# "NIIT Learning Systems Limited

# Q2 FY27 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day, and welcome to the NIIT Learning Systems Limited Q2 FY27 Earnings Conference Call. As a reminder, all participant lines will be in a 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 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. Good evening, everyone. Thank you very much for joining the NIIT Learning Systems Quarter 2, FY27 earnings call. I want to start by thanking you for your continued interest in the company, as well as the fact that you decided to spend this time with us in this busy earnings season.

So we truly appreciate that and are looking forward to your questions and comments, which are extremely educative for us and do point us in the right direction and help us sharpen our strategy. The agenda for today's call is to discuss the quarter 2 financial year '27 financial and operating performance in this turbulent environment.

Second is to review this quarter's order wins, which are very significant, including one of the perhaps very large contracts in our history and our record revenue visibility that we will share with you.

While the quarter's numbers are materially below our own expectations, the significant progress on order wins as well as the strategy set that we are seeing getting validated is a strong indicator of our market position and growth aspiration.

Next item will be a report on our AI-led Transform and Operate strategy. Some of you did participate in the investor conference that we held in Mumbai in September. But I think, overall, a progress on that is something that we'll discuss.

Today we also announced the acquisition of another company, Bluewater Learning, which was announced this afternoon, and we will be talking about that as well today. And then obviously the path forward and our outlook as it appears right now. Of course, there'll be sufficient time for Q&A.

Before we begin, a brief note. Some comments may be forward-looking and subject to risks and uncertainties. Actual results may differ materially, and that's just a caution I wanted you to note of.

With that, I'll now hand you over to Sapnesh, our CEO.

**Sapnesh Lalla:** Good afternoon, everyone, and thank you for joining the call. I want to address our results directly. As Vijay pointed out, they were significantly below our expectations. But I would say the second quarter was very different stories. Our revenue and margin fell short of the guidance we gave you in July, and we are not satisfied with that.

At the same time, we signed what's probably going to be among our largest clients in the next couple of years, with now a record visibility at about $510 million. I will take you through both, starting with first where we fell short.

Our revenue in Q2 was INR5,286 million. It was up 11% year-on-year in rupee terms and down 6% quarter-on-quarter. In constant currency terms, we grew 2.3% year-on-year against our guidance of 9% to 11% growth. This is a shortfall of approximately $4.5 million compared to where we expected to be.

As a reminder, Q2 FY26 was the last quarter with revenue from the large North American real estate training contract that we concluded last year. Normalizing for that, the constant currency growth in Q2 FY27 was about 6.6% year-on-year and 16% in INR terms. There was no contribution from this contract after Q2 of last year.

Three factors were mostly responsible for the shortfall against our plan. While July and August were mostly in line, September we expected to be significantly higher than July and August, given that July and August tend to be vacation months, predominantly in Europe and to some extent in the United States.

While September was significantly higher than July and August, but it was short compared to our expectations. And we saw the lower performance in September on account of compression in a number of industrial clients across a couple of industrial clients across Europe, specifically in the DACH region.

We also saw volatility in spends across a couple of our large professional services and GSI clients. We also had a client pause their spend with us owing to M&A-related restructuring and therefore a pause in spending.

The common thread, however, that we saw is the environment our clients are operating in. Frequent restructuring, cost takeouts, and pressure on headcount at an all-time high. We also heard the same theme at our Confluence event in London earlier in October.

L&D budgets remain tight, and discretionary and project spend has been hit first. We are, however, starting to see opportunities specifically in the extended enterprise space, where organizations are investing in training to improve their market position.

Our annual guidance, while it allowed for some of this volatility, but the scale of the cuts in Q2 went beyond our expectations. The same pressure is also pushing enterprises to outsource and transform their learning functions, which I will come back to when I discuss our order wins.

In terms of our profitability, Q2 EBITDA was at INR874 million. It was down 10% year-on-year, with a margin of 16.5%. Below the margin of about 18% that we had guided for the quarter. The margin decline reflects lower temporary revenue on fixed delivery and capability base during the vacation quarter.

