"NIIT Learning Systems Limited
Q1 FY24 Earnings Conference Call"

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MANAGEMENT: VIJAY THADANI – VICE CHAIRPERSON & MD
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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Call for NIIT Learning Systems Limited.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' 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 of NIIT Learning Systems Limited. Thank you and over to you, Vijay.

Vijay Thadani: Thank you. Good afternoon to all of you. Thank you very much for being here. We really appreciate the fact that you decided to spend the next one hour with us when we are in the middle of a very busy result season.

We have two important things to share with you; one of course is the first quarter of FY24 results; and the second, which is very exciting news, is the recent listing of the company, NIIT Learning Systems Limited.

I'll start with the second one first and then I'll hand it over to Sandesh for a detail view. So, on 28th of January '22, the Board of directors of NIIT had approved a momentous development relating to the reorganization of NIIT's two distinctive business lines, the Skills and Careers business and the Corporate Learning business into two independent companies. So, the journey started from there and threw a number of milestones, including a long process with NCLT, MCA as well as other statutory bodies, SEBI.

We listed the company on Bombay Stock Exchange and the National Stock Exchange on 8th of August, that is day before yesterday, a very exciting event and NIIT Learning Systems Limited is now listed with a scrip code of NIIT with a symbol NIIT NSE and BSE scrip code is 543952, I'm sure you are aware of this.

There are four important dates which I think many of you will consider for either evaluating the performance or figuring out the stock or the shares that you hold.

What is the appointed date? The appointed date was April 1, 2022. All the accounts have been recast from 1st of April 2022 for the erstwhile CLG business and the Skills and Career business into two separate companies. CLG business is now housed in NIIT Learning Systems Limited, and it operates the business now, not as NIIT CLG but as NIIT MTS. The NIITMTS also happens to be the trading symbol given by the stock exchange.

The second is the effective date. Effective date is when NCLT approved and after all the permissions, the demerger was made effective. that was 24th of May 2023. Based on that, a Record Date was announced, which was 8th of June 2023 when every shareholder holding one share of NIIT bought and one extra share of NIIT Learning Systems Limited. And then August 8th, 2023, when NLSL or NIIT MTS Share got listed on Bombay Stock Exchange and. National Stock Exchange.

Just to remind you that NIIT Learning Systems, the erstwhile CLG offers Managed Training Services to Fortune 1,000 and Global 500 corporations in 30-plus countries. The learning outsourcing market is under-penetrated and offers significant headroom for growth.

The demerger empowers the company to sharply focus its management team and capital allocation on the significant opportunities emerging in the learning outsourcing space, which will take us through.

Sapnesh has led the transformation of NIIT CLG to NIIT MTS and into making NIIT Learning Systems a top five global player in learning outsourcing space. He will focus on accelerating growth for the company and creating more value for its customers in the ensuing time.

One more important announcement that I wanted to share as a part of the first one itself was an addition of a new director on the Board, which is Dr. V.S. Parthasarathy, who joined as an independent director on the board of NIIT Learning Systems Limited. Dr. Parthasarathy has over 35 years of rich experience in successfully leading businesses, functions, organization transformation and has led over a hundred M&A transactions. Dr. Parthasarathy worked with the Mahindra Group for about two decades. His last role was as the President of the Mobility Services sector. Prior to that, he was the Group CFO and Group CIO for seven years. He also served as a member of the Mahindra Group Executive Board and has been on the board of several listed companies. We are extremely excited to have him on our Board and guide us on the next phase of our journey.

So, with that now, over to Sapnesh Lalla.

Sapnesh Lalla: Thanks, Vijay, and thanks, everyone for joining. I'll take you through the operating performance of NIIT Learning Systems Limited for the First Quarter of FY24. The revenue for the quarter stood at INR3,823 million, that was up 22% year-on-year. In constant currency terms, the revenue was up 15% year-on-year and flat quarter-on-quarter. EBITDA was INR924 million, margin was at 24%. PAT was at INR552 million. EPS at Rs.4.1.

Please note that the financials that I just mentioned include the impact of the acquisition of St. Charles Consulting Group, which the company had acquired in November of 2022. Excluding the contribution of St. Charles, the organic revenue was up 1% YoY and was flat QoQ.

As shared earlier, the revenue growth has been impacted in the near-term due to compression in spending by our existing customers due to the prevailing uncertainty in the environment; however, in spite of that, the margin performance has remained strong and this is in the backdrop of a pickup in travel and premises-related expenses which were restricted earlier during the pandemic and right after.

