



“NIIT Learning Systems Limited
Q2 FY '26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to NIIT Learning Systems Limited Q2 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 the call, please signal an operator by pressing star then zero on your touchtone phone.

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 afternoon, all of you, for everyone who is joining the call. Thank you for your interest in NIIT Learning Systems Limited and for joining the call today.

The agenda today is to provide an update on the results of Q2 FY '26, which were announced yesterday, but because of being a public holiday, could not be shared. We could not do this call yesterday. We also want to provide you an update on the inorganic activity which was completed during the quarter. That, of course, was shared earlier but this will be a reiteration of that.

As a starter, I just want to mention that this quarter's results is a significant validation of our AI-first strategy with the recognition by Fosway, the leading research firm, of our pole position in AI for learning and our AI-enabled revenues are now contributing almost 10% of our business this quarter. So, we would like to share that with you as well as the outlook for this business.

As usual, I have the whole team with me as we attend to this call. Mr. Sapnesh Lalla, our CEO, will lead the call. Sanjay Mal, our CFO, Kapil Saurabh, our M&A and Investor Relations, Mr. Jaswinder Chadha, who looks after finance of NIIT Learning Systems, global operations, and many other colleagues are joining this call and will be participating in answering your questions.

So, with this, I now hand you over to Sapnesh, who will take us through the initial brief and then we'll open up for questions.

Sapnesh Lalla: Thank you Vijay, and good afternoon to all of you and thanks for joining this call. In our prepared comments, I will review the performance and also share expectations on the path ahead. First, let me set the context.

The global economy, economic environment continues to remain volatile and uncertain, driving longer decision cycles and stakeholder changes across sectors. We are starting to see marginal pickup in consumption, although our clients continue to remain focused on cost discipline and continued scrutiny of discretionary spending. That said, the situation remains dynamic and we continue to adapt to the volatility in the environment.

AI is continuing its rapid march to becoming mainstream with significant investments by early movers, including several of our clients across different segments. Despite this challenging backdrop, the business delivered a strong operating performance. Our revenue grew 20% year on year and 5% quarter on quarter.



In constant currency terms, the revenue was up 15% year on year and 3% quarter on quarter. As shared earlier, as well as by Vijay, we completed the acquisition of MST Group in Germany in July, excluding contributions from the MST Group, the revenue was up 17% on year-on-year basis and 3% quarter-on-quarter.

Please note that, our fiscal quarter two is a vacation quarter in a lot of Europe, more specifically in Germany. Overall, revenue came in at the upper end of our guidance. This performance was driven by ongoing customer additions and ramp ups, once again underscoring the strength of our go-to-market engine and the value that we bring to our clients, as well as the trust and faith our clients have in our delivery and execution for their critical needs. We continued to see strong customer traction, securing three new MTS logos.

Further, we renewed three existing contracts and expanded the scope of one large client, maintaining our 100% renewal record. As we have guided earlier, the addition of MST added seven marquee clients in Germany, taking our MTS client tally for the first time past the 100 mark to 104. Our ability to expand share of wallet with existing clients remains a key growth driver, supported by deepening relationships and demonstrated delivery excellence.

While spending from existing clients saw marginal improvement, the recovery remains gradual and overall spending remains meaningfully low in slowdown levels. We remain cautiously optimistic on the recovery as we continue to create new value for our client. 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 30th. We have also finished the teach-out and transition this quarter. As shared earlier, we have made significant progress in building our AI capability.

We now have a pole position as acknowledged by our clients, as well as industry analysts, as Vijay pointed out earlier. And IT has always been at the cutting edge of technology and learning. Our AI for strategy and learning has evolved into a considerable point of differentiation for us.

We have gone live with a number of enterprise deployments of our AI solutions. Notably, total AI-enabled revenue grew to about 10% of the business this quarter. We expect this percentage to grow rapidly as we look ahead into the next several quarters.

Coming to our financial results in Q2, revenue for the quarter was INR4,757 million. This was up 20% year-on-year and 5% Q-o-Q. In constant currency terms, revenue was up 15% and 3% quarter-on-quarter.

EBITDA for the quarter was INR966 million. It was up 2% quarter-on-quarter, EBITDA margin of 20.3% as guided by us in the past. Business highlights. Let me touch on some of the business highlights. Like I pointed out earlier, we added three new MTS contracts, three renewals, one expansion, and as mentioned earlier, added seven new MTS clients by way of MST Group becoming part of NIIT.



The revenue visibility now stands at INR 409 million versus \$388 million at the end of last quarter and \$368 million at the end of same quarter last year. Back to a little more color on the financials. Depreciation and amortization was at INR 84 million versus INR 81 million last quarter.

This includes a notional amortization charge of INR 32 million related to St. Charles consolidation and a new charge of INR 21 million due to the MST Group acquisition. Net other income was negative INR 89 million as compared to negative INR 40 million last quarter and negative INR 38 million last year, same quarter.

