MANAGED
TRAINING
SERVICES

Corporate Office:
Infocity, A-24, Sector 34
Gurugram 122 001, Haryana, India
Tel: +91 (124) 4916500
www.niitmts.com
Email: info@niitmts.com

May 20, 2025

The Manager
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001

The Manager
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051

Subject: Transcript of Investors/ Analysts Call - Audited Financial Results for the financial year ended March 31, 2025

Scrip Code: BSE - 543952; NSE - NIITMTS

Dear Sir,

Pursuant to the requirement of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith Transcript of Investors/ Analysts Call organized on May 14, 2025, post declaration of Audited Financial Results of the Company (Consolidated & Standalone) for the financial year ended March 31, 2025.

The same is also available on our website i.e. www.niitmts.com.

This is for your information and records.

Thanking you,

Yours sincerely,
For **NIIT Learning Systems Limited**

Deepak Bansal
Digitally signed by Deepak Bansal
Date: 2025.05.20 19:23:38 +05'30'

Deepak Bansal
Company Secretary
& Compliance Officer

"NIIT Learning Systems Limited

Q4 & FY'25 Earnings Conference Call"

May 14, 2025

MANAGEMENT: **MR. VIJAY THADANI - MANAGING DIRECTOR AND VICE CHAIRMAN**
MR. SAPNESH LALLA – CHIEF EXECUTIVE OFFICER –
MR. SANJAY MAL – CHIEF FINANCIAL OFFICER –
MR. KAPIL SAURABH – INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to NIIT Learning Systems Limited Q4 and FY '25 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Vijay Thadani: Thank you. Good afternoon. Welcome, everyone. On this call today, where we are going to discuss NIIT Learning Systems Limited quarter 4 and FY '25 results. First of all, thank you for your continuing interest in NIIT Learning Systems Limited and for joining the call today. I do know you had other options, but we thank you for giving us your time, and we will be sharing the details, as I just talked about, for quarter 4 as well as for FY '25 results of NIIT Learning Systems Limited, trading similar NIIT MTS.

We will be discussing not only the performance of the business, but also the outlook for the business, a certain update on the inorganic activity as well as certain profit actions like dividend, etc. But I'll come to that part towards the end.

To start with, I am inviting our CEO, Mr. Sapnesh Lalla, to make the opening comments and briefing based on which we'll open it for Q&A. I have in the room with us the rest of the top leadership team, including our Chairman, Mr. Pawar, the CFO, Mr. Sanjay Mal; Kapil Saurabh, Investor Relations; and all our senior finance and business leaders. And we'll be very happy to all join in, in answering your questions.

Sapnesh will lead the call, and he will start with the briefing. Over to you, Sapnesh.

Sapnesh Lalla: Thank you, Vijay, and thanks, everyone, for attending this call. Good afternoon to all of you. In our prepared comments, I will review the performance and also share expectations of the path ahead. First, let me set the context. In a challenging and volatile environment, our growth in Q4 was 3% quarter-on-quarter and 8% year-on-year. In constant currency terms, it was 0.7% quarter-on-quarter and 6.2% year-on-year.

When we announced our Q3 results in this past January, we had expected higher sequential growth in Q4, driven by continued ramp-up of new customers and a partial recovery in spending from existing clients. However, as we are all experiencing, there has been significant increase in the volatility and economic uncertainty the world over. This led to significant impact on volumes in our North American real estate training business, for which Q4 is typically a very strong quarter.

We had slower-than-expected ramp-up from a large new customer, which has spilled over to Q1 and is now on track to be completed in Q1. And then in a handful of our customers, we've had deferrals or cancellations more than deferrals, cancellations of scheduled training activity in the second half of the quarter, predominantly in February and March. The sudden nature of this revenue impact, combined with an unfavorable shift in product mix resulted in disproportionate impact on the margin, which came in at 20% for the quarter.