Annual wage increments, which went into effect in July and continued investments in consulting, AI, and go-to-market capabilities. The continuing investments are adding to our capability and reach and contributed directly to large deals we signed this quarter, and we chose not to cut them to protect one quarter's margin.

Depreciation and amortization was at INR224 million versus INR215 million in the previous quarter. Net other income was at INR139 million. The treasury income, as you might have expected, was down significantly quarter-on-quarter to INR54 million as compared to INR154 million in the previous quarter.

The net finance cost was at INR101 million, including INR42 million of fair value adjustment and future acquisition liabilities with respect to SweetRush and St. Charles, INR32 million of interest on acquisition loans, INR8 million of interest on long-term leases, and INR19 million of bank and supply chain finance charges.

The foreign exchange loss was INR52 million. Exceptional expenses of INR34 million relating to M&A transactions that we will discuss in a minute. Other miscellaneous expenses were at INR7 million.

The profit before tax was INR510 million. It was down 26% year-on-year. Tax was at INR137 million with an effective tax rate of 26.8%. The PAT was INR373 million. It was down 21% year-on-year, with EPS of INR2.70 per share.

Let's now discuss the order wins that Vijay talked about. Q2 was a breakthrough quarter for order wins. The same environment that is squeezing discretionary spend, pushing large enterprises into rethinking how they run learning, and more of them are choosing to outsource it to us.

Our wins this quarter fall into 2 groups. The first, outsourcing driven by economic uncertainty as enterprises look to lower cost and gain flexibility in their cost structure and on how they would like to run learning.

We signed a large and significant contract this quarter. A leading global enterprise software company has decided to trust operations of its entire customer education function to NIIT Learning under a 5-year Managed Learning Services contract. This has the potential to be our largest client over the next couple of years.

In total, we signed 4 long-term annuity contracts during the quarter, taking our long-term annuity client count to 116 from 104 a year ago. Alongside the significant deal wins, the other deals that we won include an engagement with a large consumer products company, a 5-year annuity contract with a global mining and resources company, and a 3-year engagement with one of the large conglomerates out of United States.

The second transformation -- the second flywheel that we see where we are winning is transformation opportunities where enterprises are turning to us to help transform their learning

and development organization as AI starts to reshape their workforce, as well as how they expect to run their L&D.

We expanded our relationship on this count with a leading apex professional association in finance and accounting in the United States, this was contracted to us -- who has contracted us to create onboarding programs in accounting tax and audit for newly certified CPAs built on our synthetic work platform.

Synthetic work creates experiences where learners practice on realistic simulated client engagements, practice technical and behavioral skills in real-life work settings, and build judgment before they work with real clients. We see wide applicability of this model across professions with structured entry pathways.

We are also engaged at this time in 8 transformation projects with global enterprises, helping them build AI-enabled learning enterprises. Each of these is a potential entry point into a larger Transform & Operate relationship.

In several of these wins, we competed against and beat large global system integrators, as well as large consulting firms and other L&D providers. For the quarter, as mentioned earlier, we added 4 new long-term annuity clients, renewed annuity contracts with 3 clients, and expanded scope with 2 existing engagements. The revenue visibility rose to a record $510 million, up 25% year-on-year and up 11% quarter-on-quarter.

As I've said in a number of our meetings, including the investor meeting we had in Mumbai in the previous quarter, the future of work is changing, and AI is accelerating the pace of that change. At the same time, market volatility is driving frequent restructuring, cost takeouts, and sustained pressure on headcount.

This creates 2 tailwinds for us, as I mentioned earlier. First, the cost pressure is pushing enterprises to outsource learning functions they have traditionally run in-house as our customer education wins this quarter show. We expect this tailwind to continue. Second, enterprises need to transform their L&D for a workforce shaped by AI, and they are turning to us to lead that transformation.

Our view of what clients need is clear. Content is abundant. Capability is our job. Adoption of AI is broad, but transformation is thin. Practice and proof beat completions. As AI absorbs procedural work, the human edge lies in judgment and relationships, and that is what learning must build.

