



“NIIT Learning Systems Limited  
Q2 FY '25 Earnings Conference Call”  
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**MANAGEMENT: MR. VIJAY THADANI – MANAGING DIRECTOR AND VICE CHAIRMAN**  
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**Moderator:** Ladies and gentlemen, good day and welcome to the NIIT Learning Systems Limited Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vijay Thadani, Vice-Chairman and MD. Thank you and over to you, sir.

**Vijay Thadani:** Thank you. Good afternoon, everyone who's been able to join this call. Truly appreciate your joining us in this busy results season and also thank you for your continuing interest in NIIT Learning Systems Limited. We want to cover today an update on our second quarter of the financial year ending in March '25. The second quarter from July to September, performance of the company as well as the outlook for the business as we go forward.

As a backdrop, I would only make one statement and then I'll hand it over to my colleague, Sapnesh. It's a very interesting situation where the economic indicators are all showing positivity but the sentiments with our customers are on a weaker side and I think some of that has impacted our performance in this quarter as well. So, we'll talk more about that.

I have with me Mr. R S Pawar, the Chairman of the company, Sapnesh Lalla, the CEO, Sanjay Mal, who's the CFO and other members, senior members from our finance and Kapil Saurabh who looks after Investor Relations and M&A activity. They are joining us and we'll all be hopefully be able to answer most of your questions. Without further ado, I would like to hand you over to Sapnesh Lalla for an initial briefing and then we can get into Q&A.

**Sapnesh Lalla:** Thanks Vijay and thanks everyone for joining. In our prepared comments, I will review the financial numbers representing the performance for the second quarter as well as provide color on our expectations going forward. Our revenue stood at INR3,974 million. It was up 4% year-on-year. It was up 4% year-on-year in constant currency terms as well.

The revenue, however, was down 2% quarter-on-quarter. The second quarter generally sees low volume compared to Q1. We are a training business and that tends to be a full contact sport. The holiday period in Europe results into lower training activity and volumes.

While we expected to see sequential growth in the second quarter in spite of the summer vacations that several of our European customers face, we did expect sequential growth in Q2 this year driven by addition of new customers as well as ramp up of customers that we had already acquired. We had also started seeing some green shoots and that's the reason why we thought that we will see a quarter-on-quarter growth in Q2 when we completed Q1. However, as I mentioned earlier, our revenue on a quarter-on-quarter basis is down 2%.

While the business continues to see strong customer additions as well as marginal pickup in a few sectors, the fact is that we saw robust improvement in revenue visibility. We added two new



customers this quarter. However, the volume is down quarter-on-quarter primarily due to lower-than-expected spending by management, consulting and professional services firms who are some of our large customers as well as lower volume in the North American real estate business.

We continue to expect acceleration in the second half of this year on a sequential basis due to new customer additions including the impact of a large customer ramp up where we acquired that customer in the previous quarter. The year-on-year acceleration, however, is now expected to be pushed by a quarter. So, what we were expecting to start in Q2 is likely to start in Q3 and gather pace in Q4.

Our EBITDA was at 936 million. It was up 3% year-on-year and down 9%. EBITDA margin was at 24%. It was down 27 basis points year-on-year. Please note that the wage increments this year were effective July 1st as compared to being effective 1st of October last year. The impact of these increments and impact of lower revenue was partially compensated by continuing improvement and productivity as we saw this past quarter.

The depreciation was INR153 million. The net other expenses were 38 million versus 72 million in the last quarter and 66 million in the same quarter last year. Treasury-related income was 117 million versus 82 million last quarter.

Acquisition-related expenses were 91 million versus 88 million last quarter. Demerger-related non-operating and transitional expenses were at 7 million. Other expenses of 57 million including a loss, foreign exchange loss of 40 million and net other miscellaneous expenses of 17 million. This is as compared to 53 million in the previous quarter. Tax was at 175 million.

The effective tax rate has been higher than normal for the company as consolidated P&L includes impact of certain notional P&L charges not admissible to tax. However, the tax rate was lower in Q2 due to reduction in long-term capital gains taxes on income from debt mutual funds. We expect the tax rate for the full year to be around 27% to 28%.