I will invite now Sanjay to walk us through and provide more color on other income.

Sanjay Mal:

Thanks, Sapnesh. Net other expense in a way was contributed by lower treasury income at INR 74 million this quarter as against INR 125 million the previous quarter and INR 117 million in the same quarter last year. We had strategic growth and acquisition expenses which were about INR 120 million this quarter as compared to INR 112 million previous quarter.

The demerger-scheme related expenses are at INR 2 million, which were INR 5 million in the previous quarter. Other income which is negative INR 41 million, and the treasury income includes the impact of MTM on fixed income investments due to interest rate volatility. During the quarter the tax came at INR223 million. The tax was higher, marginally higher due to transaction and notional consolidation charges that are not tax deductible and the withholding tax on dividend from a foreign subsidiary during the quarter which we declared for the shareholders in this quarter.

Sapnesh Lalla:

Thanks, Sanjay. Given some of the non-operating transaction related transitory expenses as well as mark-to-market charges that Sanjay explained, our PAT was at INR470 million and the EPS was at INR3.43.

Our balance sheet and cash flows continue to remain strong. DSOs stood at 66 days. Cash and cash equivalents were at INR8,079 million. The capex for the quarter was INR99 million as we continue to invest in Gen AI.

Operating cash flow was INR777 million, with free cash flow at INR677 million. The net cash position was at INR5,917 million. I wanted to spend a minute on our guidance before I get into providing a view on our strategy and overall market update. We continue to see a robust contract pipeline and we are continuing to execute and convert that pipeline into contracts as you noticed for the previous quarter.

We are also in the process of ramping up new customers. For Q3, our constant currency growth is expected to be between 2% to 3% quarter-on-quarter. For the full year, we expect constant currency growth to be around 12.5% to 13% year-on-year and our margins are expected to be in the 20% to 21% range for the full year as well as for Q3.



For the full year, we have retained our guidance as we provided previous quarter. Overall, like I have said earlier, market volatility continues to heighten. The emphasis on cost optimization prompting increased client engagement on large scale cost takeout and transformation initiatives.

Although, I would point out that decision cycles for these initiatives tend to be long. AI and its profound impact on practice of learning and development is real and is starting to become visible as you notice from our numbers. Early adopters are starting to take advantage of AI with our assistance.

We think that, this has a potential to become a multi-year growth opportunity for your NIIT. We believe NLSL is well positioned to capture a disproportionate share of these opportunities underpinned by continued investments in AI, consulting and advisory services as well as sales and marketing. A strong brand as a trusted and reliable market leader.

A deal pipeline, as mentioned earlier, continues to be robust with active opportunities across large deals, across technology, automotive, life sciences and BFSI sectors. However, we 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 today. We continue to make disproportionate investments in new capabilities and go-to-market strength.

We saw that demonstrated by our investment in acquiring MST to penetrate the dark region as well as the German market significantly. We will continue to make such investments to improve the capability and the value that we are able to bring to our clients. Generative AI is becoming increasingly central in our client discussions.

The broader adoption at enterprise scale for L&D remains cautious. Nonetheless, we are rapidly expanding our use of AI across multiple workstreams. Where deployed, we are becoming more ambitious in delivering measurable learning outcomes for our clients, while also realizing notable efficiency gains.

A minute on reminding everyone on MST becoming part of NIIT. We announced on July 9th, we completed the acquisition of MST Group based out of Munich in Germany through NIIT Ireland. The transaction aligns with our strategy to invest in new capabilities, geographies and verticals.

MST strengthens our presence in the DACH region and brings more heft to the industrial vertical that we serve. This combination unites MST's local agility and sector depth in industrials with NIITs – NIIT, MTS with global scale and AI-enabled solutions, positioning us as a partner of choice for enterprise learning transformation.

With that, I'll hand the conversation back to Vijay, and we can open it up for questions post-op.

Vijay Thadani:

I think we can open it up for Q&A now.

Moderator:

Sure, thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask questions may press star and one on their touchtone telephone. If you wish to



remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Hello, hope my line is okay.

Vijay Thadani: The little muffled sound. Rahul, your voice is a little muffled.

Rahul Jain: Yes, is this any better?

Sapnesh Lalla: Yes.

Vijay Thadani: Yes, it's much better.

Rahul Jain: Yes. Sorry for that. So, yes, I have a few questions. Firstly, how are we planning to account the MST revenue? If I remember the number that we shared at that time in the filing was €17 million and there was an adjusted to expense revenue of €10.6 million. So, what is the, remunerate that we would account for? And what is the number of days contribution from MST in this particular quarter?

Sapnesh Lalla: So, from an accounting perspective, we would continue to book their net revenue and consolidate net revenue into our accounts. Like I pointed out, this was a truncated quarter and a quarter with a lot of vacation in most of Germany. So, their revenue that came in, which contributed to about 2.5% in terms of growth was not what you would consider unpaid revenue. Their unpaid revenue would start from this coming quarter.