The new deal momentum and pipeline for the first quarter remain strong. The company added four new MTS customers during Q1. This is the second successive quarter in which we've added four new customers. Out of the four new customers added, two were significant; the first one is top-10 pharmaceutical companies. With that addition, now our life sciences practice has five of the top-10 pharmaceutical companies.

Second was a top-five retail bank in the United States, and with that now we service two out of the top five retail banks in the United States. One of the four was an organization in aerospace and aviation, and the last one was association in the BFSI.

The number of active MTS customers now stands at 83. Revenue visibility for the business is at 360 million as of June 30th, 2023.

The work that we started with St. Charles on its integration with NIIT is now on track and we are now able to offer. St. Charles Consulting was highly distinctive advisory and consulting services across the wider customer set that NLSL has.

Despite the higher EBITDA, the PAT you would have noticed has remained the same as last year. The increase is offset by certain non-operational and transitionary expenses included in depreciation. Amortization and net other income. This includes depreciation and amortization of non-cash expense of 32 million on account of amortization of intangibles recognized during allocation of purchase price consideration with respect to the acquisition of St. Charles, the net other income/expenses include treasury income of 67 million as compared to 28 million previously, Foreign exchange loss of 29 million. Acquisition related expenses of 77 million, this includes 58 million of fair value adjustments in future earnout payments and 19 million towards interest expense on the balance loan that is still outstanding. In addition, scheme related expenses were 32 million and other miscellaneous expenses of 17 million.

The balance sheet continues to remain strong. DSO at 42 days as compared to 52 days in the previous quarter and 48 days in the same period last year. The business continues to generate strong cash during the quarter; net cash increased by INR 762 million to INR 5,325 million. The gross cash and equivalents are INR 6,423 million.

The headcount increased by 55 on a quarter-on-quarter basis and in that 2,390. The ramp up in headcount is owing to the acquisition of new contracts and the creation of capability in order to service the new contracts.

I will now offer a little more color on how the quarter was. It would be pertinent to point out that when we announced the annual results for last year, we expected the first half of the year to be flat and our results are in line with that stated expectation. We expected an acceleration in beam velocity and that is visible in the customer addition in Q1 as well as we have a robust pipeline of new customer additions and renewals for Q2. In fact, one of the customers has already signed an MTS contract in Q2.

Although the rebound in consumption of training services, it is taking a little longer to rebound as compared to what we had expected. The new customers that we've added and expect to add given the strong pipeline we have, will likely lead to growth momentum getting back on track as consumption with existing customers starts to pick up.

Given the transformational changes taking place in the industry we serve owing to digital transformation, decarbonization, acceleration and biopharma as well as AI, we expect that the ways of working across industries will fundamentally change in the medium-term. Industries that we serve have the experience on spending to retain and upscale their employees to stay competitive.

Also, increasing complexity in training, the skills needed to be able to train by using all the technologies and methodologies available. We put pressure on organizations to rationalize their costs and look at outsourcing as a mechanism to achieve higher efficiency as well as improved effectiveness of training out.

Our sales pipeline is strong. The environment, as I mentioned earlier, is causing a greater propensity to outsource. We continue to invest for long-term growth in areas such as sales and marketing that I've often talked about, new capabilities on areas such as artificial intelligence. We announced a strategic investment in InnoEnergy of Euro 3 million and opening new customer segments in the areas of renewable energy and higher education.

As a result, the deal wins have picked up and we continue to see 100% customer retention.

Investment in inorganic growth has helped us break into key industry segments that we wanted to get in, with Eagle Professional Services, we've been able to get into the life sciences segment and like I mentioned earlier, we now have five out of the top 10 pharmaceutical companies as our customers. With the acquisition of St. Charles, we have deeper penetration into professional services market segments where we know that the spend on training for employees is almost double the average across industries.

While the medium to long term fundamentals of the business is increasing sequential growth as I mentioned earlier is challenged in the near term as the positives of adding new customers at an accelerated pace is being offset by the compression in spending across existing customers. This is reflected in the flat quarter-on-quarter growth that we saw in the previous quarter.

We expect to start seeing sequential growth returns in H2, driven by continuing new customer additions ramp up and stabilization as spending rebounds in our existing customers.

Given the delayed recovery in consumptions, we now expect mid to high-teens on year-on-year growth for FY24. This is a revision from our earlier forecast of 20% growth for the year.