The PAT for Q2 was INR570 million. It was up 22% year-on-year versus INR469 million in Q2 last year. The EPS is at 4.2 per share versus 3.5 in Q2 last year, up 21% year-on-year. Over the last two years, as we have mentioned in the past, the business has been resilient in the face of heightened uncertainty. And while we expected the uncertainty to start settling down, it has not settled down as yet. While we face significant uncertainty, the business has improved margins.

The growth predominantly has been driven by ramp-up of new customers and improving wallet share from existing customers. Even as consumption continues to compress, and this quarter we saw sharp compression across management consulting and professional services firms, we are seeing some green shoots in select customers. Banking and life sciences are leading year-on-year growth, while tech as a segment is starting to see recovery for us.

As we have discussed, the company is continuing to create new outsourcing opportunities driven by investments in new capabilities. However, continuing uncertainty and therefore pressure to cut costs across industries is coming in the way of growth. During the quarter, we added two new MTS customers, one a top five FMCG leader and the second a top ten energy company.



In addition, we renewed four contracts and we had one scope expansion. The company continues to maintain a track record of 100% renewals, reflecting continuous improvement in our long-term competitive position. Our visibility stood at USD 368 million.

This was up from USD 350 million previous quarter. The number of MTS customers now is at 91. While our customers have seen a disproportionate focus on costs and that is resulting in lower consumption with our existing customers, this disproportionate focus on costs is starting to create an acceleration in outsourcing opportunities for us. With our investments in sales and marketing and consulting and advisory services and a reputation as a trusted and reliable market leader, we believe we have an opportunity to gain a larger share of the upcoming opportunities and to accelerate growth.

The deal pipeline continues to be strong, including large outsourcing deals across different market segments, including technology, professional services, automotive, among others. The business continues to win a significant number of awards. We earned 63 Brandon Hall Awards, along with our customers, including 31 Gold Awards.

NIIT MTS was accredited Gold Standard for the ninth consecutive year by the Learning and Performance Institute, and it was named to the training industry's top 20 experiential learning companies for the fourth consecutive year. The balance sheet and cash flow metrics remain strong. DSO stood at 50 days as compared to 55 days last quarter and 46 last year.

Cash at INR7,370 million, and do note that we paid out the dividend and annual variable compensation during this past quarter. The capex for the quarter was at INR118 million. The cash flows continue to remain strong, free cash flow of 3,078 million over the last 12 months.

The company ended Q2 with 2,323 employees. This was down 35 quarter on quarter and down 145 year-on-year. As has been our trend, we continue to make disproportionate investments in creating new capabilities and in sales and marketing, continue to invest in use of generative AI as it gains prominence in our customer conversations through, even though there is still hesitancy to adopt AI based learning solutions enterprise wide.

We continue to make rapid progress in leveraging AI across multiple aspects of our work, both to gain productivity improvements as well as to make more effective learning solutions for us. In projects and work streams where we are using AI, we are becoming significantly more ambitious in terms of learning outcomes for our customers, and are also starting to see meaningful improvement in efficiency. I would like to reiterate that rapid transformation in the industries we serve, going through digital transformation, decarbonization, acceleration in biopharma, as well as AI, present a significant opportunity for us.

We see a number of organizations transforming and restructuring to improve their cost structure and achieve higher variability in their cost structure. We are starting to see acceleration in outsourcing opportunities going to this trend, and feel that we are uniquely positioned to take advantage of these and continue to lead the industry in terms of growth and profitability, specifically as some of our competitors are distracted at this time. We also have an active

pipeline of inorganic opportunities that we are pursuing, and we'll report more on this as we move forward with any of them.

We continue to see robust contract pipeline and ramp up in new customers. However, our revenue this quarter is lower than expected, primarily due to reduction in consumption levels in the management, consulting, and professional services segment, as well as the real estate business in North America. As a result, while we expect strong sequential Q-o-Q growth in Q3 and Q4 on the back of new customer ramp ups, including ramp up of a large deal that we signed in Q1, our Y-o-Y acceleration is delayed by a quarter.

Consequently, for the full year, we expect to grow at 7% plus in constant currency terms, versus an earlier expectation of growing between 12% and 14% on a year-on-year basis. The margins are expected to be at the higher end of the guided range of 22% to 24% for the full year. With that, I did want to close by saying that if you look across most of our business metrics, we continue to be executing robustly.