Rahul Jain: Sure, sure. And one large account, which we were expecting to come to rest, so, is that finally accounted for in this quarter? Is there further more left which could go down in Q3?

Sapnesh Lalla: No, like I pointed out, we have completed the transition and teach out of the North American real estate contract. I am guessing that is what you are asking.

Rahul Jain: Yes, yes. Okay. So, that and to your commentary on expecting 12.5% to 13% growth is what I could hear from your prepared remarks. So, just to understand that, is this what we have in terms of addition has been pretty strong? And is there an element of conservatism given that we have seen 10 to some time for some reason or the other? Or there could be risk to that level given the kind of macro we are in?

Sapnesh Lalla: So, you are breaking up, but what I took away from your question was whether the projection or the guidance that we provided is conservative, or there may be an element of risk. I would say, what we provided is what we can see. It is inclusive of organic growth that we guided for 10% plus as well as the 2.5% to 3% that MST is likely to add to our overall growth for the year. That said, there is a risk in the market and we are not immune to that risk, but we feel that we have the potential to meet the guidance.



Rahul Jain: Understood. And just last bit from my side. You have shared this additional input that AI-enabled revenue grew to about 10% in Q2. So, any color if you could share in terms of what is the precise nature of it? When we include this, are we also counting where it has used from a delivery perspective or the final outcome of the output that we have given is AI-powered? So, how we are defining this and what all opportunity we see here? Thank you.

Sapnesh Lalla: So, this is the first time we are providing this metric and over time we will provide more color. But at the outset, what I would want to say is the AI-enabled revenue is inclusive of use of our AI studio for creating works or work products that our customers are likely to consume. Those work products, it is possible may have AI attached to those products and therefore, would have live AI interactions as they are consuming those products as well as those products could have been built using our AI studio.

So, it's a combination of both. And as we start to measure and provide more qualitatively this revenue, we will start to provide a little more color. But what we are really enthused about is the fact that about 10% of our business is now AI-enabled and we are starting to see significant growth opportunity in that percentage in Q2.

Rahul Jain: Yes. Thanks for that color, Sapnesh. Just two, if I could I would like you to start on this. So, the both aspects of it, one is you said using your AI studio. So, that in your opinion, enhancing that is more about productivity side of it. If yes, then what is the value that we are driving there?

And secondly, when it is more AI live consumption, even at the product level, I think the experience of getting enhanced significantly. Do you think by doing that you are opening up a larger opportunity and also competitive edge, any color that would be great?

Sapnesh Lalla: So, personally, and I have mentioned this in the past, we don't think efficiency will add a huge amount of value to our clients. I think what will add a lot of value in terms of use of AI is the effectiveness of training that we build for our clients. And that is the majority of what we do.

Your second point about are we embedding or attaching AI interactions, which the clients could continue to use as they are consuming the content? Yes, part of that 10% is that and we expect that 10% or that part will grow faster and create a significant line of business for us.

Vijay Thadani: Plus that will be continuing revenue.

Sapnesh Lalla: And that would be continuing revenue. So, while a large part of our revenue is delivered on a work for hire basis, but there is an element of subscription revenue that AI brings, which could be continuing and which could create a significant growth opportunity.

Again, we are starting to track this metric. We have been tracking it for a couple of quarters now and we thought that it will be useful to share it with our analysts and stakeholders. But over time, we will provide more color.

Rahul Jain: Right. Right. And just a small feedback, it would be great if we also keep disclosing whenever we would do with whatever frequency, the breakup of both sides. One is on the production side



versus on the consumption side for the customer, because I think the later is what is a more powerful differentiation. Of course, both are equally relevant.

Sapnesh Lalla: Yes, I would say at least for our clients, both are very valuable.

Rahul Jain: Okay, great. Great. Thank you. Thank you so much.

Sapnesh Lalla: Noted with feedback. Thank you.

Moderator: Thank you. Next question is from Deepan Sankara Narayanan from TrustLine Holdings. Please go ahead.

Deepan S. Narayanan: Good evening, everyone, and thanks a lot for the opportunity. So firstly, congratulations for strong double-digit growth in revenues year-on-year. So we could see that excluding management consulting and other segments, the revenue growth was strong by 30%. But what is the key reason for this 22% Q-on-Q decline in consulting and professional services? And when do we expect recovery in growth of this segment?

Sapnesh Lalla: Thanks. Thanks for pointing that out. There is some amount of seasonality across the management consulting and professional services clients. Unlike the large majority of our clients who work off of a calendar year fiscal, some of our clients in management consulting and professional services have mid-year year ends, and that tends to distort the picture, where their consumption increases towards the end of their fiscal years.

