



“NIIT Learning Systems Limited
Q1 FY '26 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day, and welcome to NIIT Learning Systems Limited Q1 FY '26 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Vijay Thadani:

Thank you, Aviral. Good afternoon to all of you. Thank you very much for your interest in NIIT Learning Systems and for joining the call today. This is the results time, busy time. So thank you very much for making the time to be with us. We will provide an update on the results of quarter 1 FY '26.

We'll also provide an update on the inorganic activity, which got completed -- started during which -- nearly got completed during the quarter, but got completed before this call a few weeks ago, and we thought we would give an update on that. And then lastly, the outlook for the business in the coming year.

I'll just make one opening comment, and that is that we are in a period of very high global uncertainty. And I think everybody is battling with it. And every organization has its own response. We believe NIIT Learning Systems Limited has demonstrated a fairly high degree of proactivity as well as high resilience to the changes which are taking place and have taken advantage of the opportunities that have been presented.

We also have a new member in the family in NIIT family between the time we spoke and now, and that is an acquisition which we made, which is the company called MST Group in Germany, and we're very happy to welcome about 80 more, we call them NIIT-ians into the family.

And to take us through this as well as the outlook for the business, I have with me Sapnesh Lalla, who is the CEO of the company; and supporting him will be Sanjay Mal, who is the CFO; Kapil Saurabh; Jaswinder Singh Chadha; and Gaurav Relhan; and Saurabh Taneja. So all of us will join together. And I also have Mr. Rajendra Singh Pawar, Chairman of the company with us. So with this backdrop, I will hand you over to Sapnesh, who will then take over the proceedings.

Sapnesh Lalla:

Thank you, Vijay, and thanks, everyone, for joining. I will take us through our prepared comments, and I'll review the performance during the quarter as well as share expectations that we have for the future. As Vijay pointed out, the global economic environment continues to remain volatile, creating heightened uncertainty for businesses across sectors. This macroeconomic uncertainty is driving increased complexity and ambiguity in both strategic and operational decision-making, often resulting in longer decision cycles and sometimes change in key stakeholders and movement of relationships.

Despite this challenging environment, the business delivered an 11% year-on-year growth and 5% quarter-on-quarter growth. In constant currency terms, the business grew 8% year-on-year and 5% quarter-on-quarter. This is a marginal improvement on the guidance that we had



provided last quarter. And it echoes the trust and the faith that our customers put in your NIIT to be able to service their critical needs.

We continue to see strong customer traction, securing two new MTS logos and all the 3 contracts that came up for renewal this quarter were renewed, further reinforcing our differentiated value proposition and our continued leadership in the managed service -- learning services market. The renewal performance, as I pointed out, remains robust, maintaining 100% track record across all customer segments.

Our ability to expand share of wallet with existing customers remains a key growth driver, supported by deepening relationships and demonstrated delivery excellence. While spending from existing customers appears to be stabilizing, the recovery remains gradual and is at below the slowdown levels that we saw 4, 5 years ago. We remain optimistic as early indicators point towards a bottoming out of this trend.

Notably, the business continues to outperform peers, demonstrating resilience through industry-leading growth and profitability. Please note that as guided earlier, we successfully completed the North American real estate contract on June 30. Going forward, we will be involved mostly in teaching out the existing students and transition-related activities during this quarter.

We made significant progress in building out our AI capability. We now have a pole position as acknowledged by our customers as well as industry analysts. We've gone live with a few key enterprise-grade implementations of our AI solutions in the previous quarter, and that gives us confidence that where we are and where our ambition lies, we will be able to significantly improve the way learning gets delivered globally. Coming to our results.

As I pointed out earlier, our revenue for the quarter was INR4,514 million. That was up 11% year-on-year, 5% Q-o-Q. Constant currency terms, it was up 8% year-on-year, 5% Q-o-Q. The EBITDA for the quarter was INR 951 million. And while it was down 7% year-on-year as guided earlier, our EBITDA posted a smart recovery Q-o-Q and was up 11% quarter-on-quarter. The EBITDA margin was 21% for Q1. It was up 112 basis points quarter-on-quarter.