AI-enabled learning is also significantly expanding our market opportunity. In the face of the unprecedented scale of the reskilling challenge, a lack of advanced in-house AI capability in L&D is becoming a strategic bottleneck for enterprises, leading to a higher propensity to outsource. And we are starting to see some of that show up both in our pipeline and in our closures.

AI-powered learning is key to capability building and often critical to success of strategic initiatives. This is bringing in new executive sponsors, new buyers, and new budgets that were till recently not available to us.

An example of this is the significant proliferation of forward-deployed engineers across a number of technology companies. Even in organizations without a centralized L&D function, we are gaining entry by offering our point solutions such as everyday leadership, synthetic work, FDE training, AI-led compliance monitoring tools, etc., to individual business units.

These are entirely new growth vectors adding to the traditional drivers we have long benefited from in a large under-penetrated market for Managed Learning Services and an ever-increasing need for efficiency.

Not every opportunity we win today is an AI deal, but our AI capabilities have been and will continue to be a decisive differentiator across business as we look ahead. AI-enabled services contributed about 17% of our revenue in Q2.

This includes solutions where AI components are embedded into the offering we provide to our clients, including subscription elements and engagements where our AI studio and tools materially contribute to the creation or delivery of training.

In terms of our balance sheet and cash flow, trade receivable days improved to 55 days from 62 in the previous quarter and 66 a year ago. Overall, DSO, including unbilled revenue, improved to 74 days from 81 days in the previous quarter and 79 days the same quarter a year ago.

Cash and equivalents were at INR9,343 million compared to INR9,954 million at the end of the first quarter. Net cash was at INR6,943 million, compared with INR7,364 million at the end of the first quarter, after a dividend payout of about INR449 million during the quarter. Operating cash flow for the quarter was INR169 million, reflecting working capital timing, mainly quarter-on-quarter reduction in payables, partly offset by stronger collections.

On a trailing 12 months basis, our operating cash flow was INR2,830 million, and EBITDA to operating cash flow conversion was 72%. The capital expenditure this quarter was INR144 million. ROCE stands at 29%. Our employee headcount was down 14 quarter-on-quarter and is at 2,482 at the end of quarter 2.

As I have often mentioned, we are continuing to invest in the capabilities and market access. Our AI learning platform consisting of AI Coach, Simulation Manager, and Signal Engine is at the heart of our pivot to AI-enabled learning. It is now being used by a number of our clients with more in the pipeline.

Beyond standalone assignments, the platform lends itself to a subscription model that generates recurring revenue without matching costs supporting profitability. We have over 100 senior learning experts dedicated to this initiative.

We are also investing in expanding our portfolio of point solutions addressing specific L&D needs. These help us enter new accounts as well as deepen our engagements with existing ones and open new revenue sources across our clients.

In addition to building such new point solutions wherever we see white spaces, we are also investing in enhancing our existing solutions, both with our existing entities as well as by doing inorganic activity.

We continue to expand our sales and marketing engine, adding business development and account management capacity alongside our annual client summit in the U.S. As I mentioned earlier, we hosted our first client summit in London, Confluence EU, early in October.

We continue to bring on board people with niche training skills and consulting backgrounds to help us build more transformational opportunities. We will continue to make selective acquisitions to add to capabilities and market access to deepen our market presence.

I now want to discuss the acquisition of Bluewater Learning. Our acquisitions have added capability and reach that are helping us bring more value to our clients. The acquisition of Bluewater will have meaningful impact on our new client wins as we show up stronger with our potential clients.

The acquisition of Bluewater that we have announced today builds on the same theme, adding new capabilities and preparing us for an AI-led future. Bluewater Learning is a specialist firm specializing in human capital management, learning technology consulting, and implementation. Founded in 2003, the company is headquartered in Dallas, Texas.

The company has been acquired for a total consideration of up to $17.6 million, including a closing payment of $7.25 million and performance cash or earn-out payments of up to $10.35 million over the next 5 years.

Bluewater provides consulting, implementation, and managed services across the learning technology lifecycle. It has deep expertise in human capital management learning technology ecosystem, where it is a specialist learning partner for Cornerstone as well as Docebo.

The company serves more than 100 active clients across sectors that matter to NIIT, including life sciences, technology, energy, professional services, and aviation. Its trailing 12 months revenue is approximately $8.5 million.

