"NIIT Limited
and
NIIT Learning Systems Limited
Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the NIIT's 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 conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Vijay Thadani: Thank you very much, and good afternoon everyone for joining us on this conference call. We are here to discuss two important issues. One is the demerger of NIIT Limited which just was completed to brought it to the next milestone. I will discuss that in a little bit more detail.

After that we also have the Results of the two entities that have emerged. NIIT Limited, which is the listed part as of now. NIIT Learning Systems Limited, which is not yet listed, but we will go through those results first, followed by NIIT Limited results, which is the balanced business which is still left in NIIT Limited and has its own growth trajectory, and we will also be discussing revisiting the strategic rationale, as well as the plan that we have for both the companies in a larger perspective.

With me, I have here Mr. R. S. Pawar who is the Chairman and Founder of the company; myself; Sapnesh Lalla who is the CEO; Sanjay Mal – the CFO, who is now the CFO of NIIT Learning Systems Limited; Sanjeev Bansal who is now the CFO of NIIT Limited after the demerger of NIIT Learning Systems Limited; Deepak Bansal, the Company Secretary of NIIT Limited before the demerger, and now he is the Company Secretary of NIIT Learning Systems Limited; Arpita Malhotra who is the Company Secretary of NIIT Learning Systems Limited is not here with us at this time, but she will be joining us on the call, and then I have another colleague, Gaurav, who will help us with the detailed numbers.

So, the sequence we will follow is, I will start by giving a rationale of the demerger, after which I will hand over to Rajendra Pawar to give us the strategic direction as well as rationale and followed by Sapnesh who will take us through the NIIT Learning Systems that is the CLG business results. I will cover the skills and careers part erstwhile skills and career part now in NIIT Limited results, and then we will open it for Q&A.

So, if that's okay with everybody, we will keep our comments short. All the data that we are sharing with you has already been on the Internet, and we had posted it. I am sure there will be a lot of questions. We have provided extra time in today's meeting given the demerger-related questions which may be beyond the questions covering the performance of this organization.

So, let me start with the demerger. Going back in January 2022, the Board of Directors had approved the momentous development relating to the reorganization of NIIT's two distinctive business lines, the skills and careers business and the corporate learning business into independent companies.

We have shared this earlier, but I am delighted to inform you that the strategic action which was initiated early last year has now been completed with the demerger of NIIT into NIIT Limited and NIIT Learning Systems Limited.

This is after receipt of the customary approvals from all stakeholders and regulatory bodies. With filing of necessary forms with MCA and adoption by the Board, the demerger has created two independent entities like I mentioned before, NIIT Limited and NIIT Learning Systems Limited with effect from May 24, 2023. So, the effective date of the merger is May 24, 2023. The appointed date, that is the date from which the results have to be recast is 1st of April 2022.

Just to remind everybody that this is a mirror demerger. That means every shareholder of NIIT will get one share of NIIT Learning Systems Limited in addition to their holding the NIIT Limited share, and this will be done for all shareholders on record as on the record date, which the Board has fixed as June 8, 2023. After the record date and issue of these shares, NLSL will go for a listing, which has to be completed in the next 30 to 45 days subsequent to that. This will then finally complete the demerger process in totality.

So, while I did mention the term completed the demerger, but completed it to the pre-listing milestone. Now the listing milestone, sorry, issue of shares and listing milestone is the balance part left, and that is what will happen in the coming months. I will pause here right now, and I will ask Raje Pawar to take us through the strategic rationale one more time, as well as the direction both the companies have before we get into the results.

R. S. Pawar: Thank you, Vijay, and good afternoon to everybody. Vijay has laid out the other process and the steps we have been through but let me step back for a minute to make a few points.

You all know we have two businesses, and you know that we have demerged the Corporate Learning Business into NIIT Learning Systems Limited (NLSL). NLSL has over the many years perfected the value proposition for the Fortune 1,000 companies that we call Managed Training Services, which is offered to these companies and their operations in over 30 countries.

The learning outsourcing business, which is what we have created, this market is underpenetrated, and there is significant headroom for growth. Now the demerger empowers this newly created entity to sharply focus the management team as well as the capital allocation on significant opportunities that are emerging in the learning outsourcing space. NLSL has over 80 global customers, and it has won over 400 awards for the quality of work and is ranked today among the top five learning outsourcing companies worldwide.

Sapnesh who had led the transformation of the CLG business from custom content to managed training services and brought it to the top five will lead the business and has been appointed as the CEO and Executive Director of NLSL. We will focus on accelerating the growth of the company, creating more values for the customers, employees and shareholders.

Now given the track record, given the momentum we have, given the excellent team that Sapnesh has built, and the strong balance sheet, we see an opportunity to accelerate this business and move towards global leadership. So, that's NLSL.

NIIT Limited, on the other hand, that deals as you know with the talent transformation to equip the workforce, and we did that in the 80s and 90s building talents of the IT sector, and in the next decade we started working to build talent for the banking sector. Now this moment we look at as a watershed moment as NIIT Limited is getting ready to deal with the many, many opportunities that are coming for new talent in the emerging sectors which are in front of us.

Now, this is, by the way, happening in a period which is a turbulent period, which is driven by three factors. First is that the accelerating growth of digital technologies, telecom and data is causing digital transformation in more and more sectors of industry and society. This is causing very big changes to how we work and how new skills are demanded.

The second is the discontinuity, which was caused by COVID, and that made some very fundamental changes to how we live our lives, how we get educated, how we work from anywhere. In fact, it's making a difference to the employer-employee contracts as is evidenced by gig work and a very big change in everybody's perception of the work-life balance.