We've seen a small hiccup given the environment, and we expect that we will be able to get past this hiccup as new customer ramp ups start to take momentum. Thanks, and back to you, Vijay.

**Vijay Thadani:** Thank you, Sapnesh. I, at this point of time, have nothing to add. I wanted to give maximum time for everybody to ask questions. So, operator, can you please open it up for Q&A?

**Moderator:** Sure. Thank you very much. We will now begin the question and answer session. The first question is from Pranay Roop Chatterjee from Burman Capital. Please go ahead.

**Pranay Roop Chatterjee:** Great. Thanks for giving me the opportunity. My first question is on the headcount. Usually, given you're an employee driven organization, usually in similar businesses, we track the headcount to understand the traction or immediate short-term traction. But what I've been noticing over the last 3, 4 quarters is that the revenue per employee, if at all that metric makes sense, is actually going up because your revenue is increasing gradually quarter-on-quarter, but your employees are going down. So I just want to understand this in a two-fold manner?

One, why is it going down? Are you trying to optimize your business? And hence, it will remain at a lower level versus before, and eventually there will come a time when the headcount will start increasing in line with revenue? Or how should we look at the headcount figure vis-a-vis your revenues?

**Sapnesh Lalla:** So we are a technology enabled business, and we have continued to increase our investment in technologies that improve growth, the efficiency of what we do as well as effectiveness of how we teach. And in line with that, given that our growth has been marginal or mid-single digits or so, it is logical to see year-on-year reduction in the overall number of employees. Like you pointed out, as we see improvements in productivity, our revenue per FTE or revenue per employee starts to go up.

**Pranay Roop Chatterjee:** So my question was more around then eventually when things normalize, and let's say you see growth coming back in Q4, would this headcount then start increasing in tandem with revenue?

Or how should we look out for the headcount number as a key KPI? Because right now it's not in tandem, right? And hence the question.

**Sapnesh Lalla:** Yes, I mean, we will continue to make investments to improve efficiency. However, as we get into double-digit growth, we will see some improvement or some increase in overall headcount as well.

**Vijay Thadani:** Continuation of that, you should not consider headcount as a lead indicator for short-term performance improvement because there are many forces at work.

**Pranay Roop Chatterjee:** My second question is on your sector-wide performance. So there has been an uptick in BFSI and Tech and Telecom on a quarter-on-quarter basis. Tech and Telecom. So my question is, is this a trend more like a one-off or is this going to continue because of ramp-up that is already happening specific to these two sectors? And hence linked to this, you had mentioned that you expect second half to accelerate. So if I look at last year's trend, Q2 was a weak quarter, and then Q3 and Q4 saw about 2% quarter-on-quarter growth?

So if we have a similar 2% quarter-on-quarter growth this year, then we'll end up FY'25 with about 5% growth. So is this a fair number to deal with or do you expect it to be faster for some reason? Just your thoughts on the same.

**Sapnesh Lalla:** So you asked a number of questions. So if I miss any, do remind me. But first on growth, we expect our...

**Moderator:** Participants, please stay connected while we wait for the management to join back.

**Sapnesh Lalla:** It looks like we got disconnected. And I'm not sure when we got disconnected. But the person who was asking...

**Pranay Roop Chatterjee:** I asked the question and you said I had multiple questions. So there we got disconnected.

**Sapnesh Lalla:** All right. So let me repeat my answers. I think the first part was about growth in the second half of the year. We expect that for the whole year, we will deliver growth of 7%-plus. And for the third quarter, that growth would be about mid-single digits on a Y-o-Y basis. And that would accelerate to double-digit growth on a Y-o-Y basis in Q4.

I think your second question was related to how are we looking at BFSI as well as tech as a vertical. So for tech, we had seen compression over the last 2 or 3 quarters. And now we are starting to see recovery. And we believe that this recovery will catch momentum over the next couple of quarters. BFSI has been strong for us over the last few quarters on the back of ramp-ups with our existing customers as well as addition of new customers. We have a strong pipeline of new additions in BFSI. And we expect the momentum to continue in BFSI.