During the quarter, we added two new MTS customers. These include a leader in pharma and a leader in the hospitality sector. The company renewed the 3 MTS contracts that came up for renewal, maintaining a 100% renewal track record. The number of MTS customers at the end of the quarter stood at 95.

And like Vijay pointed out, with MST Group joining the NIIT family as of early July, the count of MTS customers has now crossed 100. The revenue visibility stands at INR388 million versus INR350 million at the end of Q1 last year. Going deeper into financials, the depreciation was at INR181 million as compared to INR167 million in the previous quarter.

Please note that this includes the notional amortization cost of INR32 million on account of St. Charles. The net other income was negative INR40 million. This includes treasury income of INR125 million, exceptional expenses towards transaction-related costs for the acquisition of MST Group of INR63 million and St. Charles related -- acquisition-related expenses of INR49 million.



Tax was at INR237 million. The ETR was 32.5%. The tax rate was higher in Q1 due to the impact of INR30 million due to withholding tax on intercompany transfer of funds during the quarter to fund the acquisition of MST Group and then certain notional expenses on consolidation that were not included in tax computation. The PAT was INR493 million, EPS of INR3.62 per share.

If you were to remove the transaction-related expenses that were incurred to acquire MST Group, the adjusted PAT would be at INR578 million as compared to INR493 million after including the exceptional expenses on account of acquisition of MST Group. The balance sheet metrics continue to remain steady. DSO stood at 68 days as compared to 56 days last quarter on account of marginally higher working capital, given a few collectibles got delayed, which have since been received.

Cash and cash equivalents are at INR8,349 million. Capex for the quarter was INR88 million versus INR145 million for the previous quarter, reflecting continuing investments in generative AI. Net cash stands at INR7,704 million versus INR7,036 million last quarter and INR6,489 million last year.

Coming back to an update on the market environment. The market volatility continues to heighten the emphasis on cost optimization, prompting increased client engagement on large-scale cost takeouts and transformation initiatives. We believe that NLSL is well positioned to capture a disproportionate share of these opportunities, underpinned by continued investments in AI consulting and advisory services, disproportionate investment in sales and marketing as well as the established event of a strong and trusted brand that NIIT enjoys.

Our deal pipeline remains robust with active opportunities across large outsourcing deals spanning technology, professional services, automotive, life sciences, BFSI and other sectors. So a wide breadth of opportunities.

However, I would like to point out that due to the significant market uncertainty, the decision-making cycles are starting to stretch beyond what we would consider typical. We continue to see accelerating structural transformation across industries we serve driven by digitalization, decarbonization, biopharma and more importantly now by AI. Many organizations are actively restructuring to improve cost agility, fueling increased demand for outsourcing. And I think this is where our opportunity lies. And we are well positioned to take advantage of this opportunity.

NLSL continues to make disproportionate investments in new capability and go-to-market strength. Generative AI is becoming increasingly central in client discussions, though broader adoption at enterprise scale for L&D remains cautious.

Nonetheless, we are rapidly expanding use of generative AI across multiple work streams where deployed, we are becoming more ambitious in delivering measurable learning outcomes for clients and significantly transform how learning gets delivered. I'm glad to note that a number of enterprise-grade generative AI projects went live this past quarter and are starting to show early progress on the ambition that we have put forward.



We talked about -- or Vijay talked about MST Group joining the NIIT family as announced on July 9. NIIT Learning Systems has successfully completed the acquisition of MST Group. They are a leading provider of managed learning services based in Munich, Germany. The acquisition was made through our wholly owned subsidiary, NIIT Ireland Limited.

We have acquired 100% equity in MST Group for a total consideration of EUR 22.37 million, which includes EUR 15.35 million for equity and EUR 7.02 million in assumed debt. The transaction has been funded through a combination of internal cash and term loans and has been structured as an all-cash deal. The transaction is fully aligned with our stated strategy to drive growth through investments in new capabilities, geographies, and industry verticals.