Bluewater strengthens our position in the human capital management learning technology ecosystem through its consulting and implementation business, which is a key transformation vector driving learning transformation.

Combined with NIIT's global delivery capability and award-winning AI-powered Managed Learning Services, it gives clients a single partner for end-to-end transformation. The combination also deepens and broadens our partnerships across leading learning and human capital management ecosystem, adding significant value for both partners as well as clients.

More importantly, work in the human capital management layer connects us to workforce data that our AI platform, including the Signal Engine, the Simulation Manager, and the AI Coach needs to deliver personalized or hyper-personalized outcome-led learning in line with our AI first strategy.

In terms of our outlook, as I mentioned upfront, Q2 fell short of what we committed to, and we take responsibility for that. The contracts we signed this quarter, led by the large significant win that I talked about in detail, are expected to ramp up during the second half of this year.

We expect the Y-o-Y acceleration to be back-ended with most of it visible in Q4. We remain watchful of the macro environment and the pace of client decision making, which can influence timing of ramp-ups in the near term.

Despite the Q2 setback, we continue to expect a high single-digit constant currency growth for the year in line with our guidance for the year, with potential to reach double-digit growth, including the acquisition of Bluewater. We expect the EBITDA margin to be in the 18% range for the full year.

Closing now, I would like to reassert that we have the strongest revenue visibility we've had in our history. The task is now to execute, to convert the visibility in revenue and margin, and the entire organization is focused on doing exactly that as we continue to invest to Transform & Operate, the learning and development organization for our global clients.

I will now give it back to operator for any questions you might have. Thank you.

**Moderator:** Thank you, sir. We will now begin with the question-and-answer session. Our first question comes from the line of Bharat Gulati with Dalal & Broacha.

**Bharat Gulati:** Just wanted 2 data points first. What would our organic CC growth be and what would our quarter-on-quarter CC growth be, if that's possible to?

**Sapnesh Lalla:** Give us a moment. Our organic constant currency growth year-on-year would be...

**Bharat Gulati:** I'm talking normalized for the RECO contract, obviously, on a year-on-year basis?

**Sapnesh Lalla:** Hold on. That will require some calculation.

**Bharat Gulati:** Sure. What would the quarter-on-quarter CC growth be?

**Sapnesh Lalla:** It will be down 2.3%, yes, year-on-year.

**Bharat Gulati:** Understood. And the quarter-on-quarter CC growth would have also been negative, I'm assuming?

**Sapnesh Lalla:** That is correct.

**Bharat Gulati:** I'm just, I mean, just trying to understand, our recent SweetRush acquisition isn't particularly paying off. The St. Charles business also seems to be at its lowest point currently. So what has been the rationale behind putting cash behind another acquisition? I'm just sort of trying to understand, is it the best place to right now invest in rather than probably giving money back to shareholders or investing in some sort of organic channels for driving revenues?

**Sapnesh Lalla:** So I would say 2 things. One, that we are continuing to invest in organic channels to drive growth and invest in building solutions that broaden our capability. As you have noticed, the acquisitions we have made have expanded our market access as well as capability, and that capability takes several years to build.

For example, you took the example of the consulting capability that we built with St. Charles. I mentioned that just this past quarter, while we have seen negative growth in some of the core St. Charles customers in the professional services space, we also saw a significant uptick where we signed 7 clients for learning transformation-related consulting.

Now as I mentioned in my prepared comments, we competed for those transformation projects with large consulting firms as well as large GSIs. This capability that cannot be built in a jiffy. It takes time to build this capability.

We could wait for the next 5 years to build or 6 years to build new capability, or we could invest and acquire that capability, which improves our probability to do more value-creating work for our clients.

If you look at the consulting capability that we acquired with St. Charles and then continue to invest in, that capability will enable us to help organizations transform and then enable us to operate that transformed business. Without that capability, we might run the risk of being a legacy company where, like legacy companies, we would see significantly faster accelerated decline in organic revenues.