Third and I think we have all watched this as the during the COVID time we saw online taking a big, big growth and then facing some difficulties, and so all of these actually constitute changes in the environment which are building it into a period of uncertainty, and all of us as founders see this at the time of great opportunity.

Over a 40 years, there have been at least three instances of fairly dramatic changes in the sector, and in each of these we seized the opportunity and came back with a much stronger competitive position, and that is what we are trying to do this time as well applying to it this time.

Now, during this period of the last couple of years, the Board of NIIT Limited has been strengthened to the appointment of three very competent new Directors, and so that it could bring us to go forward, but when we look at a growth going forward, we see three vectors of growth.

The first is the broad basing into many, many sectors of the economy where the need for new talent as well as for talent transformation is becoming evidence. Today, an overriding percentage of our beneficial are in the IT sector. Then a smaller percentage in banking and much smaller percentage in other domains.

Now the initiative under examination cover a wide range of emerging areas including new manufacturing, engineering, R&D, supply chain management design, and so that's the first vector for growth.

The second is to invest more in the mode of delivery pedagogy and now with the emergence of AI as an important change agent, we see that there will be significant change in the way we deliver that.

And so the third vector we are building is to look at the organizational transformation of the company, and so this coming year, this year we are in, we will see many, many changes that we will manage the organization.

So, to conclude, let me just say this. The 80s and 90s saw NIIT create talent for the IT sector. The next decade and a half for the banking sector. This decade will see the company contributing to talents in the range of emerging sector. It's for this reason that the NIIT which started with the mission of bringing people and computers together successfully in 1981 is now creating a new mission of becoming talent builders to the nation.

That's what we are looking at as our mission. So, it's a huge ambition. It's fueled by a massive opportunity being created by resurgent India, driven by four decades of leadership in global talent development, and I think also something that's expected with a promise of a trusted brand that is NIIT.

So, these are some comments I wanted to make about how we see ourselves going forward. Go back to you, Vijay.

Vijay Thadani: Okay. While we will open, and I am sure there are a lot of questions you will have, but while we will do that simultaneous, I mean, at one time, finally, let me right now hand you over to Sapnesh to talk to us about NLSL or the erstwhile CLG business results and projections.

Sapnesh Lalla: Thanks, Vijay, and thanks, Raje. It indeed is a pivotal moment for both NIIT and NLSL Learning Systems Limited. I am sure like you pointed out, it will empower us to create new avenues of growth for NIIT Learning Systems Limited given the independence and the ability to deploy both human as well as growth capital on balance sheet.

We have, as I have mentioned in the past, continue to overinvest in sales and marketing, as well as new capabilities, and these capabilities have enabled us to continue to win new customers and expand the business that we do with existing customers over the last one year.

The last one year from an overall perspective has been an year that has been interesting on two counts. One, NIIT acquired St. Charles Consulting Group Limited as you know. So, we have added new capability, as well as a new set of customers.

We have also seen the uncertainty and challenges that uncertainty brings from an economic perspective, and I wanted to provide the results for this last year in that context. For the full year, revenue stood at 13,618 million INR. It was up 20% year-on-year. In constant currency terms, the revenue grew at 14% year-on-year. NIIT as I mentioned earlier acquired St. Charles Consulting Group during the year. Excluding the contribution of St. Charles Consulting Group, the revenue was up 11% year-on-year.

The EBITDA stood at 3,154 million. It was up 6% year-on-year. The operating margin of 23% was down 310 basis year-on-year. The Profit after tax stood at 1,922 million. The EPS stands at 14.3 INR.

At the end of the year, cash and cash equivalents are at 5,722 million, net cash at 4,563 million, the days of sales outstanding were at 52, and the NIITians who are becoming a part of an NIIT Learning Systems Limited stands at 2,335.

For the 4th Quarter, the revenue stood at 3,857 million. This was up 30% year-on-year and 6% quarter-on-quarter. The constant currency revenue growth was 15% year-on-year and 4% quarter-on-quarter. Excluding the St. Charles's contribution, the revenue was up 6% year-on-year for the quarter reflecting reduced consumption due to macro uncertainty.

The EBITDA was 948 million, up 30% year-on-year. The EBITDA margin was at 25%, up 70 basis points quarter-on-quarter. The margin improvement was driven by optimization and improved utilization of resources.

The profit after tax was 539 million INR. The EPS was 4 INR. As you know, Q4 is a seasonally weak quarter for business as for several of our customers, budgets are just opening up.

The uncertainty in the environment continued to affect the business as we had guided while spends are impacted. Our customer additions and new customer additions remain strong. We are seeing an increasing propensity to outsource by customers driven by the need to control costs, and we are seeing a very strong pipeline of deals.

During Q4, we added four new contracts, managed training services contracts, one, a technology major, another, a healthcare insurance company, another, global payments company, and a renewable energy conglomerate. As of March 31st, the revenue visibility stood at 363 million dollars, and the number of MTS contracts stood at 80. In the 80 contracts, we have also added the significant customers of St. Charles.

As I look ahead, I believe that the uncertainty will start to lift around the second half of the year. We expect our first quarter to stay challenged and be flat or marginally up as compared to 4th Quarter. We are likely to start seeing sequential growth or material sequential growth from the second quarter, and we should see most of our year-on-year growth towards the end of the year. Overall, we expect to continue to grow at approximately 20% on a year-on-year basis and maintain a margin of upwards of 20%.

The CAPEX for the year is expected to be about 45 crores. Vijay, that was a roundup of the numbers from FY '23 and Q4 for NLSL. Back to you.

