic opportunities. We have put some substantially more effort in recent times as well. And hopefully, those will give some results. So, on this note, I thank you once again, and we look forward to speaking to you either one-on-one or on other forum. Thank you.

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