Look, the environment is the same for everyone, and in this environment, we have to find means of making investments so that we build up for a better day. I think these investments are prudent investments. As you have known, we make capability investments rather than roll-up revenue investments.

**Bharat Gulati:** But still just trying to understand, I mean, if we talk numbers from listing price, market value today is down almost 50%. So what's stopping the Board from a buyback? I mean, it just doesn't give investor confidence when the Board at a 50% discount to listing price is not willing to announce a sort of buyback with a huge cash balance on books.

And also, no sort of dividends have gone up. We sit at almost a 10% free cash yield right now. So I am talking about dividend payout ratios going up. So just trying to understand the thought process. I mean, I understand that acquisitions play a part in future growth. But on a 5-year basis also, if you look at it, revenues on an organic basis haven't significantly gone anywhere to drive shareholder value. So just trying to understand what's the thought process?

It's been a couple of -- it's been the second quarter where we've missed our own guidance as well. Q4 was the exit of FY26, we missed guidance. And again, this quarter, we've missed margin and top line guidance. So just trying to get the thought process behind what is the Board's thought process for creating shareholder wealth or sort of giving back to shareholders?

**Vijay Thadani:** Yes. So Vijay here. Let me try to answer that question. I think there are 2 issues that we are talking about and they have to be treated separately. Following the company's strategy and ensuring that we create long-term growth and investing in that growth is one part of that strategy.

Having cash in the book and finding it given the requests and suggestions that have come from some of you or many of you about considering some kind of wealth creation or possibility of giving back money to the shareholders is another, and both can coexist.

We are not close to the idea of, and I think I said that in the investor meet when we met on 10th of September, that we are in the process of evaluating where and what time will that happen. We are in the process of our planning conference and the planning assignments. And we also have a substantial small amount of debt, but I think these acquisitions, we have not paid the whole amount of money. There is money still to be paid.

So I think considering all these things, at an appropriate time, and I think our whole Board was there at that time. Most of the Board members were there. We said that we will consider it at the most appropriate time. So I don't think we are close to the idea. You just have to wait.

**Bharat Gulati:** Understood. No, I think that's helpful. But just -- okay, just trying to understand what would be the EBITDA margins we'd be operating at currently in our business ex of SweetRush? I understand SweetRush is a little bit of a drag on margins currently. What would our NIIT business and the other businesses that we've acquired, what EBITDA margins would that be operating at?

**Vijay Thadani:** It's 20-plus percent range. I also want to say one thing. When Sapnesh talks about organic growth being muted, St. Charles is now considered organic. It's part of -- it's been integrated into the system.

And therefore, looking at the performance of St. Charles subsidiary in isolation is not a good way of figuring out the benefit of that acquisition is the right -- is one statement I would like to make because once the acquisition gets integrated, even though the entity remains separate, I think we need to see the overall impact.

And I think Sapnesh's response to you for how it has contributed to an overall consulting velocity, I think that is something that you should consider when you are looking at the efficacy of that acquisition.

I'm not trying to defend one or the other, but I'm just saying overall, that is the context in which we should talk. As far as SweetRush and MST are concerned, they are new acquisitions. And I think Sapnesh had guided right in front that in both these cases, there is some work to be done.

It's obvious that, that work is taking longer given the macro environment, but the fact remains that they are on the right track.

**Moderator:** The next question comes from the line of Aman Prakash an Individual Investor.

**Aman Prakash:** So in the introductory note, there was a mention of tailwinds that the management is seeing. I would like to know more about it, and can you tell us, in your interactions with the customers, how is that developing? And when can we start seeing it in the top line as well as the margins?

**Sapnesh Lalla:** So like I pointed out, there are 2 dimensions to the tailwinds that we see. First one is the volatility and the uncertainty in the market, and that is pushing many large Fortune 1000 corporations to relook at their fixed costs and find a method of restructuring those fixed costs into variable costs. And that often results into layoffs as you might have seen in the press over the last several days.

That results into organizations looking at variabilizing fixed costs and outsourcing of functions that are not core to an organization is one method of converting fixed costs into variable costs. That acceleration is likely to be a tailwind for us, and we saw that in play in some of the deals that we have closed this quarter.