MST significantly strengthens our presence in the DACH region, which is Europe's largest economy and one of the fastest-growing markets for L&D services. MST Group brings with it a high-quality client portfolio with over 20 marquee customers across automotive, industrial and energy sectors.

Some of the marquee names that you might associate with Germany are part of their customer list. Their quick start learning academy capability powered by the proprietary Extra platform further strengthens our capability to offer agile, scalable, and customized learning solutions to global customers.

For calendar year 2024, MST reported a gross revenue of EUR17.43 million as per local GAAP with pro forma consolidated net revenue of EUR10.6 million with margins that would be accretive to our business. The business is asset-light, margin accretive and cash generative, and we expect it to be EPS accretive from the first year on.

With this acquisition, we will add seven new Global 1,000 clients to our MTS portfolio, taking a total to over 100 managed learning services clients globally. It also expands our capabilities across Europe, including a nearshore hub in Hungary, which will enhance our ability to deliver multilingual on-site regionally tailored services across Western Europe.

Importantly, the MST leadership team, including their Chief Executive Officer, Lena Jentsch, and their Chief Sales and Marketing Officer, David Ullrich, will continue to lead the business. Deep domain expertise and strong client relationships will be invaluable as we integrate and scale the MST business across Europe as well as globally. We also welcome MST's team of over 100 L&D experts, including retainers that, joined the NIIT family, bringing the total headcount to approximately 2,500. This combination is a powerful one.

We are bringing together MST's local agility, deep sector expertise with NIIT MTS' global scale and AI-enabled learning solutions, positioning us to lead as the partner of choice for large enterprises navigating learning transformation globally. We're confident this acquisition will generate strong strategic and financial value and is an important step forward in our journey to global leadership in managed learning services.

I wanted to spend a minute on our guidance. We see robust contract pipeline and ramp-up in new customers. Revenue growth during the year would be moderated by the completion of our North American real estate contract on June 30, as I pointed out earlier. For the full year,



therefore, we will have a netting impact. For the full year, we expect 10-plus percent growth in constant currency. For Q2, we expect an 8% year-on-year growth in constant currency.

The MST acquisition would add another 3 to 4 percentage points to this growth. So the organic growth in Q2 would be at about 8% year-on-year in constant currency terms. The revenue from MST Group would add 3 to 4 percentage points in growth to -- by way of inorganic growth. Margins are expected to range as guided in the 20% to 21% range for the full year, while the Q2 margins would be just about 20%.

With that, I would hand you over to -- back to Vijay for any closing comments, and then we will go into Q&A.

Vijay Thadani: I think we are excited for the addition of MST Group amongst us and Sapnesh has already covered their details. So at this point of time, I think we will open the floor for questions.

Moderator: First question is from the line of Siddhant from Goodwill.

Siddhant: My question is regarding the MST acquisition. The clients of MST -- regarding them. So when we speak to auto ancillary companies or IT companies who are supplying to these guys. Those guys are under severe margin pressure because of increased competition and some slowdowns. So do you see a risk business over there? Or do you see this as an opportunity to lower cost and increase our share?

Sapnesh Lalla: You said it, we see it as an opportunity. We see it actually as a great opportunity because what we've seen in the past through different slowdowns is that when margins are under pressure, organizations think about transforming themselves and L&D in the HR work stream is a key area for transformation, and we stand a great chance to benefit from these transformations.

Siddhant: Okay. Thank you.

Sapnesh Lalla: And of course, the acquisition of MST Global with their existing relationships would help us accelerate.

Moderator: The next question is from the line of Ganesh Sheti, an Individual Investor.

Ganesh Sheti: Congratulations, sir, for resilient performance during the tough macroeconomic conditions prevailing. So my question is regarding MST acquisition. With this acquisition our major dependency from North American market can slightly tilt to European market. You will see that after 2, 3 years of business, we will have a very substantial part of our business coming from Europe, including MST and NIIT Learning. Can throw some light on this?