Vijay Thadani: Okay. Just to complete the briefing, let me take you through the NIIT Limited's revenue, which is the skills and careers business, erstwhile skills and careers business, which so far we had been sharing the results still at EBITDA level, but this time given the fact that the two companies have demerged, I will be taking you right through the PAT stage.

So, NIIT's revenue for the year was at 341.3 crores, which was up 36% year-on-year. NIIT's work and the NIIT Services can be split into two broad customer segments. One is early career professionals where we either provide training both pre-hire and during onboarding. This training helps our learners get aspirational jobs and set them up for success in their careers. This segment has been an area of strength for NIIT and continues to be so, and when I say has been an area of strength, I am referring to the last 42 years.

In addition to that, working professionals now where NIIT provides training to working professionals helping them advance their careers. This category is predominantly serviced through the enterprise go-to-market and was recently strengthened with the acquisition of RPS Consulting.

NIIT's training programs are broadly for early career and working professions are broadly covering two sectors, technology, and the other is BFSI. There is a small segment of other sectors broadly, which I have clubbed under BFSI only. And there are two go-to-market methods. One, direct to consumer. And second, through enterprise.

So, the customer mix for FY '23 in the early career segment was at 183.8 crores, which contributed 54% of the total revenue and grew 15% year-on-year. However, this is as this growth dropped rapidly or quite suddenly in quarter four, and I will share with you the results or the run rate that we had till quarter three separately.

Work Pro segment, on the other hand, contributed 46% and grew 73% year-on-year and was at 157.4 crores. In program mix, technology sector programs contributed 80% of total revenue, and the balance was with BFSI and others. This technology sector programs were up 40% year-on-year basis.

StackRoute & TPaaS, which is a number that we have been sharing in the past up 17% Y-o-Y and contributed 32% of the skills and careers revenue.

FY '23 was the first full year of RPS Consulting. Reminding everybody, we acquired RPS Consulting on 1st of October 2021. If we exclude RPS Consulting, even then the organic revenue was up 13% year-on-year despite the impact of slowdown and hiring in the second half of FY '23.

The EBITDA for the year was at Rs. 10 million versus Rs. 25 million in FY '22. We have to look at these annual results in the light of the fact that some parts of the business, especially the Enterprise go-to-market are in profit or making profits, but that profit is getting reinvested in the transformation of the business which is taking place from the consumer go-to-market side. This is one fact which is not very clear in these results.

The second is the skills and careers business has seen strong growth in the last two years after pivoting to digital learning in FY '21. We believe quarter four was a blip due to seasonality as well as the extreme headwinds coming from the environment. Despite this blip, the business achieved a CAGR of 66% over FY '21 with organic revenues growing at 31% CAGR.

So, this part is not coming out clearly in our results since over the last few years, all our discussions have been in the overall NIIT Limited, and therefore, the smaller part of the business, which is the skills and careers, may have gone unnoticed in terms of the growth that it has experienced. The transformation of the business is underway, and we expect the growth to become more sustainable, consistent and profitable over a period of time.

The training volume is expected to pick gradually during the year with growth in second half of FY '24, and we expect a double-digit growth for FY '24 with margin improvement to make single digits for the full year.

I will pause here and now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: So, I need to know on the company going forward, what is your expectation on the growth side and margin side for FY '24 to '25? As we are seeing macroeconomic uncertainty, what's your overall view?

Vijay Thadani: Given the macroeconomic uncertainty, what is the view on growth and margin guidance for FY '24 for both businesses?

Company Representative: For both businesses.

Vijay Thadani: So, I will start with the NLSL business. For the NLSL business, we expect to grow at approximately 20% for the fiscal year '24 and at a margin of upwards of 20%. And for NIIT Limited, erstwhile skills and careers business, as I explained to you earlier, we are seeing a stabilization happening during the year, but the growth while we will see sequential growth quarter-on-quarter, but I think there will be an acceleration in the second half of the year, and therefore, for the overall year, we see an 8% to 10% growth. I did mention double digit a short while ago. So, I would say we will aim for double-digit growth for the year and the mid-single digit margin because the investment in transformation will still continue. Just to say that the enterprise go-to-market, our business has quite a healthy margin, and we are reinvesting that margin back into the business to make sure that the consumers go-to-market gets strengthened because unless the two are working together, we will not be able to clock a sustainable growth over a period of time.

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

Ganesh Shetty: Congratulations to the entire management team for the completion of demerger, and also I am very happy for the pain taken by the management to increase the shareholder value. I have been an investor of NIIT Limited since before the demerger of NIIT into NIIT Technologies and NIIT. And NIIT has created immense value for all the investors' community, and I wish them all the best, and all the information given by the management is quite sufficient at this time point of time. Thank you. very much, the management team.

Vijay Thadani: Deeply appreciate your comments, Mr. Ganesh Shetty. Yes, I remember we have been on this call for now nearly a quarter of a century, and I think that is really very, very, we are very proud of having you as a part of our shareholder family, and we hope we will continue to live up to your expectations as before.

Ganesh Shetty: Thank you very much, sir, and all the best.

Moderator: Thank you. The next question is from Pooja Doshi from Saral Management Advisors. Please go ahead.

Pooja Doshi: Firstly, I wanted to check if you could give me your onshore and offshore employ mix, that would be great for this CLG, for the CLG business?

R. S. Pawar: So, the total number of employees in NLSL on 31st of March '23 stood at 2,330 approximately. Out of those, about 600 are employed outside of India. This is approximate. It may be a couple of people here and there.