**Pranay Roop Chatterjee:** Thank you, sir. I'll get back in the queue.

**Moderator:** Thank you. Next question is from Siddhant Dand from Goodwill. Please go ahead.



**Siddhant Dand:** Yes, hi. I was just saying that our cash flows have remained very good. That's the nature of the business. There's been a cash pile-up. So could we understand why the dividend rate continues to be so low? And just like other IT companies, why don't we have a higher dividend rate? Because we anyways have cash flows for acquisitions. And we have a large bank balance.

**Sapnesh Lalla:** Sorry, what was the question? The question is about dividends. The cash flows have been strong.

**Siddhant Dand:** Or just shareholder payout in general?

**Vijay Thadani:** So I think I mentioned this before. That as a company, what we believe is that the company should have a consistent dividend-paying policy. Which means it should pay dividend consistently irrespective of ups and downs in the business. Because many of our shareholders would like to see a consistent increase in this dividend income. And typically we don't have wide swings. Unless there is a wide swing in the fortunes of the company itself. And in line with that is the way we have been giving dividends.

Now the strong cash that we have in the balance sheet, we have had in the past done buybacks and distributed money to the shareholders. But this time this cash which we are having and are creating is meant for the future expansion as well as the inorganic activity that is underway. Of course we haven't announced anything after St. Charles. St. Charles was the last acquisition.

But we are on record in the past to have it said that we expect to make a number of acquisitions in the next 3 or 4 years. Of course the timing of that can only be decided on the basis of when the deal gets finalized. Even right now we are in conversation. And therefore some of this money will definitely get utilized. So, I think we are deploying our capital in line with our stated objective.

The second thing which I would like to say there is a great opportunity facing the learning industry because of the way learning is going to get transformed with introduction of AI and generative AI. And I think this is an area where the company has already taken a very strong position. Internally I call it the pole position when we compare ourselves with our contemporaries.

And we think that this is a significant area of investment which the company will make. The results will not commensurate immediately with the investment that we make. And to that extent there will be a dent on the cash flows. I think these are the two events for which we are preparing. And I think both of them will serve the company and the shareholders very well.

**Sapnesh Lalla:** One other thing I might add Vijay is that most of our customers tend to be the top five or ten of their categories. And when they look at choosing a partner, they like to work with partners who have strong balance sheets. So having a strong balance sheet is certainly a plus when we are in a competitive situation.

**Siddhant Dand:** One more question. In the exceptional items there is legal, professional and other strategic initiative expense. So is it the M&A expenses that we are working on acquisitions and finding those?

**Vijay Thadani:** Yes, so I think as we continue to scan around and prepare strategies for inorganic activity we do spend money on getting the right advice and doing the right study. And I think that is an expense which is getting incurred as we speak. And if you notice it was there last quarter.

**Siddhant Dand:** So would you say this is one time in nature or would be repetitive for a few quarters?

**Vijay Thadani:** I mean you get a study done or you get some research done it has a starting point, it has an ending point. And it's not only for inorganic, it's also for organic growth. So these are a number of studies that you continue to do.

**Siddhant Dand:** Okay, perfect. Thank you. Thank you.

**Moderator:** Thank you. The next question is from Jinal Seth from Auriga Capital Advisors. Please go ahead.

**Jinal Seth:** So, the first question is that, when you set your expectations through guidance of growth what were the key indicators or the interactions with clients which base your growth of guidance on? And I'm asking this because we have cut guidance by half. So going forward, how confident are you that this guidance will be delivered?

**Sapnesh Lalla:** As you might expect, we do have conversations with customers. We have conversations with customers often. However, the level of uncertainty across some of our customers ended up being higher than what we had expected. Some of our professional services firms have their year end in the May-June time frame. We expected their new budgets to open up. So we did have indication that the new budgets would be down 10% to 15%.

However, as they opened up, they opened up a little bit late. But more importantly, they were down more than what they had indicated earlier. Maybe they're keeping it for the later quarters. But what opened up was lower than the 10% to 15% down expectation that we had received.

Second, like I pointed out earlier, our North American real estate business was hurt by not enough in terms of lowering of interest rates. And the real estate market continues to be tough. And given that, we did not see the bump up that we were expecting to see post the July holiday in Canada.