Sapnesh Lalla: Sure. So our current mix is 70-30. About 70% of our business comes from companies that are domiciled in North America and then about 30% comes from companies that are domiciled across UK and Europe. I would say that a very large percentage of our customers or clients are large multinational companies. So in a way, it is a moot point where they are domiciled. However, I think Europe, especially with its complexity and its ways of working and its



languages is a market that is hard to penetrate, has been hard to penetrate, and that's the reason why we have a 70-30 ratio.

With this acquisition, it will enable us to bring benefits to our clients on two dimensions: one, on local relationships, which can be agile, which can be custom tailored, which can be high-touch relationships for the clients, but also provide the same clients the reliability of the NIIT MTS brand, the global capability and the investments that we are able to make in AI and other emerging technologies to improve our capabilities.

Ganesh Sheti:

Sir, my second question is regarding the sectors which are being catered by MST Group like auto ancillaries and industrial products. So my question is whether the capabilities of NIIT Learnings can be integrated into these offerings from MST? Similarly MST's offerings in auto and industrial products can be deployed in North American market.

So whether there is a possibility of this situation where we can really make use of both competency in the both companies and increase our revenue from these companies. Can you please explain regarding this?

Sapnesh Lalla:

Ganesh, I must compliment you on how well you know NIIT. You have read from the page we work on our strategy. You're absolutely right. While NLSL has significant strength in the industrial vertical, we do not have enough in terms of a market share of the German market, which is very strong on industrials and automotive. We will be able to bring our capability across the industrial sector into the German market and be able to accelerate growth in the German market by leveraging the relationships that MST already has.

And also, like you pointed out, the fact that they have deep relationships into automotive as well as in energy, those reference customers would be key as we expand relationships in industrials and automotives beyond Europe into North America and other markets.

Moderator:

The next question is from the line of Shradha Agrawal from Asian Market Securities.

Shradha Agrawal:

Sorry, last time I got dropped off. Congratulations, sir, on a good quarter and this acquisition of MST. So I was looking at the historical financials and the numbers suggest that MST had strong growth of upwards of 30% and 50% in CY '23 and '24. So in an environment when other L&D players are struggling, what drove this strong growth in MST in the last 2 years? And how should we look at growth going forward from MST?

Sapnesh Lalla:

I think the growth that MST has achieved is a testament to the close relationships that they have with their clients. They are seen as a trusted partner. Culturally, they are very aligned with how we look at working with our clients. So it's a very strong cultural match. They are very, very client focused. They are very agile. They are very nimble, and they are able to structure and adapt their services to meet their clients' needs.

As they become part of NIIT, not only will they have advantages that I just mentioned, they'll also have the backing of a global player. I mean if you think of a large global automotive company based out of Germany, while Germany and Europe tend to be a large part of their



market, but it's not limited to just that. North America tends to be a very large market for them as well. And with NIIT's capability, MST will be able to service their needs globally.

So we're very excited about how NIIT can help MST grow their own client relationships. And likewise, we feel that with NIIT's scale and capability, we will be able to accelerate penetration into the DACH market.

Shradha Agrawal: So any quantification on growth numbers that we should build in for years to come?

Sapnesh Lalla: We think that their growth is likely to be in line with the growth that we are aspiring towards, which is 20% growth and 20% profitability.

Shradha Agrawal: Right. And in terms of clients, so we get seven new clients from MST. Or is there an overlap in the large clients that we have with MST?

Sapnesh Lalla: There isn't any overlap across MST's large customers and ours. So it's complementary. So all of their clients would be net new clients for NIIT.

Moderator: Moving on to the next participant. The next question is from the line of Kunal Tokas from FVC.

Kunal Tokas: And my first question is about AI. You've talked a lot about how AI has made the environment and the outlook very uncertain. But my question relates to the downside risks that AI can pose to your business. So which is subsegment of your business.

And I'm just -- if I just read off the corporate training landscape chart that training industry has, it has a whole chart of different subsegments, which NIIT caters. Which subsegment do you see will be the most affected negatively by AI, whether it will be learning management systems or auction tools or assessment and evaluation part.

Sapnesh Lalla: So I would say the following. I think AI, and this is in line with what we've said in the past, AI is going to very fundamentally change how learning gets consumed and delivered. And organizations who do not build on that capability are likely to get left behind.