Pooja Doshi: Fair enough. Sir, I believe within the CLG, almost all your training is proprietary training. So, just wanted to understand what sort of trainers or suppliers you hired? Are they old industry experts or are they ex-company employees? And what are the contract terms with NIIT? The reason I am asking this is because, for example, say, in oil and gas, it could be extremely technical training. So, would you want to need an expert to train the employees is essentially why I am asking this.

Sapnesh Lalla: You actually answered the question quite well. You are right. We employ trainers. Some of them on our roles and several on contracts. We do that to ensure that we have reliability in our system, and like you pointed out, these folks have proprietary expertise in the domain that they serve. So, folks in oil and gas will have deep oil and gas expertise. People in Pharma likewise will have Pharma expertise and so on and so forth. And like I pointed out, we employ some of them as full-time equivalence on a payroll, but a large number of them as contractors. We don't disclose contract terms. Neither of our contractors or employees but suffice it to say that the terms are those of a typical independent contractor.

And Pooja, let me complete the headcount for you. We discussed the people who are on rolls of NIIT Learning Systems Limited. In addition to that, on NIIT Limited's payroll, we have 959 employees as on 31st March at the end of the demerger who would have moved into NIIT Limited.

Pooja Doshi: Thanks so much for that information. And so within CLG, again, if you could give me a mix of your mandatory and non-mandatory training? By mandatory, what I mean is that that's going to happen irrespective of the market scenario, whether we are into recession or inflation or whatsoever. So, if you could help me with that mix?

R. S. Pawar: Sure. So, let me clarify something. All training is discretionary in nature. However, like you pointed out, mandatory training has a higher amount of certainty as compared to non-mandatory training because mandatory training often is regulatory in nature or licensed to operate in nature. About 50% to 60% of our training tends to be regulatory or mandatory.

Pooja Doshi: And sir, just one last question. If you could help me with the other assets bifurcation of that 120 crore in the balance sheet for NIIT?

R. S. Pawar: Of NIIT Limited?

Pooja Doshi: Correct.

Vijay Thadani: I will request my colleague Sanjeev Bansal to take this through this.

R. S. Pawar: It's the fixed assets breakup or what was it?

Pooja Doshi: Other, other assets. Other assets Rs. 120 crore.

Vijay Thadani: Other assets. So, we will just take this question after a few minutes while my colleague will prepare the answer. We can till then handle the next question.

Moderator: Thank you for answering all my questions.

Vijay Thadani: But Pooja, I will just revert back with an answer to this question about asset breakup.

Moderator: Thank you. The next question is from the line of Shradha from Amsec. Please go ahead.

Shradha: Congratulations to the team on completing this milestone. So, a few questions on NIIT Limited first. So, the guidance is of double-digit growth or is it 8% to 10% growth that we are guiding to?

Vijay Thadani: Yes. I did mention 8% to 10%. However, I also said double digit. So, right now you can assume 10%.

Shradha: And another thing is, I mean, have we hired any CEO for NIIT Limited? Or how are we looking at the top leadership for this business?

Vijay Thadani: Yes. So, as of now given the strong transformation which has to take place and in an accelerated manner, given the current environment, we decided to opt for the founders rolling up their sleeves and jumping in the fray and making this transformation happen while the individual business leaders will directly work with the Board.

The purpose of this is to ensure that we use the experience of the founders. I have done this kind of a rapid transformation without allowing and therefore making sure that there is a direct connect with the market, and therefore the response time of the organization will be much faster if we had a leader through whom this transformation took place at this point of time.

So, that's a considered decision, but in the next four to six quarters, definitely there will be a transition to a leader, and that can be in the early part of the four to six period or maybe around that time.

Shradha: Sir, another thing is we were of the opinion that the NIIT Limited business was a negative working capital business, but when I look at the DSO, even this business shows a 33, 35 days DSO. So, just wanted some clarity on this?

Vijay Thadani: Yes. So, two parts. The RPS business which we acquired, which is predominantly an enterprise go-to-market does have a working capital need. The consumer part of the business is a negative working capital business, but at this point of time, the enterprise business is in excess. At this point, the enterprise go-to-market part of the business is in excess.

Shradha: And if I can squeeze in some questions for the CLG business so would it be possible, Sapnesh, for you to give the split between organic and inorganic growth in the guidance?

Sapnesh Lalla: The organic growth is likely to be mid teens for FY '24.

Shradha: For FY '24.

Vijay Thadani: The organic growth you mean excluding St. Charles? Is that what you had in mind?

Shradha: Yes. Excluding St. Charles.

Vijay Thadani: Shradha, I want to also complete for you that now RPS is 100% subsidiary. We bought the last 10%, and that's also public knowledge now. In April, in May, early May, we completed the last 10%, and there is an earn out attached to it, which will get over in the next 18 months.

Shradha: So, just to clarify on the NLSL guidance, the organic guidance is of mid teens. Is that what you are listening to?

Vijay Thadani: Can you repeat? Just state loudly whoever understood.

Sapnesh Lalla: NLSL guidance for FY '24 in our understanding is about 20%.

R. S. Pawar: No. Organic. Organic is mid-teens or low teens. For the full business, it is 20%. So, when I say business, I am including St. Charles full year numbers and inorganic because last year they were included only for about a quarter and a half.

Shradha: And this revenue visibility number which increased to $363 million in this quarter, how much of it is attributed to addition of StC and how much is it because of full organic business growth?

Vijay Thadani: Very good question.

Sapnesh Lalla: Approximately $30 million is associated with St. Charles.

Sapnesh Lalla: $33 million is associated with St. Charles.

Vijay Thadani: Shradha, just to complete the picture, last quarter, since last quarter we added four new MTS clients and two clients from the earlier list got reduced because those contracts got completed, and therefore, we now have 73.