But that's really the reason for quarter-on-quarter. I think a better metric to review performance in management consulting and professional services segment is to look at the year-on-year. And I think we are starting to bottom out and starting to look at growth coming back to that segment.

Deepan S. Narayanan: Okay, okay. And considering now the top line growth is visible, and do we expect higher operating leverage playing out in coming quarters with the margins improvement? And this line item of expenses like professional and technical outsourcing, that has gone up substantially high. So, will it stabilize at these levels or it will fall from here?

Sapnesh Lalla: So, I think you asked two or three questions. Let me see if I can respond to most. I think your first question was, do we expect to gain operating leverage? And I would say what I've said in the past that we continue to see very significant opportunity, the market is underpenetrated. So, we'll continue to over invest in capability building as well as sales and marketing and rather than pulling out operating leverage. I think, what was the second question?

Vijay Thadani: Professional and technical services.

Sapnesh Lalla: Yes, you mentioned that there is an increase in variable cost or professional services expenses. Mostly, that's a measure that we use when the market environment is volatile.

And again, this is something that I mentioned in the past. We do not want to be a firm who increases headcount not knowing with certainty the utilization. So, our expectation is that only when certainty comes back will we add headcount and increase the fixed cost.



Till then, we continue to rely on our partner network and rely on variable cost to deliver the business that we are gaining.

Deepan S. Narayanan: Okay, okay. And so considering our strong positioning as number two among specialized learning outsourcing firms worldwide and huge opportunity in terms of outsourcing penetration increasing. So, what are the challenges even currently we are facing in scaling this revenue growth to higher growth rates for even medium to long-term?

Sapnesh Lalla: Yes, I think we are starting to grow faster, you may have noticed. And that acceleration is testament to the value proposition that we bring to our clients. The market environment is very uncertain.

However, there are parts of this uncertainty that work in our favor. If you go back into time, you will notice that whenever there has been high uncertainty or high inflation or high volatility, there has been a remarkable increase in outsourcing. And we expect to experience the same over the next several quarters.

I think also, there is a flip side to that where at times of uncertainty, decision making slows down. But I think we think that we have a positive here. A large number of enterprise clients are focused on improving their cost basis and figuring out how in such a volatile and fast changing environment they can provide better learning outcomes to their employees and extended enterprise employees.

And they see an IIT as a viable choice. So, I think overall, we have a strong growth opportunity. It will take time given the environment, but we think that from a long term perspective, we have a strong growth opportunity.

I would like to say that we have a pole position as pointed out by our clients who have renewed their contracts year-on-year with us, as well as what Fosway Group pointed out, like Vijay mentioned, where our investments in building capability are becoming visible not just to our clients, but to analysts as well.

Deepan S. Narayanan: Sure. Thanks a lot and all the best.

Sapnesh Lalla: Thank you.

Moderator: Next question is from Sankaranarayanan from ithought PMS. Please go ahead.

Sankaranarayanan: Good evening. My first question is regarding the AI enabled revenue. So, is it related to one of our major services content creation or are we providing broad based use cases from this AI enabled service?

Sapnesh Lalla: I really can't hear what you are saying. You're coming in very faint. Can you say your question one more time, please?

Sankaranarayanan: Am I audible now?



- Sapnesh Lalla:** Yes. Yes. Much better.
- Sankaranarayanan:** Yes. I was asking whether this AI enabled revenue, is this business contributing more from a content creation service perspective?
- Sapnesh Lalla:** I would say, it's a combination of content creation, embedded AI interactions in the learning materials that we provide, as well as assistance to learning delivery by way of expert coaching that helps our instructor teams deliver better outcomes in classes. So, it's more broad-based than just content creation.
- Sankaranarayanan:** Got it. And from a margin perspective, is it same compared to the overall business or how is it?
- Sapnesh Lalla:** Like I pointed out, we have started tracking this recently and we provide color and more qualitative information over a period of time.
- Sankaranarayanan:** Got it. And one more question. Let's say if one of our clients is doing a massive layoffs and how will that unutilized budget of outsourced L&D spend will be moving going forward? Will they take back those budgets to themselves or do we get those incremental wallets from them?
- Sapnesh Lalla:** I think nobody wants to give up their budgets. That's a basic rule in most enterprises. But that having been said, I think the layoffs are happening because there is an imbalance of skills in an enterprise.
- It's not an imbalance of people. It's an imbalance of skills where given the rapid change of relevant skills that are needed by an enterprise to grow, they find that parts of their employee base do not have those skills and it will be hard for them to train those employees on the new skills that are needed. And therefore, they decide to lay off those employees.
- However, on the flip side of it, given the rate of change of skills that are needed for growth, the consumption of training is likely to go up. Like I pointed out, we've seen some improvement with respect to consumption of training over the last couple of quarters. And we think that as the rate of change of skills needed to grow changes rapidly, we think that this will improve the opportunity we have.
- Sankaranarayanan:** Understood. Last two questions. One is our professional and technical outsourcing expense. Is it mostly towards getting the new trainers or working professionals to be deployed in a project? This is my first question. And then, unlike IT companies who are winning deals for the last two, three quarters, broadly, from an L&D outsourcing perspective, the last two, three quarters have been muted in terms of winning deals.
- Why do you think there's a difference between outsourcing IT or prioritizing IT first and then prioritizing L&D first? What's your thought on this, on outsourcing?
- Sapnesh Lalla:** To answer your first question, I think I mentioned it earlier. Given the volatile environment, we do not want to add to our fixed costs and are relying on variable costs to deliver against growth that we have seen. As we see the volatility subside, we'll start thinking of adding to our fixed costs.