And so the organizations who stay where they are and don't move with the times are likely to get left behind and the future is likely to be uncertain for them. And for that reason, we are investing disproportionately in AI so that we can take advantage of all the opportunities that AI has to offer.

Kunal Tokas: But do you think that the current business model that NIIT follows of being a comprehensive service provider covering all of the different parts of L&D can fundamentally change in a few years because of AI? And what probable shape do you think it will take? And the corollary -- Okay.

We also think there might be a aggressive trend towards in-house L&D because of the efficiency that AI can give. One of the reasons -- one of the main support pillars of this industry was that the in-house L&D teams are not -- cannot compete with outsources like NIIT with their aggregate comprehensive experience all over the globe. So do you think that can be a aggressive trend that affects your business?



Sapnesh Lalla:

So I would say a couple of things. One, it's not a question of can. L&D will transform in a very significant way with the use of AI. It's a question of time. It's like when the automobile started replacing horse drawn carriages -- we knew that the world would move towards automobiles. There were still a few people who were interested in using horse carts, but that changed over a period of time and the motor replaced the horse. I think exactly that's going to happen with respect to L&D.

What AI does do is enable L&D to be far more efficient and effective in their mission to provide great learning to their stakeholders. Organizations who are currently in-sourced will have a very hard time investing in AI as it pertains to L&D because there are going to be a number of other businesses that are going to be in line for investment in AI.

For example, the organization that do capital allocation would first look at customer service, would first look at R&D, would first look at acquisition of customers or production of goods and services rather than investing in L&D. And so it's quite likely that as time goes on and AI starts to play a more significant role in-house L&D organizations are likely to get left behind to a point where they might become irrelevant.

And I think that's our opportunity where given the investments we've made, organizations will be able to see the starkness of the difference between what they are able to do on their own and what they are able to do with a partner such as NIIT.

Kunal Tokas:

An extension to that question would be, with AI bringing in more efficiencies and helping people do more, much more with less. Do you think the differentiation between players, between NIIT and its competitors, will it narrow? Or will it grow even larger?

Sapnesh Lalla:

I think it will grow faster. It will grow larger. And like I pointed out, in this race, there will be folks who get ahead and there will be folks who get left behind. My bet is that NIIT will be way ahead. And at least that's something that we are hearing from our customers as well as from analysts.

Kunal Tokas:

That is good to hear, sir. And just the last question. You spent considerable time, obviously, thinking about AI and dealing with it. What have you seen your competitors do that you think is wrong? And what is NIIT doing differently?

Sapnesh Lalla:

Let me request Rajiv to take that question, our Chairman.

Rajiv Arora:

I think good conversation here. So let me just make 1 or 2 points. I think where we differentiate ourselves since the time we started in 1981 is two things. One, we've had a singular focus on the central philosophy, which is that whatever we do is learner-centered, objective-driven. Objective, now the word is outcome driven. 1981, that's been our focus. And we don't see that in every other organization.

People work on many objectives, but this core principle holds in everything that the group does, NIIT does. That's one constant factor, more and more and more valid with that. Second, and this is perhaps more important. Everybody talks of the technology in learning, but not all players have been focused on the science of learning, the pedagogy, the psychology. That is one thing



which differentiates us even more than most others because at least in the last 10 or 15 years, the thrust has been on using technology in learning, but not being aware of the underlying science of learning that is foundational.

So when we look at AI to us, it's not the technology that's important. Yes, it is. And technology tends to give a benefit of productivity in most things. We are looking at the cognitive sciences breakthrough that AI can do. And mind you, even some of the things that we are talking of and others are talking of are not new, but breakthroughs have been very limited. I don't know whether you talked about the Fosway rating that we have. Okay.

So yes. So there are ratings which talk about this dimension of usage of AI in effectiveness of learning, not the efficiency of cutting cost and delivery. Because unlike many other productivity things that IT does, it cuts cycle time, it reduces -- increases productivity. Learning is not just about that. You can't compress learning and say you learned 50x more or 10x. It doesn't work that way.