Sapnesh Lalla: 73 MTS customers from an organic point of view, and we added seven St. Charles for whom we added visibility of 33.

Vijay Thadani: Yes. So, 73 at $ 330 million and$33, million. 7 more at $33 million got added.

Sapnesh Lalla: And we had said actually, other from the acquisition that we will watch the performance for about a quarter, quarter and a half before we bring their numbers into visibility.

Shradha: And sir, if you look at the top clients' concentration for NLSL, the top five clients' contribution increased quite significantly. So, was it related to some particular client that did well in this quarter or how should we read this?

Sapnesh Lalla: The top five client concentration, there has been an increase. It's because of St. Charles, there is some consolidation, and their top line coming in as well, as well as growth in other clients. Yes. So, the client concentration increased because one-off St. Charles's customers has a revenue that's greater than average. So, a large customer, so they entered the top five list, as well as one of the organic or CLG customers did well.

Moderator: Thank you. Next question is from Siddharth as an individual investor. Please go ahead.

Siddharth: Actually, quite a few questions from my side. So, my first question would be regarding the demerged entity that we have at NIIT, the smaller business. Till now we have been giving guidance from even in the last Con Call that we would be growing at around 40% to 50% a year. Why this sudden sharp cut saying that we are now talking about single digits? Because one of the rationales for the demerger would have been to accelerate the growth and, you know, to capitalize on 40%, 50% growth numbers, like you mentioned, even this year it showed a 66% growth. So, I mean, we are targeting something like a small company 100 crore, 200 crore revenue, 300 crore revenue company, which will be growing much faster. Why are we looking at such a degradation in terms of growth?

Secondly, within this NIIT, we are looking At cash equivalence of 700 crores. So, even if I put a 4% bank interest, that comes to about Rs. 28 crore as interest, and we are saying our EBITDA should be early single digit. So, that's as you want to cap on a revenue base of maybe five 500 crores. Essentially, what we are saying is we are going to consume all the money we earn, and essentially, the interest cost is all that is what we are going to earn from this business. Could you please clarify? And then I will ask more questions post.

Vijay Thadani: Yes, certainly. And I must compliment you on thinking this through, but I would like to explain this in the perspective. First of all, we are looking at the business when it is work in progress in terms of transformation, and we are not expecting that this transformation will last for the next three years or four years that we have till we said we would reach 1,200 crores. That transformation unfortunately was interrupted very sharply in the 4th Quarter of this year. I had mentioned sometime back that I would share with you the growth that we were clocking before that.

So, I want to share with you some statistics. If you look at our growth till CYD Q3, enrollment growth in early career was 78% year-on-year, but now at the end of 4th Quarter, it has come down to 38%. The reason is the 4th Quarter of the previous year was phenomenally large because at that time, if you remember, there was a euphoria with huge recruitment in progress. In contrast to that, there has been a sudden freeze in recruitments, treasure recruitments or head count addition, and I am sure we both read the same newspaper. In fact, in quarter four, the headcount addition has been negative.

The second is the freeze on the spend, and the freeze on spends has also come very rapidly because obviously, people are saying there are massive layoffs. You know all the numbers, all the biggies and the majors, and the way they have dropped numbers on one pretext or the other. Each one of them have a backlog of fulfilling recruitment promises, which they made last year.

So, in that environment, in the next two quarters, in the next two quarters, we don't see this situation improving. In fact, I went on to say that we will have sequential growth quarter-on-quarter. That is coming from the fact that our organic growth in enrollment will help us achieve that growth despite a very massive uncertainty in the environment and the freeze. This is a very unique situation.

Couple this with one more fact. Startups, which were falling over each other trying to recruit people and the salaries were going through the roof, they are laying off people because their funding season has dried up. So, I think we don't think this situation will continue. So, we have actually fallen in a trough, but I believe that the recovery, as soon as the backlog gets over, will also come sharply, and now the consumer go-to-market part of our business also, I think, the experiments that we were doing over the last three or four quarters have now shown us the way forward. So, we do see that there is a possibility of a strong possibility of a V-shaped recovery from the current situation, and we should be back on track.

Now, we fell down from Rs. 900 million run rate in quarter three to Rs. 600 million, and this is despite the fact that the enterprise part of the business has been stable though declining in terms of will in terms of margins though declining in revenue. So, when we come back for recovery, I think we will see sequential growth, but it will take us there is a better part of this year to come back and make up for what has got cause in quarter four. So, this is my answer to that.

Are we committed to that trajectory? Indeed, we are. Will this happen purely through organic means? It was not meant to, and it will not happen that way. Most probably, there will have to be inorganic activity. The bright side of the picture is that inorganic activity will be more feasible now given the fact that like us, many of our competitors, if I dare say, are in worse shape than we are and have been much worsely affected. We have a strong balance sheet. We have money in the bank, and I think it's a great opportunity for us to add up and get back on the growth track. I don't know whether I answered all of your questions or not.

Siddharth: Absolutely. So, thank you for that answer. Just a few more questions. So, secondly, we have been doing the, again, this is also related to NIIT. I will come to NLSL later. So, we have also been doing the NIIT boot camp at the NIIT University, and there were certain startups that you yourself mentioned and Mr. Pawar in his speeches has mentioned and are getting training from the NIIT team as well. So, anything that we are looking to acquire over there? And since you mentioned the acquisitions, is there any monetary target we can set in terms of certain companies we are looking at at the moment or any new kind of SNC space we are looking to enter maybe a level below say a K-12, or we are very clear we are not going into that space at all?