But at this point in time, we want to contain our fixed costs and deliver the growth through using variable costs, be it trainers, be it other professionals, and so on and so forth. I think your second -- what was your second question? Just say it again.

Sankaranarayanan: Sir, I was just comparing the deal wins, winning by the top IT companies on a broad industry. How is it different from outsourcing their L&D?

Sapnesh Lalla: I think if there was a pecking order, IT followed by BPO followed by training in terms of priority with respect to outsourcing. And part of it is just the amount of spend. The second part of it is a lot of times, IT is more deeply and directly connected with business as compared to L&D, which is one step removed.

Sankaranarayanan: Got it. And do you see any impairment that you will do in financial services considering its neutered revenue growth?

Sapnesh Lalla: At this point in time, we have retained the opportunity to grow that business, given for professional services firms, people are their product. And given the rate of change of skills, it's likely that expense will, that business will grow. We also are starting to see early signs of growth in that business. But we will take these decisions at an annual cycle towards the end of the year.

Sankaranarayanan: Got it. Thank you and wish you the best of luck.

Sapnesh Lalla: Thank you.

Moderator: Thank you. Next question is from Ganesh Shetty, who is an Individual Investor. Please go ahead.

Ganesh Shetty Sir, congratulations for a good dividend growth during the quarter. I just want to have some – Hello – Sir I want to just have some more information on MST. That MST group we have acquired and they have some near shore capabilities. Will it enhance our operational efficiency in delivering to the European countries?

And from that perspective, there can be some operational efficiency and operational margin improvement. Can you please throw some light on this, sir?

Sapnesh Lalla: Absolutely. That was one of the reasons for looking at MST as a viable opportunity. The near shore capability in Eastern Europe would be very helpful for helping our clients, especially, as costs become critically important for our clients in Europe. How soon we will realize cost savings is to be determined, but over a period of time, it would be very beneficial.

Ganesh Shetty: So my second question is regarding our sector exposure. And in the recent past, we have emphasized our intention to enter into other sectors like new energy or automobiles, which is also catered by MST. So is there any progress in that matter and the capability building from our end, how it is all moving ahead, sir?

Sapnesh Lalla: Thanks. I think that's a great question. As you have seen, we have expanded in the energy sector, in the aerospace and aviation sector, as well as in the mining sector. From this quarter onwards, we have consolidated these into an industrial segment that we are starting to report. In the



industrial segment, given MST joining NIIT, we have also included the automotive segment. I think each one of these segments as part of industrials creates a growth opportunity for us.

It's a very significant segment of the market. And with the capability and the geographical closeness that we have with the acquisition of MST, as well as the skills that we have developed over a period of time or the capability that we have developed over a period of time addressing energy, mining and aerospace keeps us in good stead to grow in the industrial segment.

Vijay Thadani:

That's what I was talking about....

Sapnesh Lalla:

Overall, industrials are now at about 21% of our total business.

Ganesh Shetty:

Yes. So, my third question is regarding our sectors, which we are catering to mainly, that is life sciences and technology. The technology and telecom is facing a lot of stresses. And is there any decrease in discretionary spending or there is another part of it that the skilling may be required in a very enhanced position?

So, these two are the things which are contributing whether it is healthy or business, that is one thing. And second thing regarding life sciences, we had a great run in life sciences after acquiring Eagle Solutions. So is there any good improvement in the client mining? Can you please explain this, sir? All the best for the future. Sir, thank you.

Sapnesh Lalla:

Thanks. I think both are great questions. In technology and telecom, we are continuing to see growth mostly because of adding and ramping up new clients as well as you can imagine technology is one area that is changing rapidly and it is causing change globally.

So, we expect that we will continue to see growth in the technology and telecom segment. You are right in pointing out that we had a good run with life sciences. Almost eight or nine of the top 15 pharma companies are our clients. And as we add to our capabilities, both geographic as well as in the work that we have to offer, we should see continued growth in the life sciences segment.

Ganesh Shetty:

That is all from me, sir. Thank you very much. Thank you and thanks for your kind words.

Moderator:

Thank you. Next question is from Bharat Gulati from Dalal and Rocha. Please go ahead.