The second is transformation. AI, like I mentioned, is starting to transform work, and it's expected to accelerate this transformation over the next 5 years. An accelerated transformation of work will result into the need for talent transformation.

Transformation into roles that don't exist today. And those roles can be trained only by -- and be made proficient only by way of learning and development because you can't hire for those roles. And the existing learning and development organizations find themselves ill-equipped to enable that transformation. That with our investments in AI-enabled proficiency building and capability building, we think that we have a great opportunity to enable talent transformation.

The synthetic work opportunity that we discussed earlier today is an early indicator of our position and how we can monetize from it. This is a large association. It's an apex body in the United States for finance and accounting professionals.

It is using our services to build a product that will enable its members to onboard young professionals who got certified in finance and accounting to become public accountants. That acceleration as accounting and other professions change because of AI will set us up in a good stead where our solutions will be used by a larger set of organizations to transform the talent that they have as AI transforms work. So we expect these tailwinds on these 2 counts over the long-term.

**Aman Prakash:** So just coming to the second part, right, I mean, I'm in sync with what you have said, right? So for a lot of these roles, right, no one knows how they are being impacted. So what is our approach to kind of -- you also mentioned, we don't know what these new roles would be. So how are we winning contracts and positioning ourselves in the market when we ourselves don't know what these new roles are, right? What's the approach like?

**Sapnesh Lalla:** I think the clients that we work with are starting to have a fair idea of how AI is transforming work. They have a deep understanding of how work is starting to change and likely to change. And we work with them and we co-design programs that will enable them to onboard professionals into new roles.

I'll give you an example. Forward deployed engineer was not a role 2 years ago. It's now a significant role, and it's a key enabler for AI-led transformation for a number of companies. Saying that organizations don't know what a forward deployed engineer is likely to do would not be right. Most organizations have a clear idea of what their forward deployed engineers should do.

The collaboration between those firms and NIIT is going to create forward deployed engineers that work well for them and enable transformation at their organizations. So there are a number of examples of such transformations.

Again, I would say talent transformation, it is going to be reality as AI transforms work. There are a number of roles that are starting to transform, and there will be many more that will transform in the future. Having built the platform for synthetic work and having a science-based methodology to enable organizations to improve time to proficiency as roles change will create a clear advantage for us.

**Moderator:** The next question comes from the line of Ganesh Shetty an Individual Investor.

**Ganesh Shetty:** My question is regarding this Bluewater acquisition. So you mentioned that its annual revenue is around $8.5 million, but it has got a very large number of clients as well as catering to different sectors. So is it a good opportunity for us to mine new clients from the different sectors as well as with a good capability, renowned capability of Bluewater? Will it be able to get more of customers for managed services, sir?

**Sapnesh Lalla:** Thank you. That's a great question, Ganesh, and thanks for joining this call. Bluewater has unique capability in helping organizations consult as well as implement their human capital management systems. As you might be aware, a lot of transformations across large enterprises are technology-driven.

As talent transforms, the technology that services this transformation has to play a significant role in managing that transformation. As you are aware, so far, our focus has been on 3 core areas of learning, learning content or learning experiences. Second, delivery of learning by way of instructors. And third, managing operations and logistics of the learning function.

Learning technology is going to play a very significant role going forward, as talent transformation and large-scale talent transformation at rapid pace becomes important. The learning technology systems, including the human capital systems, store and manage large amounts of learning data for clients. It's super important for our AI strategy to be -- to have access to enterprise data and be able to connect learning data with performance data of key roles in an enterprise.

Our ability to consult and implement human capital solutions for organizations will help us in connecting with enterprise data and being able to hyper-personalize learning models that can improve proficiency at a pace that would be needed as AI transformation takes shape. It will also create downstream revenue opportunity because it will become an entry point as an organization starts to transform how it manages talent.

**Ganesh Shetty:** Sir, my second question is regarding our margin picture. This quarter, we have derived around 16.5% of EBITDA margin. We used to be having EBITDA margin of around 20% for a very long time, and at good times we had even crossed 20% to 23% also. And with the major work of integration of MST and SweetRush is behind us, I feel. Will it be able to at least derive 18% to 19% after a quarter or 2? Your take on this, sir, please?