Vijay Thadani: So, we are not going into the K-12 space. That is a definitive answer. We are definitely looking at the startup growth camp that you mentioned about. Those are fairly early-stage startups, and what we are looking at is how can partnerships with those, whether they are financial or strategic can help us move forward on our trajectory. A K to 12 and test prep are not the areas that are of interest to us, and we are not going to be there because that's the decision, that call was taken some time ago.

Are there other acquisition target that we are considering? Yes, we are in active discussion on a few possibilities, but as you know, these things happen only when they happen. So, I can't tell you when whether we have a monthly or a quarterly target there.

Siddharth: So, one more question. So, the other day, this is about a month or so back. CNBC TV18 in the US was discussing the impact of AI on learning companies. So, for example, on that particular day, it was very disturbing to see Check was down 20%, and other Coursera was down 15%, 16 odd percent in the markets. So, my question was how do you see AI impacting the learning trajectory? Because a lot of students would now say, hey, for example, if I want to learn something on marketing, why take a course? Why not just ask ChatGPT to help me create a marketing framework or something of that sort? Or, for example, if I want to create a code, why not use AI in some manner rather than trying to go to an NIIT or an upGrad whoever to actually learn? So, isn't this is significant risk to the business? And how are we planning to mitigate it in our learning as well as our CLG side of the business?

Vijay Thadani: So, this is one of the favorite subjects around this table. We actually spent two days in the Board meetings before we came here, and this was a very active part of the discussion. Before that few of our Board members and I, we spent time in US with some of our strong partners as well as thinkers, and here is our considerate view. And I will say my part, and I am sure Raje and Sapnesh will add to that.

First of all, AI presents a phenomenal opportunity for us to scale up very, very fast. One, to make sure that we have AI as a subject in which a large number of people will need to be trained and large corporations will need help in figuring out what they should do with AI. Second, that is AI as a subject.

The second is AI in learning. AI in learning is a great opportunity as well, because in very simple words, it will contribute substantially to the efficiency of learning, as well as the effectiveness of learning. Efficiency of learning, what used to take 10 number of hours to create and a number of hours to deliver can now be done in a fraction of time, which means much more can be delivered in the same time with same resources. Effectiveness, because you can actually personalize the learning experience to a class of one something a word phrase that we have before.

So, if we use both these, if this presents a huge, humongous opportunity, how is this materializing in the real sense? I will request Sapnesh to say because he is coming right from the battleground.

Sapnesh Lalla: Thanks, Vijay. You are right. It gives NIIT a great opportunity to leverage AI. In fact, we have had under our Chief Learning Scientist Dr. Gregg Collins who incidentally got his PhD in AI from Yale almost 35 years ago, under him we have the team of about 30 to 40 engineers working to see how they can enable us to embrace AI. And like Vijay pointed out, we have a number of experiments going at this time, both on the dimension of efficiency, as well as on effectiveness.

I will make a comment on the point that you made about Coursera or Check. See, just like what calculators or Google did remembering tables by row became irrelevant. Similarly, remembering information or having Encyclopedia Britannica on your bookshelf became irrelevant because of Google. Similarly, knowing a lot of information will become irrelevant as far as AI is concerned. So, training that was masquerading as information has become irrelevant. It was irrelevant in the past, but it has now become irrelevant.

What is relevant is raising that creates outcomes, that enables people how to do a task. For example, if you wanted to learn how to swim and swimming was important to you, AI is not going to replace your ability to swim. Now AI could instead of you watching a video of Mike Phelps swimming or teaching you how to swim, you could get AI to show you another video, but you still have to go out into the pool and in the process learn how to swim, and then you will be able to swim.

So, in nutshell, I think AI will help us make the process more efficient and more effective, and it will lower the value of training that was actually not outcome oriented. It will, on the other hand, significantly increase the value of trading that was outcome oriented. And for one thing that I know about NIIT over the last 40 years, it's focused only on outcome-oriented training.

Siddharth: My next question is again related to NIIT, the smaller company. Today, Mr. Pawar mentioned on television on CNBC that he spoke of the hybrid model of training. Are we by any chance looking now to set up physical centers or that's also a no-go area for us considering, you know, it is basically a drag on profitability?

Vijay Thadani: I think hybrid can be understood in many, many formats. We have a number of experiments underway on that. In the future of learning, there are enough schools of thought which believe that without a face-to-face intervention and specific parts of time, learning effectiveness can remain challenged.

Having said that, we have mastered the learning delivery online completely, but there are other portions of the learning cycle from acquisition right up to careers and building careers, which are being considered in other parts. But more about this as we discover the results of our experiments.

Siddharth: My next question would be for NLSL. So, two questions on this front. Firstly, you mentioned that there was one company whose contract did not get renewed. Till now we have prided ourselves on the fact that we have had a 100% renewal rate. So, why is it that at this point of time, one company did not, even after this contract get over, renew our MTS services? Number one.

Secondly, am I right in assuming that we will have 500 crores cash available to us? And if so, do you think that's sufficient for future inorganic growth for NLSL? And thirdly, would the founders Mr. Thadani and Mr. Pawar also be spending some time on NLSL or they would be totally focused on NIIT? And one last question would be regarding dividend. Why not reward shareholders for the time they have spent with the company with a dividend considering the demerger has now happened, and we do have significant cash on the books?

Vijay Thadani: Very relevant questions. So, let's start one by one. Let me work backwards from dividend. We do believe, and NIIT has been a dividend paying company, and we had mentioned in January of 2022 when we declared the interim dividend, not interim, special dividend because we had said that till the demerger process is complete and sorry, after the demerger process is complete, both companies will take their individual decisions on dividend.