I also wish to point out that despite the challenges we've had owing to the current environment, our business has continued to outperform our competitors, demonstrating strong resilience with industry-leading growth and profitability. The business continues to see strong customer wins, 3 new MTS customer contracts comprising of 2 new logos and 1 expansion. In addition, we had 1 renewal.

The visibility is now at $390 million. We maintained a 100% track record across all customer segments, the track record of renewals across all customer segments. We continue to expand our share of wallet with most existing customers. The revenue for the quarter was INR4,297 million.

It was up 8% year-on-year and 3% quarter-on-quarter, as I pointed out earlier. Constant currency revenue was up 6.2% year-on-year and 0.7% quarter-on-quarter. EBITDA for the quarter was INR857 million, was down 14% year-on-year and down 9% quarter-on-quarter. EBITDA margin was at 20% for Q4.

In addition to adding new customers, as I pointed out, we had 1 contract renewal and scope expansion. The company continues to maintain a track record of 100% contract renewal, reflecting continuous improvement in our long-term competitive position. The number of managed training services customers at the end of quarter 4 stood at 93. The visibility, as I pointed out, is at INR390 million versus INR335 million when we closed Q4 last year.

Coming back to our financials. The depreciation was INR167 million. The net other income was INR3 million. The treasury income, this includes the treasury income of INR118 million, strategic growth and acquisition-related expenses of INR55 million demerger-related nonoperating transitionary expenses of INR5 million and other expenses of INR56 million, including Forex loss of INR36 million and net other miscellaneous expenses of INR20 million.

The tax was at INR206 million. ETR stood at 29.7%. The tax was a tad bit higher in Q4 due to certain notional expenses on consolidation, which were not included in the tax computation. I'll request Sanjay to spend a minute on the ETR or the increase in ETR in Q4.

Sanjay Mal: So we have a tax charge of INR 206 million, which is higher than the quarter 3, which was INR 195 million. However, this is lower from the last year same quarter, INR294 million. So the overall impact has been typically for the inadmissible expenses, which is the notional expenses on consolidation, which are not admissible for tax. And to that extent, there is an impact primarily relating to fair value in future acquisition liability and the year-end true-up, which we typically see in the quarter 4.

Sapnesh Lalla: Thanks, Sanjay. The profit after tax for Q4 was INR487 million. The EPS was at INR3.58 per share versus INR4.54 previous quarter and INR4.02 last quarter -- same quarter last year. For the year, -- the revenue was INR16,533 million. This is up 6% year-on-year. The revenue is up 4.8% on a constant currency basis. The EBITDA was at INR3,763 million versus INR3,762 million in the previous year. The margin was 22.8% versus margin of 24.2% last year. The depreciation was INR619 million versus a depreciation of INR592 million last year.

Net other expenses were INR80 million as compared to INR200 million last year, primarily due to higher treasury income this year. The treasury income was INR411 million as compared to INR279 million last year. The strategic growth and acquisition-related expenses were at INR267 million. Demerger-related nonoperating or transitionary expenses were INR 29 million as compared to INR 115 million last year.

Other expenses, which include foreign exchange expenses and miscellaneous expenses were at INR196 million as compared to INR90 million last year. The PAT for the year was INR2,275 million. This was up 7% year-on-year. The EPS was INR16.75 per share versus INR15.82 last year.

The balance sheet and cash flow metrics remain strong. The DSO stood at 56 days as compared to 62 last quarter and 53 same time last year. Cash and cash equivalents are at INR7,742 million. These include the earn-out payment to St. Charles earlier this past quarter as well as a minority investment in a company called Strivr that Vijay will talk about after I complete these comments.

The capex for the quarter was INR145 million versus INR118 million previous quarter, reflecting continuing and increasing investments in using generative AI to build transformative products. The net cash stands at INR7,036 million as compared to INR 6,999 million previous quarter, INR5,659 million last year same quarter. The return ratios continue to remain robust.