**Sapnesh Lalla:** Thanks for the question. Yes, we will be able to close the year with margin around 18%. And as the integration of the entities we acquired starts to become accretive to our margins, we should see a move back to 20%.

**Ganesh Shetty:** Sir, my third question is regarding our EMEA Confluence, which concluded in London. Can you please give us some key takeaway of this conference? And also please let us know the mood of the people in learning outsourcing as a new initiative, how they are thinking about it? And any new sectors, those who are willing to go for this learning outsourcing program? Your take on this will be very appreciated, sir.

**Sapnesh Lalla:** Thanks, Ganesh, for the question. I am going to invite Sailesh, who heads sales, marketing, and consulting for NIIT Learning to answer your question.

**Sailesh Lalla:** Thanks, Ganesh. I think what we heard loud and clear in our conference, both from analysts and our customers, were a number of key messages. The first one was that there is a clear and present need to move to an AI-ready L&D enterprise.

That's the number 1 factor that is confronting all our clients. The need to transform is real. It is also very real that most organizations don't have a clear road map or direction to how. And NIIT is seen as a clear thought leader with distinct advantages, deep expertise, consulting capability, technical depth, and depth of client relationships to be their guide and partner.

Some important shifts that are happening. The key messages are content is abundant, but capability is the key job. Most clients are looking at not optimizing the yesterday's model, but redesigning from the work that is looking ahead. AI adoption is broad, but transformation is thin. And that's the number 1 opportunity for us.

And overall, as AI absorbs procedural work, the human edge is judgment, relationships, and leadership in the human plus AI world. So there is a pretty significant shift that is happening in the L&D landscape.

And each and every company needs to transform from courses, catalogs, and completions to capability, readiness, and business outcomes, demand-driven intake to strategically prioritize

capability and a number of shifts in the overall operating model of L&D. And that's where we see significant excitement in helping our clients in achieving this transformation.

**Moderator:** The next question comes from the line of Kunal with FVC.

**Kunal:** My first question is, what does a client measure when they engage you or someone else as a managed service provider? What KPIs or success factors do they look at? And how has that changed, let's say, from 5 years ago?

**Sapnesh Lalla:** So I don't know if I got your question completely, but I think you're saying what are the criteria that our clients look at when they select us and how is it different from 5 years ago? Is that your question?

**Kunal:** Yes. When they select you and judge you, whether the task that NIIT was hired to do, how was it done to competition.

**Sapnesh Lalla:** I am having a hard time hearing you clearly. But the question that we did get, I'm going to request Sailesh to answer that question.

**Sailesh Lalla:** So most managed learning services contracts have a very distinct and clearly defined key performance indicators. They fall into 2 categories. One is service performance and service excellence when clients move significant amount of their learning function over to NIIT. These are defined by SLAs around a variety of different measures where we are held accountable for delivering to a certain set of very clearly defined service level agreements.

The other side is around effectiveness parameters, which are around more broader business outcomes, which could be things like time to proficiency, overall cycle of performance, which are now becoming increasingly important. So the shifts that we are seeing are over a period of time, we will see more accountability towards business outcomes in addition to continuing to be very reliable operators, a variety of clients' trading needs.

**Kunal:** That was what I was looking for. The second question was, on Page 22 of your presentation, you have a slide mentioning the new AI-enabled point solutions as well as NIIT's learning platform. You talked about this in your introductory remarks as well. And my question was, is this more of a SaaS type business?

**Sapnesh Lalla:** Is it more like a SaaS, Software-as-a-Service business?

**Kunal:** Yes.

**Sapnesh Lalla:** The part of our AI-enabled offering which has subscription associated with it is, you can consider like a SaaS business.

**Kunal:** What -- and can you explain the role of the AI learning platform more? What it is, what it does? And are you offering it as a part of the managed services or as a standalone platform as well?

**Sapnesh Lalla:** We offer it as part of the managed service. The role of the platform is to accelerate the pace of achieving higher proficiency or to move from being a training program where you achieve completion as a criteria to achieving capability as an exit criteria. That's really what our platform enables us to achieve.