The demerger process is complete to an extent, but not fully as I rightly said, as I mentioned in my opening comments also. Immediately, the Board meetings which take place after listing of NLSL, that is the place at which the two Boards will take a call on declaring dividend for their respective parts. So, therefore, given the time that it takes for the listing process, you can expect that the Boards will consider declaring a dividend I think by end of this quarter two results quite certainly, and if things happen in time, then even quarter one results is a possibility, but quarter two results, interim dividend is perhaps more in line with the current timelines on which the project is working. That's one.

Your second question was whether 500 crores -- whether founders will spend time? So, Raje will also answer this part, but sufficient to say that both of us are on both the Boards and I as Vice Chairman and Managing Director on both sides. But Raje will add more to this.

R. S. Pawar: I think as I mentioned in the outset, the NLSL strategic direction that Sapnesh created a while ago, and then the whole strengthening of the team and the improvement in the process and more use of science and technology in learning, all of that has gotten on a very good role. So, strategic inputs of the type we need in NIIT Limited at this time are not necessary on the other side.

However, we do see many more drivers of growth and in which we all get involved and will continue to get involved. NIIT Limited, on the other hand, is sitting on an opportunity where there is many turbulent factors in the environment, and also we want to broad base many things about how we do things. So, there is a need to do many more things on the drawing board including, of course, dealing with the headwinds of IT sector not hiring.

So, as we said at that time, those are moments where you need to roll up your sleeves and get into taking certain operational and tactical decisions, certain talent addition decisions which are very direct, and therefore, that will take time for Vijay, me, Raju to work on more than what we have done in the recent past. So, it's not that there will be no time left for NLSL that needs our time in a certain fashion because Sapnesh and team as I said and I repeat with an excellent strategic direction, a bit excellent competitiveness which they are working upon. So, there the support is much more to give a shoulder once in a while, and of course, the whole governance area. I hope that answers this part of the question.

Vijay Thadani: Then the question you asked.

Sapnesh Lalla: 500 crores.

Vijay Thadani: There was one more before that but let me complete the 500 crores. So, first of all, the NLSL as is opening its account with nearly 570 crores. 500 which that account which got opened in 2022, even after the St. Charles' acquisition, we now have 570 crores. And there is 200 plus crores of cash generation every year which you add to that. Our typical sweet spot for acquisitions is a $25 million to $50 million company. And therefore, I think there is sufficient headroom available for us to add a few more in our journey towards of $1 billion, not thereabouts as we had mentioned.

Sapnesh Lalla: Lastly, you had a question about the two contracts that we declassified from MTS contracts. Look, every quarter we take a look at all our contracts. we have, I do want to confirm that all contracts that have come up for renewal over the last three years have been renewed. The two contracts that we have declassified from being MTS customers, those customers continue to be our customers. It's just that given the shrinkage and volume, we have not classified them in this quarter as MTS customers, and we have not taken visibility on that.

Siddharth: One last question. This is more with respect to again creation of shareholder value. With all due respect to everyone else on this call, you know, one is not hearing the names of large institutional holdings like a mutual fund on this call. It's more smaller houses or individual investors like myself. Why is it that we are not able to attract these large institutions into our stock, into our company considering we are doing such a phenomenal job? And secondly, don't you think as Founders and as a CEO, when I hear other Con-Calls, you know, they use words like cautiously optimistic more. They give a big tone. They try to fire up the business rather than toning it down, like we talk about uncertainty turbulence. Don't you think this is some level is discouraging institutions and institutional activity in our share and therefore impacting shareholder value for smaller retailers like myself?

Vijay Thadani: I think there is a larger discussion involved here. So, first of all, I think if you look at our, we are very proud of our shareholders, first of all. You are one of them, but I am saying you referred to large fund houses. I think wherever there are large fund houses who have exposure to a stock and market caps of our size, I think we enjoy a solid position there, and we have absolutely no hesitation in saying that we are very proud of their association.

Our shareholders have been with us for longest periods of time, but then for certain considerations of their own, they decide to get out of certain values of a certain level of stock. Then, obviously, they have to go by the norms that they set. But typically, in the market caps that we enjoy at this point of time, I think we have excellent shareholders.

Our inclusion in the MSCI has also helped us get a large number of ETFs to track us, and I would not like to get into individual details or individual names of our shareholders because I think we are supposed to keep them under the laps to the extent that we can. Our FIIs owned the FPIs, I think we have a stake 21%, which is a fairly decent percentage compared to our contemporaries as well as contemporaries in the IT services, which is where we sometimes get compared quite often.

So, I don't think we have a dearth of quality shareholders. I think we have very good shareholders, and we are very proud of that, and they have had long associations with us. Should we be able to attract more? Of course, we should be able to attract more, and we are making all efforts to do that, and once, when we have committed and passionate shareholders such as yourself, I am sure you will help us in that journey as we go forward. This is a win-win.

Moderator: Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Most of my questions have been answered. Thank you. But if I can just step in and ask your comment on the endeavored growth for FY '24, you know, how much of this is really dependent on the environment really getting better or deteriorating? I asked this because, you know, leaders like us ought to consolidate their market share irrespective of what the macros are.

R. S. Pawar: So, I can answer the question on behalf of NLSL. You are very right. When demand gets compressed or constricted, the opportunity is in growing market share and also increasing new customer acquisition, and that's really where our focus is. However, demand contraction does result into lower growth, but that is a short-term phenomenon. The new customers you acquire and the gain that you get in wallet share lives for a much longer period of time, and that's really where our focus is at this time.

Baidik Sarkar: And on the international business, you know, what was the one-off costs we booked in Q4? I think there is adequate disclosure on the full year numbers, but I am just curious about what were the one-off costs on Q4, the international business?