We ended the year with 2,410 employees. This was up 54 quarter-on-quarter and up 14 year-on-year. So as we exit this year, our employee base is more or less what it was when we exited last year.

As I mentioned when I started the call, the market uncertainty is driving significant focus on costs, resulting in conversations around large cost takeout and cost transformation opportunities. We think we are very well positioned to take advantage of such opportunities because organizations when they look at cost or cost takeout, look for reliable partners who can both advise them as well as operate their business. And I think we have reached that position with most of our customers.

With our investments in AI, consulting and advisory services as well as disproportionate investments in sales and marketing, along with the reputation as a trusted and reliable market leader, we believe we have an opportunity to gain a larger share of the upcoming opportunities and to accelerate growth. Our deal pipeline continues to be strong, including large outsourcing opportunities across different market segments, including technology, professional services, automotive, life sciences, BFSI and others.

NIIT Learning Systems Limited continues to make different disproportionate investments, as I mentioned, not just in sales and marketing, but also use of generative AI across the different parts of our business. Generative AI, as we found at our Confluence event that we conducted earlier this year in Orlando, generative AI is part of almost every conversation. A number of our customers are evaluating the use of Gen AI in transforming L&D, though I would say there is still some hesitation in large-scale adoption of Gen AI solutions.

I would, however, report that in Q4, we did win our first significant customer managed training services customer which is where the work that we would do for them will be purely driven by the use of Gen AI in every aspect of the work that we do for them. We continue to make rapid progress in leveraging AI across multiple aspects of our work, and we expect that over time, we will have higher adoption across a larger percentage of our customers.

I would like to reiterate that the rapid transformation in the industries we serve owing to digital transformation, use of AI, decarbonization, acceleration in biopharma present large and significant opportunities for NIIT learning systems. We see a number of organizations transforming and restructuring to improve their cost structure and achieve higher variability in cost structure.

We're starting to see acceleration in outsourcing opportunities. And owing to this trend, I feel we are uniquely positioned to take advantage of these upcoming and emerging opportunities and continue to lead the industry in terms of growth and profitability, specifically as some of our competitors are distracted and others are focused on other parts of their business. We also have an active pipeline of inorganic opportunities that we are pursuing. We will report more on this as we reach closure on any of them.

Like I mentioned earlier, during this quarter, we announced a strategic minority investment in Strivr Labs USA. I'll spend a minute on the company and then let Vijay talk about Strivr as well as cover some of the other points that he mentioned. Strivr was incubated at Stanford University's Virtual Human Interaction Lab. Strivr was founded in 2015 by Derek Belch, then a graduate student and assistant football coach for the Stanford Cardinal, along with Jeremy Belsnan, Stanford Professor and BHIL Founding Director.

The company offers customizable content, data analytics to track user performance and realistic simulations to develop practical skills. By leveraging virtual reality technology, Striver enhances engagement, improves skills and reduces training cost making with a leader in XR-based immersive learning space with clients ranging from top sports teams to professionals in banking, retail and health care industries and other Fortune 1000 companies. Strivr reported a revenue of $18.2 million in the calendar year 2024.

I wanted to spend a minute on our guidance. We see, as I mentioned earlier, a robust contract pipeline and ramp-up in a number of customers Revenue growth during the year would, however, be moderated by the completion of the North American real estate contract, as I pointed out previous quarter in January.

For the full year, we expect a 10% plus growth in constant currency revenue with the goal of achieving 3% to 4% Q-o-Q growth in the first quarter. We expect the margins to be in the range of 20% to 21% for the full year. I would now request Vijay to take you through some of the corporate actions that we have taken.

Vijay Thadani: Thanks, Sapnesh. I have just 2 points to talk about. One was the investment in Strivr. So I just wanted to state that this is a strategic investment for NIIT MTS. The company believes that the investment in Strivr is in line with our stated strategy of investing or taking positions in strong innovative companies, which are going to contribute very significantly to the training landscape.