**Jinal Seth:** Okay, and in just a continuation for my second question, is that over the next three to four year framework, what growth trends do you believe that this business model can deliver assuming normalization of the environment?

**Vijay Thadani:** I would say two things. The typical growth trends that we can expect are in the 20% range. Those are growth trends that we have seen in the past. And I think we are able to generate those same growth trends going forward as well. There is, however, an area that I wanted to mention and focus on. Specifically, whenever markets go through deepening uncertainty, there is significant



pressure on cost. And the compression in spends that you saw that have affected this quarter were a product of that.

But what we also see is that that same pressure on cost and desire to transform to a lower cost basis as well as increase variability results into acceleration and outsourcing. And we are starting to see this phenomena. Our pipeline is stronger than it has been. We are also starting to see multiple large opportunities in our pipeline, which we have not seen in the past. In the past, we have seen one or two large opportunities in the pipeline. At this point, we have multiple.

And I think it's because of the sustained uncertainty in the market and the desire to take cost out and achieve higher variability. I think given our market position, we are positioned very well to gain a large share of these opportunities. And that has the potential of accelerating our growth rates over the next couple of years. And then those growth rates will continue to normalize towards 20%. Just to clarify, when you mentioned 20%, you're talking about organic?

**Jinal Seth:** Yes. Okay, thank you and good luck.

**Moderator:** The next question is from Ganesh Shetty. He's an individual investor. Please go ahead.

**Ganesh Shetty:** Just have one question regarding our new energy initiatives and any client acquisition in this field and how this particular sector is progressing as it is a new one. Can you please explain? Thank you very much.

**Sapnesh Lalla:** I'll reiterate the question that Ganesh asked. He wanted to know the progress in the new energy or renewable energy sector. It's been about a year since we made a minority investment in an entity called InnoEnergy, who is a significant investor in renewable energy companies in Europe.

We believe that we have a strong partnership with them. Through them, we are able to get into large opportunities that can help us acquire new and large customers. In the last 1 year, we've been able to acquire one significant-sized customer through that relationship, and we expect that we will be able to add more customers through the relationship that we built with InnoEnergy.

**Ganesh Shetty:** Thank you very much, sir. All the best.

**Moderator:** Thank you. Next question is from Raaj from Arjav Partners. Please go ahead.

**Raaj:** I just skipped a part on the guidance which you gave. So for FY '25, are we expected to grow around 12% to 14% range? Am I right?

**Sapnesh Lalla:** Our initial guidance when we started FY '25 was to expect a growth of 12% to 14% year-on-year. We have revised that guidance to 7%-plus at this time.

**Raaj:** All right. And for FY '26 onward, you are expecting around 20% growth for the next 3 to 4 years on a CAGR basis?

**Sapnesh Lalla:** From a long-term perspective, we are expecting 20%-plus growth. Of course, it will ramp up to 20% over the next few quarters.

**Raaj:** Next few quarters. All right. And currently, how much is our outstanding pipeline?

**Sapnesh Lalla:** We don't disclose the total value of our pipeline. But our visibility, which is an indicator of the contracts that we have in place at this time, is \$368 million. It's up from \$350 million last quarter.

**Raaj:** So, for FY '26, will it be a better year than FY '25? Do you have any visibility over that?

**Sapnesh Lalla:** We expect that FY '26 will be a stronger year in terms of growth as compared to FY '25. At this point in time, we haven't exactly figured out what specific growth we will see. But we do expect it to be a higher growth year as compared to the current year.

**Raaj:** And are we also actively looking at acquisitions?

**Management:** Yes, indeed. We are.

**Raaj:** All right. As investors, can we expect an announcement on the acquisitions by FY '25 end?

**Management:** As soon as we have one, we will let you know.

**Raaj:** Okay. Thank you.

**Moderator:** Thank you. Next question is from Harsh Chaurasia from Vallum Capital. Please go ahead. We seem to have lost the line for Mr. Chaurasia. We move to the next question. Next question is from Mythili Balakrishnan from Alchemy Capital Management. Please go ahead.