It is how a learner imbibes, absorbs, and translates into demonstrable skill. So in that, we see that already in all our work that we're doing and research that we're doing is showing capability. And I think on these two dimensions is where the intensity and focus that we've had has kept us ahead, and we expect that AI will give us a leg up further because we started this early. I don't know if that answers your question more comprehensively.

Kunal Tokas:

It does very well. That was very comforting to hear. Those were my questions. Thank you and have a good day.

Moderator:

The next question is from the line of Nihar Shah from New Mark Capital.

Nihar Shah:

Sapnesh, thank you for the commentary on the performance. I had a question which was very similar to the previous one, but just maybe more from an example base. You mentioned in your opening remarks that you started using AI for certain solutions for your customers. Can you give us some flavor of the kind of work that you're doing within that, which will help us better understand your AI capabilities and the opportunity, therefore, that's available. That's all from my side.

Sapnesh Lalla:

Sure. I try to. There is a lot of research that shows that if you have a personal coach and if you have ability to connect with your personal coach often, your performance, irrespective of what area of performance you're trying to improve, you are able to do better. And you might notice that elite athletes who can afford not one but several personal coaches rely on personal coaches to improve performance.

And that's not just unique to athletes. Leaders do that, politicians do that, folks across many sectors or segments of society do that. And they do that because they believe that personalized coaching is very, very helpful and it could be transformative.

Now the reason why everybody cannot get personalized coaching is because it's very, very expensive. Imagine everyone having an expert coach. If you think about it today, it's very hard for anyone, any business leader to imagine that they will be able to provide everyone in a pivotal



job role with a coach. But with AI, that's possible. And that's one of the use cases that we've implemented with a large customer who is significantly ramping up and upskilling their consulting team.

And as part of that engagement, not only are we running a consult school training program for them, but in addition, offering them an expert coach who can provide reflection sessions, who can provide coaching during their performance, who can provide coaching as they do role plays when they are practicing their pitches and they're practicing the solutions that they would provide to their customers.

So one of the things which we are really excited about is the ability of AI to remove this constraint where we've always had fewer coaches that needed, fewer teachers that needed. And that's the reason why you have one teacher teaching 30, 40, 50 folks. I think AI enables us to remove those constraints and bring high-caliber coaching, high-caliber training, personalized training to everyone.

Nihar Shah: That gives us a good flavor. Look forward to hearing your thoughts in the future quarters as well.

Moderator: The next question is from the line of Pranaya Jain from Banyan Tree Advisors.

Pranaya Jain: So the first question is that when we look at our professional and technical outsourcing costs, this number has been trending upwards at a very sharp rate. While our employee expenses as a percentage of sales has not grown at such a fast rate, it's in fact come down. So under what circumstances do these numbers go?

And do they go up in tandem? Or is there like an inverse relationship between these two numbers? If you could throw some light on this question, and then I have a couple of other questions also after this.

Sapnesh Lalla: Sure. See, whenever there is uncertainty, we try to create variability in our business. One of the key efforts to improve profitability has been to improve utilization and creating higher variability enables us to do that. And that's what you are seeing. So we are using more variable services to deliver to our customers rather than adding headcount because of the uncertainty that we see in the market. As this uncertainty subsides, we will see more investments in our own headcount.

Pranaya Jain: Got it. That's helpful. Second question is around the technology and telecom sector of ours. So while we have seen a lot of news reports which are mentioned that there are layoffs happening in these segments, we are growing this segment at a fast rate. So just wanted to understand what exactly is happening when it comes to our customers.

Sapnesh Lalla: So if you look at why is it that there are layoffs, there are layoffs when an organization realizes that the people that they have are not able to do the job that the organization wants them to do or not able to do the job well enough for them to continue with them. That's the reason why they take that last ditch choice to lay off a person.

Nobody sets out hiring people with the objective to lay them off after a few years. So it's a hard choice for most organizations. And the reason why they end up making that choice is because



the skills that those folks possess are not in line with the skills that are needed. And I think that's really our opportunity.