In the medium-to-long term, we expect that the spend levels will expand given that the need for reskilling is rapidly increasing due to the increasing pace of industry transformation. This increase in consumption would help us catch up to the 20% growth CAGR target that we have over the medium-to-long term.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Siddhant Dand with Goodwill. Please go.

Siddhant Dand: So. could I just get some guidance on the growth in margin visibility and new client addition in the MTS business? Second question would be, we have a lot of cash on our balance sheet and now that this business does not need any cash cow, so primarily it would be for inorganic acquisitions, right? So, what size of acquisitions and what kind of companies are we looking to acquire if we get any opportunity?

Vijay Thadani: So, let me try to answer the second question first and I'll go back and try to answer your first question. From an inorganic perspective, we look for a combination of three key dimensions in the target. We want to look to add to capabilities that we already have. We want to look at market segments that are served so that we can add, like I pointed out earlier, addition of professional services through St. Charles in addition of life sciences by way of Eagle. We look for market segments that we are not serving today and how can we add those. And the third is geographies, where we do not have the strength that we need to grow market share. Those are the three key dimensions when we look at doing acquisitions. That was the answer to the second question. I think your first question was what is our forecast for revenue and margin. We are retaining our margin forecasts of above 20% and our revenue growth forecast has been revised to mid-to-high teens.

Siddhant Dand: Will this be led by existing clients or new clients for the growth?

Sapnesh Lalla: The contribution of new customers to a fair extent is being offset by the compression of spend with the existing customers. And it takes about four to five months for a new customer to ramp up to a reasonable revenue level, and then it takes about 18 months to get to cruising speed.

Moderator: The next question is from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty: My first question would be, whether we have dedicated website for our new entity and if you could let us know when we could be able to establish that? And second question is regarding our St. Charles customer numbers. Now, we have 83 numbers of MTS customers, that is only belong to NIIT MTS or it also includes St. Charles. Can you please clarify this?

Vijay Thadani: To answer your first question, the website is NIITMTS.com, same as the ticker symbol NIITMTS, that website is ready and we would love to welcome you as a visitor to that website. Second, the 83 customers include key annuity customers of St. Charles.

Ganesh Shetty: My second question is there any overlapping difficulties we have faced during this demerger of NIIT and NIIT MTS? And now is it completely established as an independent and self-sufficient organization?

Vijay Thadani: So, it is being set up as a self-sufficient and independent organization. As we have pointed out earlier, we have certain common areas that are part of the transition, and the transition is likely to complete within five to six quarters. The transition predominantly is associated with systems, IT systems and some processes.

Moderator: We have the next question from the line of Nimish Shah from Emkay Investment Managers. Please go ahead.

Nimish Shah: So firstly, one clarification, so the group guidance that you've given, is that on a constant currency basis or is that INR?

Vijay Thadani: It's constant currency.

Nimish Shah: The margin guidance for this quarter we did about 24% operating margin and you are guiding at about 20-odd percent. So, if you could just explain what will lead to this 400-bps compression in the margins?

Sapnesh Lalla: We didn't say there is going to be 400 basis points compression in the margin. We had indicated that the expectation should be greater than 20% margin and we are staying with that expectation, we don't expect it to go down to 20%.

Nimish Shah: In the presentation you mentioned that for the new contract that you signed, there will be some transition period of like four to five months. So, is this the ramping up transition or you will have to incur some expenses or some investments that you will have to do for the new contracts?

Sapnesh Lalla: So, it is ramping up and ramping up does require investments. We bring people on and training the people and getting them ready for the work ahead of the revenue starting.

Nimish Shah: So, will there be some pressure on the margins during those periods or it's kind of manageable-?

Sapnesh Lalla: There will be some pressure on margin, every time we have a transition, especially for large customers, there is a little bit of pressure on the margin, but our hope is that over time we will recover.

Nimish Shah: And lastly also the finance cost, you mentioned that there was some one-off. If you could just repeat those numbers?

Vijay Thadani: I think finance costs are two elements. One is the interest that we would have earned in the treasury and the second is the interest that we would have paid on the loan that we took first in Charles acquisition. The net impact of that is I think 65 minus 95 positive, 65 million is treasury earnings and 19 million is the interest spot rate.

Nimish Shah: Do we expect to pay off the debt in the coming quarters or what's the debt repayment plan?

Vijay Thadani: It is in our interest that our treasury income is more than the interest cost that we pay. So, it is good for us to keep the debt for its full term as of now. Second, there is an earnout associated with this acquisition, which is quite significant. That would have Saint Charles is right now operating at full capacity and on the upper end of earning. So, every year based on their performance calculated and paid out. So those are also payments which are due over the next 3.5 years.