**Vimal Gohil:** This is Vimal Gohil here. So, we moved on our guidance from 12 to 14 to 7 plus. I just wanted to understand the nature of, the confidence that we have that we will achieve that 7% with two quarters to go. Is it that our verticals, which haven't really fired in the last couple of quarters, which is management consulting and aviation and aerospace, will those be bouncing back or will it be the current set of verticals which are performing, which will continue to perform?

**Sapnesh Lalla:** Our relationships with our customers continue to be strong. We have some customers who are spending more with us. We have a large customer who will ramp up and we'll start to see a pickup because of that customer starting Q3. So, we have reasonable confidence that we will be able to achieve the goal. Though, I would say that the environment has been uncertain. In fact, even towards the end of the first month of Q2, we were reasonably confident of achieving the guidance that we had provided. And then suddenly things changed with some of our customer segments. So, the uncertainty is high. However, we are reasonably confident of achieving the guidance that we have provided.

**Vimal Gohil:** Sir, very good job on the margins despite the softness that we've seen on the revenues. However, this has come on the back. I mean, one of the levers, of course, has been that we've seen a headcount reduction. But, as we inch up towards that 20% growth, we will have to add more headcount. In that scenario, will we be able to defend margins? And, of course, will we be able

to see operating leverage play out and improve margins from here on? Or at least keep the margins steady at these levels despite headcount addition?

**Sapnesh Lalla:** See, I was saying this to a previous question. We are a highly tech-enabled business. And we continue to invest a lot in technology so that we are able to improve the efficiency of our business as well as we are able to make more effective learning solutions for our customers. And, this investment in driving efficiencies helps with improved productivity.

And therefore, when we are in a marginal growth environment, we end up having fewer additions in headcount or at times reduction in headcount. And that's what you've seen from a year-on-year perspective for us. As growth comes back or as more robust growth comes back, we will see some additions. But, we will continue to invest in technology, so that we continue to be more efficient as we look ahead.

**Vimal Gohil:** All right, sir. Thank you so much and all the very best.

**Moderator:** Next question is from Pratap Maliwal from MountIntra Finance.

**Pratap Maliwal:** So, as I noticed that we've had a sharp contraction in our management consulting and professional services verticals. So, can you just help me understand why this particular vertical has contracted more than the rest? Because I believe they are key developments. So, could you just help me understand why we've seen such a big contraction here?

**Sapnesh Lalla:** While not getting into specific customers, you would have noticed that the large professional services companies like the Big Four have actually lowered headcount over the last several quarters. With our relationships, we had held up the value of training that was being delivered and their consumption till recently was strong. However, over the last few months, there has been significant cost pressure as they have seen declining growths.

And given that they are run as partnerships, they want to ensure that they maintain margin and therefore, lower their variable cost and we got hit because of that.

**Pratap Maliwal:** So, as you said that some of them had year-end closures when our May-June part and the budgets as they opened up, they opened up even lower than perhaps what we were expecting or what was indicated to us. So, is it that maybe over the next two, three quarters, it will be this particular vertical will be under pressure?

**Sapnesh Lalla:** We do expect this vertical to be under pressure for the October, November, December quarter. We expect that some of the thawing will take place. So, we'll see some sequential growth in Q4 and then as we start looking at the New Year's budget, we think that by then, some of the uncertainty would have settled and they'll start and we'll start seeing growth.

**Moderator:** Next question is from Ankur Shah from Quasar Capital.

**Ankur Shah:** Sir, can you share some insights on how a client contract expansion happens when you say scope of expansion growth? What does it mean? What is the progression? Can you throw some light on that and also the discretionary nature of this expansion? Like, let's say, if a particular client



is facing a slowdown, is it the first thing which is going to be cut like just to get more insight into the business model?

**Sapnesh Lalla:**

Sure. I'll try to answer your first question first, which is what are the dimensions for scope expansion? Most of our customers are large multinational corporations. And when we start working with them, most of them start by outsourcing an aspect of what they do to us. Very, very few outsource everything to us in one go. Most of them outsource parts of what they do to us.

Sometimes that part might be a geography. And in that case, a scope expansion might mean that we added a new geography. For example, we might start in EMEA and then add North America as a geography which results into scope expansion. There are other times when an aspect of training might be outsourced first. For example, learning content creation might be outsourced. And then as we do good work for those customers, they might expand the scope to add facilitation services or learning delivery or add different parts of what we do.