This might require -- I mean, if you want to really get into the detail and science behind it, it might require more time. We have limited time on this call, but we would be happy to discuss it, if you'd like.

**Moderator:** The next question comes from the line of Dishant Jain with Quasar Capital.

**Dishant Jain:** Sir, can you please provide some color, maybe on the qualitative side on MST and SweetRush? Like how they are performing in terms of cross-selling, scope expansion, anything that can be helpful?

**Sapnesh Lalla:** Sure. So with respect to cross-selling, we are starting to see cross-selling take root in both MST as well as SweetRush. The opportunity that I talked about with the Professional -- Apex Professionals Association showed that collaboration where there was use of NIIT synthetic work platform and along with SweetRush's co-design model that enabled them to create a prototype and model that impressed this association to take on full adoption.

Likewise, in the DACH region, we were able to grow one of the opportunities. Now industrials are down in the DACH region for all the reasons that you know. But over the last 1 year, we've had clients with whom we've been able to grow business because of extended NIIT capabilities that are now offered to clients, MST clients.

**Dishant Jain:** Sir, at what margin level does this Bluewater operate at?

**Sapnesh Lalla:** The margin is likely to become accretive over the next 4 to 6 quarters.

**Dishant Jain:** Four to 6 quarters. Okay, sure.

**Moderator:** Yes, Mr. Dishant, does that answer your question?

**Dishant Jain:** Yes.

**Sapnesh Lalla:** I think we have time only for one more question.

**Sailesh Lalla:** Do one from each. There are 3 or 4 in queue. Then do a quick one.

**Sapnesh Lalla:** We have only 1.5 minutes.

**Moderator:** Okay, sir. The next question comes from the line of Shradha Agrawal, Asian Markets Securities.

**Shradha Agrawal:** Two questions. First is, how should we look at the growth directionally in second half? And secondly, I think in one of the earlier questions, Sapnesh indicated that acquisitions efficacy should be seen from a more medium to long-term.

But it has been 4 years that we acquired St. Charles, and I guess we are still down from the revenue that St. Charles was doing in '24 -- in '22, sorry. So then how should we read the success of any acquisition? And if that is the case, does it make sense to go in for acquisitions the way we are going ahead with the 3 back-to-back acquisitions in the last 1.5 years?

**Sapnesh Lalla:** Let me answer your first question -- second question first. Like Vijay pointed out, it would not be right to look at the efficacy of the St. Charles acquisition on the performance of the standalone entity. We all know professional services firms have compressed their spends, but the expertise that we got in consulting, as I pointed out earlier in my discussion, has been broad-based and applied to a broader base of clients across NIIT.

Like I pointed out just a few minutes ago, we added 8 new clients for transform opportunities, which we would not have got if we did not have consulting capability. And the consulting capability that we acquired has been deployed across a larger set of clients. Those clients happen to be on NIIT paper, but use the capability that we acquired with respect to St. Charles.

So while you're right in saying that the entity financials have gone down, and that's owing to the compression of spends across professional services firms. It's plausible that those spends will come back because those are large clients and have been their clients for several years.

They see them as a trusted partner. But the capability has been deployed in a broad-based set of clients and several of them are new clients for NIIT and will have downstream potential for becoming managed learning services clients.

I think your first question was how do we look at the efficacy of acquisitions? I'll go back to what we did with Eagle Productivity Solutions, a small entity that we acquired. It had -- at the time when we acquired it, we had one client in the pharma and life sciences space. Now about 16% of our revenue comes from pharma and life sciences clients, and we work with 7 of the largest pharma companies globally.

So I think the way I would think about efficacy of acquisitions we make is on account of use of capabilities that they bring in growing our business. I think we are out of time now, so we should close this call.

**Vijay Thadani:** So if there are any follow-up questions, we will schedule another call if need be or please be in touch with Kapil, and he will be very happy to organize another call or answer your questions. Operator?

**Moderator:** Yes, sir. Thank you. On behalf of NIIT Learning Systems Limited, that concludes this conference. Thank you for joining us today. And you may now disconnect your lines. Thank you.