Sapnesh Lalla: The payment schedule is across 20 quarters, of which we have completed two quarters… so two installments are done, 18 more to go.

Nimish Shah: If you could just also guide in terms of the amortization that you're doing for the acquisition or when do you expect that to be over?

Sapnesh Lalla: It is over a period which we have and the current value adjustment is about 58 million in this quarter's results. As there are depreciation, amortization-related expense also, the non-cash expense is 32 million.

Nimish Shah: So, this 32 million, we expected to go down going forward.

Sapnesh Lalla: It will keep going down each quarter. I will take overall 3.5 years.

Moderator: The next question is from the line of Shradha from Asian Market Securities. Please go ahead.

Shradha: A couple of questions. The first is on the guidance that we had earlier indicated you are expecting acceleration in growth from 2Q itself. So how should we look at 2Q now, I mean, this is in context to the revised guidance that you give?

Vijay Thadani: We suggested that H1 is likely to be relaxed, so from a Q2 perspective, we expect flat Q2 with respect to revenue and Q2 margin is likely to be in the 22% range.

Shradha: You've been indicating that the pipeline is strong despite whatever compression we see in the clients spending, but the revenue visibility number doesn't seem to have changed this quarter. Any views on how it should be look at revenue visibility going forward?

Vijay Thadani: I would say that revenue visibility of $360 million is not a bad number to begin with. It is also not very different from what it was previous quarter, and previous quarter also, we acquired four new customers. Now, revenue visibility as you know is a combination of the revenue that we generated during the quarter and the visibility that we generated during the quarter. So, with revenues of approximately $45 million or so the visibility that has been created is about $41, 42. million. That's the way to look at it.

Shradha: On a month-on-month basis, do we see any change in customer sentiment towards spending, has it incrementally deteriorated or is it same or do you see some more green shoots of recovery, so how should we see month-on-month change in the business environment for us?

Vijay Thadani: We look at it month-on-month and week-on-week, but really the trend between Q4, Q1, and the last several weeks has been kind of flat. So, what we are seeing is, we are not seeing a dip so far, though keep it in mind that August tends to be a vacation month for Europe. But, if we take that vacation side aside, we are not seeing a dip in Q2, we are seeing flat Q2 as compared to Q1 in spite of summer vacation in Europe.

Sapnesh Lalla: One more thing you may want to keep in mind, typically when we have a renewal during any quarter that time there is again a step jump. There are a number of renewals due, but there were none which happen during April, May, June. There are some of them which are targeted for next quarter.

Moderator: The next question is from the line of Nimish Shah from Emkay Investment Managers. Please go ahead.

Nimish Shah: Last quarter Q1 of FY23, we had the large real estate deal in our numbers. So, the base I believe was a bit high for us this year. So, if you could just highlight what would have been the organic growth for us excluding that real estate deal that we had?

Sapnesh Lalla: We don't talk about customer specific numbers in the results as it breach of the disclosure agreements. So, we would not be able to provide a carve of. I did want to mention some work that we've been doing. I did mention that we are investing disproportionately in a couple of capabilities, and I wanted to point out our investments in AI, but more than the investment, the excitement around what we are able to do. What I can say after us having done about five to six months of intensive work around AI is that, with AI as an available technology we are able to become significantly more ambitious in the outcomes that we can achieve with training by way of experiential learning, and that is something that can create disproportionate value for our customers. Most of our customers, while their desire to create great learning experiences, but several times given the cost of creating experiential learning, they end up settling for learning experiences that often don't create as much value or the kind of outcomes that might be more profitable. And our investments in AI what we are able to see is that it gives us the opportunity to become significantly more ambitious in what we can do for our customers and we've had some early conversations with customers and a number of customers are very keen to discuss how AI assistive training can help them improve the outcomes of training in a very significant way.

Moderator: As we have no further questions from the participants, I now hand the conference over to Vijay for closing comments. Over to you, sir.

Vijay Thadani: Okay. Thank you. I do appreciate this is a busy result season and therefore thank you very much for making yourself valuable and thank you very much for your very interesting questions. As usual, your questions are very educated for us and set us thinking, and if you have any more follow up questions, please don't hesitate to reach out to any one of us and we'll be only happy to answer. So, with that, we now close this call and look forward to interacting with you in person or on the next call. Thank you.

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