So, the expansion comes in multiple dimensions whether it is geographic or it is by practice or sometimes an organization sees a significant ramp up in the volume. For example, a couple of our aviation customers saw a lot of expansion as they came out of COVID and restarted their production.

So, expansion comes in multiple hues and our goal of course is to find new revenue sources with each of our customers as well as be able to do more based on the good work that we do for them. The expansion comes over years, so we typically follow a strategy of land. So, when we acquire a customer, we focus the first year on ensuring that we provide good services on what they have contracted.

So that we are able to retain them and then in the second or third year, we start looking at expansions.

**Ankur Shah:**

And for the second question?

**Sapnesh Lalla:**

Say the second question again.

**Ankur Shah:**

So, when a contract gets expanded or the work which gets expanded, what is the level of discretion which the customer has on this? Like let's say if there is a slowdown...

**Sapnesh Lalla:**

Your question was, what is the extent of discretionary spend? If you think of training, 100% of training sits as a discretionary expense on our customers' P&L, which means that if you stop training today, not a lot will change as far as the customer is concerned in the short term. So it can be switched off. However, the way we have chosen the customer verticals where we have chosen to work or chosen to penetrate, those verticals are verticals which are either highly regulated or where the rate of change is very high.

So for example, in BFSI or life sciences or aviation, these are all highly regulated markets, and therefore, our customers are obligated to do a lot of mandatory regulatory training, and at times



that is as high as 50%, and across those customers, while training is discretionary in nature, a fair part of it is mandatory in nature as well.

There are other customers like technology and telecom where the rate of change of technology is rapid. And therefore, they have to change their own teams as well as their customers on changing technologies. And so while discretionary, it has year-on-year opportunity.

**Ankur Shah:** So just to like -- ask a supplementary question to this, considering the way the world is moving on technology on making things more productive with lesser number of employees, does our contract have any linkage to do with the headcounts that the organization has? Like, let's say, if an organization is in a downward trajectory in terms of headcounts, does that affect our revenue?

**Sapnesh Lalla:** So in some segments, it does. For example, if you think of professional services, that is a very headcount oriented business where the professional services firms, as they are expanding, they invest a lot on training those that they hired. And they often hire early talent, and that talent requires a lot of training. So there are parts of our customer base which are highly connected with the number of employees and therefore the training.

But there is another part which is a significant cause of training, and that is the changes and the restructuring and the reorganization that happens. For example, if an organization is moving from fossil fuel to renewable energy, large numbers of people get trained, or when there is significant change in role, for example, as banks start to become more digital, they end up doing a lot of training, even though they might not be increasing the number of employees.

**Moderator:** Thank you. Next question is from Rahul Jain from Dolat Capital. Please go ahead.

**Rahul Jain:** Yes, hi, thanks for the opportunity. Of course, it will sound similar to previous questions. What essentially I'm trying to understand is that this revised guidance how it should appear from a Q-o-Q trajectory perspective, you gave the idea that what the Y-o-Y may look like, but you don't see any risk from a sequential basis upwards of 5% QoQ growth. So is it more like a shift of a timeline of a project that gives you that kind of confidence on the second half of the year or is there something else?

**Sapnesh Lalla:** No, it is quite like what you pointed out. It's like saying a trajectory has got shifted by a quarter.

**Vijay Thadani:** And line gets drawn at the end of the year. We'll be out a quarter.

**Rahul Jain:** Right and this essentially the situation that we are in. How does it, of course, you have stated the medium term prospect for the business, but how far we are from that cycle where you could gauge in your understanding that okay, yes, we are seeing things going back to that point, maybe a couple of quarters from here or you think we are already there because what would that essentially mean is that FY26 may not be that kind of a year again or you think it is too early to rule that out and we could still be racing for that 20% kind of a potential for next year?

**Sapnesh Lalla:** Yes, I think like I pointed out earlier, we should get into reasonable double-digit growth in our Q4 and we think that it is possible to sustain and so like I was saying to an earlier caller, we feel



that the growth while we haven't done all our computations, but we feel that our growth in FY26 would be stronger than it is likely to be for FY25.