Bharat Gulati:

Yes, thank you for the opportunity. Sir, I just want to understand that, I just wanted a clarification on the guidance that you have given of 12 to 13 percent, is that organic growth guidance or overall guidance? Overall.

Sapnesh Lalla:

Overall.

Bharat Gulati:

Okay, so are we again guiding for organic? Yes.

Sapnesh Lalla:

Yes, our guidance -- we are retaining our guidance of 10% plus for organic.



- Bharat Gulati:** So, sir, I just want to understand that our run rate, I mean, the real growth for our MST group is going to start in the next quarter. So, are we being somewhat conservative with our guidance? Because I would expect that because European market is strong in Q3, you would see higher growth contribution from that in the third quarter?
- Sapnesh Lalla:** It is still early days for us with MST and what we are able to see is what we are guiding. We think that it has opportunity and we'll see that opportunity over time. Like I pointed out, we've had one truncated quarter, which was really a holiday quarter in most of Germany and the dark region. So, as we have more under our belt, we will probably become more accurate in providing that guidance.
- Bharat Gulati:** Got it. Got it. And so, would it be possible to give a broad view on how MST as a business on a standalone basis is growing? Like, how has been the year- on-year growth for MST?
- Sapnesh Lalla:** We have had them for less than one quarter. So, we will keep you posted on their growth opportunities as they spend more time with us.
- Bharat Gulati:** Got it. Got it. And sir, would you be able to mention going forward, how are we planning to grow in such a tough macro environment? And what exactly is our strategy going forward? What verticals are we going to focus more on? And what services are we more -- because I see that delivery service has been showing us good levels of growth. So are we going to continue to see growth continuing in the delivery vertical? Or how are our services also helping us to grow?
- Sapnesh Lalla:** Yes. I think like we've said, with MST, we have added to our capabilities in the industrial sector. Over time, we should see growth. Right now, with tariffs, there is uncertainty, and that might result into more outsourcing, but it's also possible that decision-making cycles will take a little bit longer.
- Technology and telecom is growing well for us, and we have an opportunity to do more. Life sciences is where we've gained significant traction. And notwithstanding tariff-related uncertainty, we might have growth opportunities there as well. So from a sector perspective, I think we have opportunities in a number of other sectors where we do a lot, inclusive of banking, financial services, insurance.
- In terms of practices, while we've seen significant growth in learning delivery, given what we are doing with AI, we think that the practice growth will also become more widespread.
- Bharat Gulati:** So from a medium term, maybe not in the short term, but in the medium term, do we see any margin benefits which we could get from AI revenue as it starts contributing more to our revenue as a percentage? Do we -- I mean, maybe not a guidance, but somewhat if you can give a broad direction about how it would turn out to be?
- Sapnesh Lalla:** It is possible. However, as a strategy, we have a strategy of disproportionate investments in sales and marketing as well as capability building. Like we mentioned that we think 20% profitability is good for our business, and we would like to stay there. And as we gain more leverage, whether



it is through products that have higher profitability or operating leverage, we would like to invest that to accelerate growth.

Bharat Gulati: Got it, sir. Thank you. That's it from my side.

Sapnesh Lalla: Thank you.

Moderator: Thank you. Next question is from Vinay Nadkarni from Hathway Investments. Please go ahead.

Vinay Nadkarni: Yes. Thank you. Just wanted to know the new three logos that you have had, those are from which sector?

Vijay Thadani: Three logos from which sector?

Sapnesh Lalla: Three logos from which sector? Give me a second. One of them was from technology or actually two of them were from technology and one was from industrials.

Vinay Nadkarni: Okay. And secondly on this MST revenues, their last year full revenue was around €10 million. Am I right?

Sapnesh Lalla: See, that's why I did not want to make specific comments on it. They have become part of NIIT for less than a quarter now, or maybe if we were to count from July, maybe a quarter and a little bit at this time. There is a gross revenue and a net revenue for MST. What we provided was our view based on our review of their documents. We would want to reserve our comments on exactly what the numbers will be with respect to net revenue as we look ahead.

Vinay Nadkarni: Okay, fine. And they would contribute only in automobile sector, is it, to begin with? I mean, that is what their core competency is?

Sapnesh Lalla: Their clients tend to be -- are in what we are now calling industrials, which is inclusive of energy and automotive. But we are calling it industrials.

Vinay Nadkarni: Okay. And lastly, you said that the real estate contract of North American US completed in first quarter this year. So, second quarter doesn't have any revenue of that, right?

Sapnesh Lalla: No. What I pointed out was that we had teach-out and transition. And so, there was some P&L impact of that contract in Q2 as well. Going forward, you will not see P&L impact from the North American real estate contract.

Vinay Nadkarni: Okay. Thank you. Thank you. That's all.

Sapnesh Lalla: Thank you.