Extended reality learning solutions is a very, very important component of that as we go forward, and we think that this will position us very well. In fact, it is already beginning to position us very well as we speak in customer situations. This XR-driven immersive learning, combined with our Gen AI capability and Gen AI competence that we are building in building very efficient and effective solutions, I think, will position us very well competitively and help us lead the L&D transformations the way our consulting teams have envisioned. This is one of the many that we would - or a few that we would talk about in times to come.

As mentioned before, we have a strong inorganic funnel, but obviously, there has to be an agreement on terms as well as the value addition that each partner will bring on the table. And as and when these will materialize, we'll be sharing them with you.

The second part which I wanted to talk about was the dividend. The dividend is, as you know, NIIT Group's dividend policy has been to be a consistent dividend paying company and pay a consistently improving dividend percentage as well as amount in line with the overall growth of the company and not get governed by a single or a few events on the way.

And other than some very, very significant dividends, NIIT has always been consistent in paying dividend in its 30-plus years of being a public company and for NIIT MTS for the last 2 years.

In line with that, last year, the dividend that we had paid was INR2.75 per share. This year, after deliberation, the Board has recommended a dividend of INR3 per share. And this obviously is subject to the approval of shareholders at the AGM, and that will then get formalized and get distributed accordingly. So these were 2 statements I just thought I will share with you. I would now suggest to Sapnesh that we open the forum for Q&A. Operator?

Moderator: The first question comes from the line of Siddhant from Goodwill.

Siddhant: My first question is regarding the 500 bps margin fall this quarter. Any reason why outsourcing expenses have shot up?

Sapnesh Lalla: There were a couple of reasons, and I mentioned these in my prepared comments. The first one is the significant reduction as compared to expectation that we experienced in the real estate market. That was first. Second, as I mentioned, the real estate business, a) is a high-margin business; and b), it normally experiences very significant growth when we move from Q3 to Q4. Typically, Q4 is a shoulder quarter for us. We have a high quarter in Q3, and then we see typically a dip in Q4.

We were, however, expecting to do significant growth Q-o-Q, predominantly on account of the ramp-up of a new customer that we acquired late last year. Some of the outsourcing expenses or the increase in outsourcing expenses that you saw was in accordance with the ramp-up of a new customer. This customer was likely to get to steady state in Q4.

However, it is taking a little bit longer to get to steady state, and we think that it will achieve steady state in Q1. So from a revenue perspective, we did a little bit less than what we expected, which also had a margin impact.

And the last one really was that we had a number of program cancellations in the second half of the quarter, which resulted into unexpected schedule changes where classes got canceled and we were unable to recover from the expenses that were already scheduled for these classes.

Siddhant: Okay. And does the 20%, 21% margin guidance include this slowdown? Or if there is a ramp-up of these customers, again, we can expect it to be on the higher end like previous years?

Sapnesh Lalla: So in this coming year, like I pointed out, we are expecting a 20% to 21% margin. We think that we have opportunity to do better than that, and we will continue to strive to do better than that. But I think as we look ahead, a fair part of this coming year, we will not have the advantage of the North American real estate business. So that will, to some extent, bring down the margins. And then over the latter half of the year or towards the end of the year, we will have through internal efforts, we will have opportunities to improve margin.

Siddhant: Okay. A follow-up would be, so if the Ontario contract is over, the North American real estate one, and should I assume the 100% renewal rate is gone? Because I'm unable to understand that metric, to be honest.

Sapnesh Lalla: So our contract renewal rate continues to be 100% for all contracts that come up for renewal. Like I had pointed out earlier, there was a legislative mandate in the province of Ontario in Canada that expected the regulatory body to move the contract from an exclusive provider to a nonexclusive model. And so from a legislative perspective, this contract was not available for renewal.

Siddhant: So in what situation does it become -- the 100% rate goes below, let's say, 99% or 95%?