**Rahul Jain:** I mean, the right way to say that will it be better than what you were initially thinking of FY25 because of course, this is a much depleted base. We are sure you will do better than that.

**Vijay Thadani:** See, there are two ways of looking at this, what you called depleted guidance. Yes, which is correct. The point is the line gets drawn on 31st March. So, if something has moved by one quarter, then it has moved by one quarter or one quarter is the placeholder. I mean, by some amount it has moved by some amount. Obviously, in the second half, there was an expectation of much higher growth see because this was the year in which first two quarters were very slow, meant to be slow and the last two quarters were to show significant ramp-up.

We can see the ramp-up coming, but the ramp-up is not coming at the rate at which we saw or at which we foresaw, but before we can take guidance on that 31st March will happen. We have to say what will it be at the end of 31st March, but if you add up that then 12 to 14 and 7 plus obviously is what mathematically it will work out to. And that's why I think the right way which Sapnesh is trying to say is that it looks like the goal post has shifted by a quarter.

**Sapnesh Lalla:** Like I pointed out we think we will have reasonable mid-double digit growth or reasonable double digit growth due forth. And if that persists, we would be ahead of certainly reasonably ahead of the 7% that we are likely to deliver this year.

**Rahul Jain:** Sorry to go back to that last comment that you made which is a reasonably high mid-double digit. You mean to say like a teen or something?

**Sapnesh Lalla:** Yes.

**Rahul Jain:** And from a profitability perspective, the way things have been shaping up, what are the puts and takes in your mind from a near-term perspective?

**Sapnesh Lalla:** I think like I was saying to an earlier caller, we continue to invest in efficiencies. That results into higher productivity. We are a services business, so our business is dependent on people. So I think on one side we will have as we grow, we will add headcount and on the other hand, we will have improved productivity.

In all of this, there is one of the reasons why customers are likely to accelerate outsourcing is the fact that they want to do cost takeout. And I think cost is going to be high on the customer's mind. Our investments in improving productivity will enable us to retain margins at the levels we currently have in spite of helping our customers take cost out.

**Rahul Jain:** That's it from my side. Thank you so much.

**Moderator:** Thank you. Next question is from Deepak from Sundaram Mutual Fund. Please go ahead.

**Deepak:** Thanks for the opportunity. Sir I have one question. So you already pointed out the reason for sequential decline was slowdown in real estate market and consulting revenue not coming

through, but if I look at your sector bifurcation, even your life sciences and aviation sector has shown a Q-o-Q decline of around 9% to 12%. I just wanted to understand what is happening in this vertical because we were fairly sounding optimistic in the previous two quarters?

**Sapnesh Lalla:**

If you have been reading the newspapers, you would know what is happening in aviation. While we work with two of the largest manufacturers of airplanes, there is a reason for a slowdown from an aviation perspective. What you are reading in the newspapers is what is causing the Q-o-Q slowdown that you saw. I think life sciences has been robust. It grew very significantly from a year-on-year perspective. It has been very robust.

And so marginal up and down, I won't get concerned about. It is just seasonality with respect to the holiday or the vacation time that most organizations have with respect to the summer. So life sciences is not what I would get too worried about, but from an aviation perspective, what is in the news is affecting us.

**Deepak:**

Okay. Thank you so much sir.

**Moderator:**

Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

**Vijay Thadani:**

Thank you very much once again for your very insightful questions. Often I find them educative because they make us think and come up with strategies to overcome the situation we are in. We also appreciate your understanding of where we are and why we are. I'm sure there were many more questions and many more follow-up questions that you may have. Kapil Saurabh and team will be available and so are all of us. We'll be happy to answer those questions.

And once again repeating that on 29th, we are likely to be available for further discussions. And in that case, if there are any opportunities for you to have a face-to-face meeting, please do get in touch with Kapil Saurabh. We will be happy to augment a meeting there. I do want to say that the deal pipeline as well as the contract order book that we have is very robust and strong. Our win rates continue to remain very high. Our renewal rates are 100%. And I think we are very confident of being back on the track, even despite the small setback that we had.

So with that, I would like to close this session and thank you once again for giving your time to us and for your valuable guidance through this discussion. Operator we can close this call.

**Moderator:**

Thank you very much. On behalf of NIIT Learning Systems Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.