Vijay Thadani: One-off cost in the acquisition?

Baidik Sarkar: No, in Q4. I believe the acquisition was already booked in Q3, if I am not wrong. My question is specific to Q4, please.

Vijay Thadani: Can you just identify? Because I think we also have slight audio issues, I have to keep asking again and again. Can you refer to the line item of that you are referring to?

Baidik Sarkar: No. So, I am referring to international business. I think there is adequate disclosure on your PPT that talks about the one-off costs for FY '23 as a whole, right? For instance, your acquisition cost.

Vijay Thadani: Yes. Those one-off costs are to do with St. Charles acquisition, and there would be cost relating. Yes. And you said it's FY '23, whereas that happened, so quarter three was part of FY '23.

Baidik Sarkar: Let me repeat my question. What were the one-offs booked in FY '24? It's a very simple question. In Q4 of FY '24?

Vijay Thadani: FY '24, there is no one-off cost booked in FY '24.

Baidik Sarkar: So, I mean, Q4 of FY '23, just for one quarter Q4.

Vijay Thadani: For Q4 FY '23? Can we take it offline from you because I think we are struggling to understand? Baidik, can we revert back to you in a short while?

Baidik Sarkar: No worries.

Moderator: Thank you. The next question is from the line of Anirudha Jain as an individual investor. Please go ahead.

Anirudha Jain: Sir, I had two broad generic questions. One is, how good business will pan out in next four to five years including the revenue and margin flow? And what are the factors which will contribute to this growth? And the second is on the competition side. How is the competition for both the businesses? And what is our cutting edge?

R. S. Pawar: Let me repeat. You know, the first question was how do you see the next four or five years for these business? And how do you see them panning out?

Anirudha Jain: Yes. And the factors contributing to the growth.

R. S. Pawar: And factors contributing to growth for four to five years? The second relates to competition in these two areas. Sapnesh, can you talk about NLSL?

Sapnesh Lalla: You asked about how the business is positioned for the next four to five years? And how are we looking at competition? So, from the point of view of NLSL, like we said, our goal is to get to $400 million to $500 million. We think a large part of that movement will happen organically, and part of that movement will happen inorganic, and this is something that I have said in the past.

Whenever economies experience recession and are coming out of recession, corporations start focusing on what is core to them and look at outsourcing as a means of doing what is not core to them. We saw this happen when the financial meltdown took place. We are starting to see that now, and with the continued disproportionate investment in sales and marketing, as well as building of capability that we will be able to acquire a higher share of deals that come up. We do think that the propensity to outsource will increase, and there will be an acceleration in deals, and I think we will be very well positioned to capture a larger percentage of the deals that come up for outsourcing.

With respect to competition, we are in the group of top five at this point in time, and our goal is to achieve market leadership over the next five to six years.

Anirudha Jain: And two questions on the bookkeeping side. So, for this FY '23 in this CLG business, why expenses has been grown significantly compared to the revenue growth? And the second is, if you could elaborate on the net other expenses?

Sapnesh Lalla: The net other expenses or the exceptional expenses are predominantly on account of the acquisition of St. Charles, as well as the scheme of arrangement that we just completed, which was demerger of the CLG business into NIIT Learning Systems Limited.

Vijay Thadani: And a part of other expenses would also have the, so, for example, there are employees of any one company will get their options converted into options of both the companies. So, the options of the second company are not the expenses of this company, and to that extent, I think there is a below the line special other expense which is separately classified. So, these are all scheme related expenses.

Anirudha Jain: And in terms of operating expenses?

Vijay Thadani: And second is acquisition of St. Charles.

Sapnesh Lalla: First question was why have operating expenses grown faster than revenue in NLSL, which is why margins have come down?

Vijay Thadani: Yes. So, actually, that is not an operating expenses having gone up. It is a product mix from a revenue point of view, a lower volume of a slightly higher margin contracts.

Sapnesh Lalla: We have talked about this realization would happen and this is well within that.

Vijay Thadani: In fact, it is better than what we had assumed it to be or guided you to be.

Sapnesh Lalla: Just to recap, the margin for FY '22 was 26%. The exit margin for Q4 FY '23 is 25%. The reason why the margin for FY '23 is 23%, because we saw a lot of headwinds to where the margin was 19%.

Vijay Thadani: There is one question which we were to answer of Pooja in terms of what are other assets in NIIT's balance sheet. So, I just wanted to clarify to her, that those consist of tax deducted at source by customer unbilled revenue which is revenue which is of work in progress for which the billing deadline has not come in, input credit of GST and prepaid expenses as well as some interest recoverable or receivables of FDs which will get paid on due date. Pooja, does that, I hope it answers all your questions?

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing remarks. Thank you, and over to you, sir.

Vijay Thadani: So, all that I want to say is thank you very much for a very interesting set of questions, very insightful, and thank you for studying our numbers as well as all our announcements. Thank you for keeping track of the progress of NIIT. We truly support or truly appreciate your support through these times of discontinuity. Thank you very much for your compliments to the teams that have been leading the demerger. I think it's very, very encouraging for them to know that this was well appreciated by our shareholder base.

We are all available to you to answer any questions. We don't know if these are periods of discontinuity as well as transition, and therefore, in that position, the least we can do is to make ourselves available and answer all your questions. Do reach out to Kapil Saurabh who will continue to represent both the companies as the Investor Relations, and therefore, to that extent, we will be able to answer your questions, not only relating to any one of them, but also relating to the transactions which may have happened between the two of them.

So, with that, I would like to end this call and wish you all the best and looking forward to interacting with you in person at the earliest possible opportunity.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of NIIT, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.