We are able to provide our customers with a choice where as the rate of change of skills change rapidly, we are able to reskill and upskill their employees so that they continue to be relevant. And so my feeling is that the rate at which the technology -- that technology is changing creates a great opportunity for us for reskilling and upskilling employee bases.

Pranaya Jain: Understood. That's again very helpful. Third question is on -- so like we have been gaining certain projects which are related to artificial intelligence. So are these margins similar to where we operate at on a consolidated company level? Or are the margins higher here or lower?

Sapnesh Lalla: It's a little early to comment on margins of AI projects. But for what we have done, they are in line with our expectations and the typical margins, sometimes higher because at times, IP is involved. But I would say it's a little early judgment on margins that we are seeing on AI-related projects.

Pranaya Jain: Got it. Just one final question on the effective tax rate that we should take into account going forward?

Sapnesh Lalla: I think I'll let Sanjay comment on effective tax rate, though what you saw was elevated, but I'll let Sanjay comment on it.

Sanjay Mal: So our typical tax rate will be more in the range of 26% to 27%. With the intervention -- if there is any movements and withholdings and stuff like that, that adds to the effective tax rate. And so you should take it anywhere between 27% to 28% on an overall basis for the year and 26% to 27% for the near future. Because we have this inorganic agenda continuing and there will be an impact of this acquisition of MST, which will also have certain costs, which will not be taxed.

Moderator: The next question is from the line of Sankaranarayanan from ithoughtpms.

Sankaranarayanan: My first question is regarding our acquisition of MST. So with regards to learning and development spend per employee, is it same compared to other industries? Or this industry have a higher spend on learning per employee?

Sapnesh Lalla: See, I'm assuming your question is related to the industrials and automotive space. And in the industrial and automotive space, the spend per employee tends to be higher than average. So the average tends to be about \$1,100 per employee per year. The spend across industrials and automotive tends to be higher than average.

Sankaranarayanan: In terms of wage hike, when are we planning to do the wage hike? If when can we expect in the upcoming quarters?

Sapnesh Lalla: We announced a wage increase as of 1st of July of this year. So you will see that in the second.

Sankaranarayanan: Got it, sir. Sir, my last question is regarding our tech and telecom vertical. So you have spoken that in spite of layoffs, we are getting good traction from this vertical. And in management



consulting as well, we have seen a little quarter-on-quarter improvement. So can we assume we have started seeing recovery in those verticals?

Sapnesh Lalla: I mean you've seen improvement quarter-on-quarter on the tech and telecom. It's part of our strategy to focus on that vertical just for the reasons that I described earlier. We are also starting to see improvements as compared to previous year in the management and professional services sector. And I think we should continue to see improvements on that.

Sankaranarayanan: Got it, sir. And most of the bad things which have happened in management consulting and professional services is getting bottomed out, sir? That's what you're saying, sir?

Sapnesh Lalla: We expect so. But given the uncertainty, it's hard to predict. But at this point in time, I would say I expect so.

Sankaranarayanan: Got it, sir. Sir, any thoughts on aviation aerospace vertical, sir?

Sapnesh Lalla: I think we have a strong position in that vertical. That vertical is part of a larger vertical, which we now call industrials. So we've got energy, aviation, mining, and commodities and now automotive combined into the industrials vertical. We think over the next few years, we should see growth as we start to add airlines into -- as we start penetrating into airlines going beyond the industrial side of aviation and aerospace.

Sankaranarayanan: Got it, sir. And just a follow-up question from the previous participant. So in terms of managing the professional and technical outsourcing expenses, is it like when we are seeing certainty in the environment, that when we will slowly -- gradually, we will convert our variable cost into fixed cost through increasing our own workforce. Is it the right understanding, sir?

Sapnesh Lalla: Yes, that would be the right understanding.

Moderator: The next question is from the line of Deepak from Sundaram Mutual Fund.

Deepak: Sir, my first question is regarding our acquisition of this MST Group. So in the press release, you mentioned that in the calendar year 2024, they clocked in revenue of around EUR17 million and net of pass-through expenses, it was around EUR10.6 million. Just wanted to understand what is this pass-through expenses we are referring to?