Sapnesh Lalla: No, like I pointed out, if a contract is available for renewal, we have always been able to renew it. However, if a contract is not available for renewal, which means it's out of neither we are going to get nor anyone else is going to get, then we don't count it in our computation.

Siddhant: Okay. Understood. Another question is we've asked this on this call before. We understand the policy of the dividend payout of being consistent and increasing it every year, but the base itself seems very low. And considering the very low capital requirements and the excess cash we already have on the balance sheet from the demerger, would it not be better to have a higher dividend payout at 50% of profit?

Vijay Thadani: Yes. So no, you are absolutely right on one observation that you made. The second is also the Board takes a call on what all is involved in the coming years. And I think the fact that we are looking at intense inorganic activity, we are also looking at volatility in the environment where there will be sudden need for cash inflows. There are specific opportunities for investing very significantly in generative AI. I would say at this point of time, we are at the early stage of that curve.

Today, in the Board meeting, we were also discussing about how do we accelerate the investments in compute activity, for example, and not that we would like to get into setting up large data centers, but definitely, there are opportunities of various kinds, which are in the play. And I think keeping all this in mind, we would make sure that the overall yield that our shareholders get is balanced in terms of a dividend as well as an appreciation. And I think the combo is perhaps the way to look at it.

Sapnesh Lalla: And from a more selfish perspective, I would add that when our prospective customers evaluate NIIT to outsource L&D, which is critical to their business, they look for companies who have strong balance sheets and have strong money in the bank to handle the ups and downs. To handle ups and downs to handle ramp-ups and so on and so forth.

Vijay Thadani: So it's a balanced call, Siddhant the way I would like to say.

Moderator: Next question comes from the line of Janish Shah with Investment Professional.

Janish Shah: Sir, two three questions, one. First, about the growth visibility which you have been giving at 10%. However, if you look at the pipeline and also the visibility on the revenues, which is the numbers which you have given is at least like a 13% to 14% higher and assuming that the pipeline is remaining strong.

What is holding you back from -- I mean what are the thought process for giving that 10% guidance, especially that till last quarter, you were guiding for a visibility more closer to like 20% on a very reasonable time frame. That's the kind of a sustainable growth of this business. That's one part.

Second is on the expenses, basically the outsourcing expenses. If you can just give us a little bit of an understanding how the execution generally, and how should we expect or how the revenue recognition and how the expenses have been classified, especially in a sense that when we are also looking at the number of employees has also increased for the year-end, which I mean generally it has been flat for the last couple of years, but you started increasing.

So that also is a little bit of a contradicting data point where gives a confusion about how the expenses or basically the growth outlook looks like. And the third is probably on the outstanding on St. Charles. How much is the balance to be paid now for? These are my questions. Thank you very much.

Sapnesh Lalla: Okay. I can start with the first one. So I think your first question was on the quantum of growth. If you look at our guidance of 10-plus percent, what you will notice is that there is a netting that's going on for this coming year. And that is compounded by the uncertainty in the environment. So compression of spends with our existing customers.

So while our pipeline of new customers and prospects continues to be strong. We are continuing to sign new orders, but the netting because of the sunset of the North American real estate contract which takes away from some of the growth is one factor. The second factor really is uncertainty where in times of uncertainty, the consumption of training gets impacted.

Now if things improve, that should go up, though with a little bit of a lag. So that's really why you are seeing the 10% plus guidance from a revenue growth perspective. In terms of number of employees, like I pointed out, we are flat year-on-year. We have added about 14 additional employees on a base of approximately 2,400 employees. So it's 14 employees up year-on-year. I would say that our ratio of offshore versus onshore has improved favorably.

So from an overall perspective, we are trying to control expenses or direct expenses. In terms of your question of outsourcing, like I pointed out earlier to the previous caller's question, we are in the ramp-up process of one of our large customers, and we are increasing the variability in our cost basis.