Moderator: Thank you. Next question is from Pooja Doshi, who is an individual investor. Please go ahead.

Pooja Doshi: Yes, hi. Thank you. I do need clarification. So, my understanding is roughly 50% of your training is mandatory and largely at L1 level. And I believe this could be susceptible to AI-driven learning tools-related challenges. So, firstly, if that understanding is correct, and what strategies



are you putting in place to safeguard or differentiate at the L1 training level? So, that is number one.

And number two, around 10% of your training portfolio, I think, is immersive in nature. So, how do you see the mix changing? And of this, how much is one-time delivery versus recurring program? So, yes, these two things.

Sapnesh Lalla:

Okay. I think if I heard it right, you mentioned that about 50% of our business is L1 training. I don't think that is right. I would say only about 15% of our business could be categorized as L1 training. And I would say that the reason why organizations do L1 training is not because they don't know that the effectiveness of L1 training is a lot less than L2 or L3. It is because that is all that they can afford for a set of roles or skills.

As AI becomes more mature, and as AI starts to show benefits, our clients are likely to graduate most of their training to L2 and L3 training. So, we think that one of the biggest benefits that our clients will gain by using AI is not to improve the cost of the training that they are able to use, but to use better training for most of their use cases.

Today, if you think about it, if you look at an airline, there is a very significant and steep pyramid on the quality of training. The pilots and the cabin crew get the best training. And you could argue that the customer service agents, which there are a lot of, or the ground crew don't get, the quality of training that they get is not as good. And that's really because, and it is not that the airline does not want to offer great training to customer service agents, it's because that is all that they can afford.

I think by using AI, our clients will be able to offer way better training than they are able to offer today. And I think that is really what we are betting on. We are not betting on the fact that it will cost less to create L1 training.

We think that most organizations will use AI to build better training. At the end of the day, the cost of training is less than 5% of the cost of the employees who spend time to take that training. And the return on good training is almost infinite.

It is the difference between being able to do something and not being able to do something, or making mistakes while you are doing something. So, I think our clients are well aware of this. It has been unfortunate that they have not been able to spend what they needed to in the past to create great training.

But I think with AI and our investments in AI, I think a larger and larger part of their training will be great training. And it could be that the percentage of training that they consume will be mostly L2 and L3. And I think that is where we have a great opportunity.

Vinay Nadkarni:

Okay, understood. So could you give me a mix between L1, L2 and L3 training if it is possible? Rough numbers will also do.



- Sapnesh Lalla:** It is very hard to speculate and I would rather not speculate. So I would not be able to provide you rough numbers.
- Vijay Thadani:** This is not a declared metric. What Sapnesh pointed out that this is less than -- L1 is less than L3.
- Vinay Nadkarni:** Okay, understood. And my second question regarding 10% of your training being emotional in nature. How much of that would be one time delivery versus recurring program? And how do you see the mix changing over time?
- Sapnesh Lalla:** See, I would say, all of our training is recurring training. Nobody buys training to use it once. And employees and their roles are continuously changing. So, our clients are not static organizations and they do not invest millions of dollars to use training once. The training that we create has continuous use, continuous opportunity. I think as we create better training and more immersive training, the likelihood of people and their employees coming back to that training to benefit from it would only increase.
- Vinay Nadkarni:** Okay. Thank you so much. That is all that I have to ask.
- Sapnesh Lalla:** Thank you. I think we are coming close to the time. Maybe one or two more questions.
- Moderator:** Sure. We take the next question from Pranaya Jain from Banyan Tree Advisors. Please go ahead.
- Pranaya Jain:** Thank you for the opportunity, sir. Good evening. Most of the questions are answered. A couple of questions. One is on, sir, what would be an effective tax rate, apart from what was there during the quarter? And like from a sustainable perspective, what should be the tax rate that we should account for?
- Sapnesh Lalla:** I will request Sanjay to answer that.
- Sanjay Mal:** Thanks Sapnesh. So we tend to be in the first half at the rate of about 32%. This is primarily because of certain expenses which are non-admissible or deductible, as well as certain intercompany movements, including dividends, which we have declared to the shareholders. So going forward, we should see about 29% or so, if there are no one-offs kind of.
- Pranaya Jain:** Got it. And the second question is due to the acquisition, we have also added debt on our books. Any plans on repaying the debt? Any color on that would be helpful.
- Sanjay Mal:** So we have a brutal mix of debt and equity for our inorganic opportunities. And we have been using for our overseas acquisitions, a mix of that. Of course, the mix is in the range of 50% to 60% debt, the balance is the equity contribution. So we do not see any repayment as such, because I think we will need more and more capital for the growth, especially in the environment.
- Vijay Thadani:** This debt?
- Sanjay Mal:** This debt is being paid as per – yes.