Sapnesh Lalla: So just like in our business, we have a part of our business that we call strategic sourcing, where we buy training from third parties on behalf of our customers. They do that as well. And as we've mentioned to you in the past, when we buy training on behalf of our customers, we treat the pass-through expenses differently as compared to service delivery revenue. Pass-through expenses are treated as gross, but not -- they don't make part of the net revenue that we report.

And while it shows up in the balance sheet as receivables and payables, but it's not treated as revenue given that it is not creating a margin. Likewise, MST have the same style of business where they buy training from third-party vendors on behalf of their customers, and we treat that as pass-through. And that's why there is a netting.

Deepak: Okay. So what gets consolidated is the net of pass-through expenses?



- Sapnesh Lalla:** Yes, the expense and revenue happens to be the same.
- Deepak:** Okay. And sir, secondly, just double on this telecom and technology vertical, which seems to be doing very well for us. And you explained in one of the earlier participant answer also that it is because of the rate of reskilling which we are seeing in technology and telecom sector that more opportunities coming to us. But could you give us example exactly what kind of reskilling are we talking about? Is it technical in nature? Or is it nontechnical in nature? Some example would help us understand it better.
- Sapnesh Lalla:** Mostly technical in nature. And this part would be similar in a professional services firm as it is in case of a technology firm, especially if the technology firm is in the business of providing services. Their product is the person who they use to implement the services. And with the change in technologies, that product needs to be refurbished every few months.
- So as there is more adoption of cloud, cloud skills are needed, as there is more threats with respect to cybersecurity, more cybersecurity, trained professionals are needed as organizations move from one technology to another, retraining is needed as technologies go from one version to another, changes are there in certifications and therefore, retraining.
- So a very large majority of what we do for tech and telecom companies tends to be technology training, though I would say that we also do non-technology training, like I mentioned earlier, implementing consulting training for a company that company happens to be a large -- among the largest technology companies globally. So largely tech, but some non-tech training as well.
- Deepak:** Okay. So someone, let's say, if someone is upgrading its software and you need people to understand how to use this upgraded user interface. So that is where we come into the picture and train them, this is the new software and this is how you have to use it, something like that?
- Sapnesh Lalla:** Yes, that's one way of looking at it, using, implementing, configuring, installing all of that.
- Deepak:** Thank you for the clarification. All the best.
- Moderator:** The next question is from the line of Shradha Agrawal from AM Securities.
- Shradha Agrawal:** Yes. Just last one question. You've indicated that the guidance -- organic guidance stays at 10% CP for FY '26. So including MST for 3 quarters, how should we look at the full company's growth number in constant currency?
- Sapnesh Lalla:** I think MST on an average would add 3 percentage to 4 percentage points to our growth depending on any -- I mean, any quarter that you look at.
- Shradha Agrawal:** So 13% to 14% of full company's growth number is what we are guiding to.
- Vijay Thadani:** For 3 quarters.
- Sapnesh Lalla:** For every quarter post acquisition, every full quarter post acquisition.
- Vijay Thadani:** So 75% of, let's say, 10%, 7.5%.



- Sapnesh Lalla:** For every quarter that they are with us, you can assume adding 3 percentage to 4 percentage points to the Y-o-Y that quarter.
- Shradha Agrawal:** From a full year perspective...
- Vijay Thadani:** Organic guidance -- 10% is the organic growth guidance. And MST is on top of it.
- Moderator:** As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Vijay Thadani:** Thank you very much, each one of you for joining us on this call. Your questions, as usual, give us many more things to think about. I think we answered most of the questions. But if there are any which are left, Sapnesh, Kapil, all of us will be very happy to answer. You can contact Kapil Saurabh for any follow-up discussions. And we'll also be very happy to meet in person and explain things.
- Sapnesh Lalla:** We are going to be in Mumbai on Monday.
- Vijay Thadani:** Yes. We will be visiting Mumbai on coming Monday and hope to catch up with many of you. With that, thank you once again, and wishing you all the best.
- Moderator:** Thank you. On behalf of NIIT Learning Systems Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.