So you do see a little bit of a higher outsourced expense predominantly, that's our way of improving variability in our cost basis so that we have a better response to uncertainty. I think your last question was on St. Charles, and I would request Vijay to respond to your question on St. Charles.

Vijay Thadani: Yes. So I'll simplify it for you. The maximum amount that they could have earned if all the projections had been met at the highest end would have been $65 million. And there are 2 tranches left still. And in these 2 tranches, they have an opportunity to do that. And that's how we would like to state it, and that's how it has been stated in the contract. We have already processed 2, 3 earn-outs in the past and now 2 more...

Janish Shah: Allow me. Yes. If you allow me one more, can I go with one more question? Yes. I mean you clearly said that the generative AI is transforming this industry. I mean that also creates the demand and also the way you are going to deliver. Can you give a little bit more understanding about the future and investments, how things are going to shape up for your industry in general?

And would it also lead to a change in the margin structure since you already have one customer, significant customer who is already you've onboarded on a full AI delivery model. If you can just give a little bit of an understanding about how the transition is going to happen in a little bit of a detail that will help in getting a sense of how the business is going to shape up in next 2, 3 years, that will help. Thanks.

Sapnesh Lalla: I could go on for a few hours trying to answer that question, and I might still not do great justice with the answer, but I'll do my best. See, I think generative AI is going to fundamentally change how training is practiced. The profession of training is going to go through a very profound and fundamental change over the next few years.

I think we are at the tip of that iceberg and that iceberg will start revealing itself over the next few years. I think we are going to see substantial changes in both the efficiency of delivering education and training, but more importantly, we'll see very significant changes in the effectiveness of training.

So at the most advanced stage, you could potentially foresee an AI tutor who is the personal tutor for each and every employee in an organization. You may even have more than one tutor -- just like -- I mean, imagine if you were an elite professional athlete. So let's say, you were an elite professional tennis player or a golf player, or a cricket player, you would typically have about 5 or 6 coaches.

You would have a coach for conditioning, you would have a coach for stroke play, you'll have a coach for mental wellness and so on and so forth. You would have coaches for all of that. And you can do that because your earnings allow you to do that. And there are very few people who can afford it.

With generative AI, I think personal coaches of very high quality and caliber are going to become more easily and more affordably available. And that's going to change very significantly how training is done. It will get done very much more in the flow of work. Imagine if you were going into a meeting where you had to give feedback, hard feedback to somebody and what if you could practice with an impersonator who represents the person that you were going to talk to, you could have a practice meeting ahead of that meeting.

So the point I'm trying to make is that training is going to become significantly more personal. Training is going to become more coaching oriented and training in AI is going to be all pervasive. Now will that happen tomorrow? Probably not. But will that happen over the next few years? I'm certain it will.

How are we looking at business going forward? I think the significant changes that we are hoping to drive is to bring to our customers very different, very value-adding learning experiences, which accelerate learning for our customers. What used to take -- so for example, if you are fresh out of college and you're getting into pretty much any profession, today, it takes 3 to 6 months to get you onboarded into that profession.

We think that with AI, we have an opportunity to significantly shrink that onboarding time. Likewise, we think that we'll have an opportunity to help reduce the mistakes people make when they do their jobs and make them more proficient in a shorter period of time.

So I could go on, on this for a long period of time. I think it's going to be profoundly different. And I think companies who do not embrace it soon enough will not be relevant going forward. And I think the reason why we are making such investments is because not only do we want to be relevant, but we want to lead.

Moderator: Next question comes from the line of Ganesh Sethi an individual investor.

Ganesh Sethi: Our previous acquisitions like Eagle Solutions and where we have bought controlling stake, significant controlling stake. But now in recent investment like Strivr and Inno Energy, we are investing in a very small proportion. Is it that we are using our capital very judiciously or we are just trying to understand the uncertainty around that? Or is there any change in our inorganic expansion strategy, sir? Can you please throw some light on this?