- Vijay Thadani:** Debt is taken for each transaction?
- Sanjay Mal:** Each transaction and is linked to that.
- Vijay Thadani:** That works for more effective use of capital. It is a better return on capital.
- Pranaya Jain:** Understood. Thank you. That was useful. All the best.
- Sapnesh Lalla:** Thank you. Maybe one more question.
- Moderator:** Sure. We'll have the next question as the last question. Next question is from Deepak from Sundaram Mutual Fund. Please go ahead.
- Deepak:** Yes. Am I audible?
- Moderator:** Yes.
- Deepak:** Yes. Sir, I just had one question regarding MTS Group. So, I just wanted to understand, do you see a risk to the growth number going forward? Now, why I am asking you that is, as you are also aware that first there was this tariff uncertainty, which was causing a ripple across supply chain in the loop, right? And now you have a tussle between the European Union and China with regarding to the chips, right? And if you see, most of the vehicles in Europe, they carry some amount of chips, which is exported by the Chinese plant of Nexperia, which is owned by Wingtech.
- And recently, there was an ouster of Chinese CEO at the Netherlands or wherever the headquarters is attached. And because of this, a lot of auto companies have pointed out that there could be slowdown in the production if this tussle goes on for a couple of months. So, as MTS Group is also benchmarked to automobile sector, do you see that risk to the growth number from MTS?
- Sapnesh Lalla:** Yes, I think tariffs is a much bigger issue. What you pointed out is a small segment, and all market segments that we address are prone to tariffs and prone to macroeconomic environment and uncertainty is not good. But from an overall perspective, like I pointed out earlier, uncertainty results into cost actions, cost actions often result into outsourcing.
- So, from an overall perspective, cost actions is favorable to outsourcing. When there is uncertainty, organizations look at variabilizing their cost basis and look at outsourcing. So, we think that given that, it is going to be an environment where we'll have an opportunity to grow.
- Deepak:** Okay. Would it be possible for you to quantify what is the revenue contribution of automotive sector of MTS Group?
- Sapnesh Lalla:** Like I pointed out, we are going to provide color around industrials, and we will continue to report out on industrials, which is built up of automotive, mining, energy sector and aerospace sectors for us. For the next two or three quarters, we will also provide you with organic as well



as consolidated results. So, you should be able to tell how MST is performing on a standalone basis.

- Deepak:** Okay. Thank you, sir. All the best.
- Sapnesh Lalla:** Thank you. Maybe one more question, if there is.
- Moderator:** Yes, sir. Sure. The next question is from Vinay Nadkarni from Hathway Investments. Please go ahead.
- Vinay Nadkarni:** Yes. Just quickly, what is the total acquisition cost that could be written off in this year from the MST acquisition?
- Vijay Thadani:** The acquisition cost written off?
- Sapnesh Lalla:** Don't quite understand your question.
- Vijay Thadani:** Are you saying what is the P&L impact of the acquisition, which is showing in this quarter?
- Vinay Nadkarni:** No, not in this quarter, for this FY 2026.
- Vijay Thadani:** For FY 2026?
- Sapnesh Lalla:** I could not quite understand your question.
- Vijay Thadani:** Are you saying, what is the P&L impact of the acquisition which is showing in this quarter?
- Vinay Nadkarni:** No, not in this quarter, for FY 2026?
- Vijay Thadani:** For FY 2026?
- Vinay Nadkarni:** Yes.
- Vijay Thadani:** I think it will be a run rate of 21 million per quarter.
- Sapnesh Lalla:** So, we have had a...
- Vijay Thadani:** There is an interest cost...
- Sapnesh Lalla:** Yes.
- Vijay Thadani:** And then there is a...
- Sapnesh Lalla:** We can send that to you separately. I do not think it is readily available.
- Vinay Nadkarni:** Okay. And secondly, the MST acquisition would be EBITDA accretive in the FY 2027?
- Vijay Thadani:** It will be EBITDA accretive in FY 2026 itself.



Sapnesh Lalla: Year one, sir.

Vinay Nadkarni: Okay. Thank you very much. Thanks a lot.

Vijay Thadani: Thank you.

Sapnesh Lalla: Thanks for all your questions and taking the time to join our call. Vijay, if you have any closing comments?

Vijay Thadani: No.

Sapnesh Lalla: So, thank you very much for your very supportive words as well as your questions. As usual, we learn a lot from your questions and this sets our mind to think and helps us clarify our own strategy. I do know it is a busy result season for you to have spent the time to spend with us.

We truly appreciate. And we continuously look forward to your feedback, your support, your guidance and your criticism as well. So, it makes us better each time in each interaction. Look forward to meet with you in the upcoming Investor meets which are happening and conferences which are happening.

If you would like to reach out to any one of us, please do contact Kapil Saurabh and he will set it up for you. Thank you very much for your participation. Good night.

Vijay Thadani: Thank you.

Moderator: Thank you very much. On behalf of NIIT Learning Systems Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.