Vijay Thadani: Yes. So I'll give you one high-level answer. It's a coincidence that the last two have been minority investments and the previous were controlling stake. When we make most of our inorganic activity is for acquiring controlling stakes, and that's why we have the quantum that is allocated in our balance sheet or capital allocation as the Board has done. In these two cases, coincidentally, these have been minority investments.

And we do make minority investment, when the overall business of the target company is not core to us, but a specific capability or a specific part, which can make a big difference to us. And their overall business may or may not be in training alone. It may be beyond training.

So I think Sapnesh will explain to you Inno Energy, how in InnoEnergy we took a minority stake. And by the way, how it is helping us. And similarly, how Cyberlabs as a minority investment we have made, how it is not exactly a full core activity where we would like to bet our full bank on that, but take a positioning so that we have access to that technology in a competitive manner. So I think, Sapnesh, you can explain that.

Sapnesh Lalla: Thanks, Vijay, and I would completely agree with what you said. I would echo it. See, Ganesh, our thesis for acquisitions is around 3 dimensions. The first dimension we consider is are we going to be able to get a new capability by acquiring the company. The second thesis is, are we going to be able to get access to a new segment of customer?

And the third is, are we going to be able to get access to a new geography. What we try to do is in a full acquisition, ensure that at least 2 out of these 3 are checked. So if you look at Eagle, we were able to get new capability in life sciences as a market segment as well as a new capability in doing application rollout. If you look at St. Charles Consulting Group, we were able to get new capability in consulting and advisory services as well as access to a new market segment where we were not present, which was the management consulting and professional services companies.

There are, however, a number of companies who may not check 2 or 3 out of our key criteria. However, still represent investing opportunities where we may have intersection with some of the customers that they might have or we may have intersection with some of the initiatives that they might have.

However, it may not make sense for us to make a full acquisition. So for example, the minority investment that we made in Inno Energy. Now as you know, Inno Energy is really a large fund that invests in early and mid-stage start-ups that are around renewable energy. We have energy as a key segment.

And I think renewable energy is a key transformation that is going to drive a lot of what is going to happen connected to energy in the future. And we think that this transformation will succeed if and only if there are enough trained people to service that transformation or transition.

For example, this will lead to manufacture of electric vehicles. It might result into setting up of hydrogen plants. It might result into setup of a large-scale setup of wind energy or solar energy. And all of this will require a lot of people who will need skills to be able to bring the dream of renewable energy to life -- and having taken a minority investment in InnoEnergy will get us a seat at the table with companies who are driving this transformation.

Likewise, as I mentioned, artificial intelligence, different ways of learning, virtual reality as it connects with artificial intelligence, create new modes of learning that will drive how students learn in future. And by taking a minority stake in this organization, it will give us a seat at the table with organizations who are pushing the boundaries of how learning happens.

So we make minority investments where the investment does not check all 3 boxes that we have for full acquisitions, but are still interesting because either we can learn or we can get access to customers or we can get a seat at the table that's very desirable.

Ganesh Sethi: And my second question is earlier, we have guided for 20% growth at 20% EBITDA margin. And in spite of difficult macro, we have 20% EBITDA, but the growth is not coming. So do you think that in near term or in the medium term, as many acquisitions are lined up, we can achieve plus 20 trajectory in the near future?

Sapnesh Lalla: Thanks, Ganesh, for asking that question. I think like I pointed out earlier, we are seeing a little bit of pullback in growth to some extent because of the uncertainty, but also because of the netting effect that I pointed out earlier. Our medium-term, long-term point of view continues to be a 2020 point of view, and we will do our best to get to the 20% growth mark as soon as we can. Some of the inorganic activity will certainly help in that...

Moderator: Next question comes from the line of Sankarnarayanan S from thought PMS.

Sankaranarayanan S: My first question is regarding the health care and life science vertical and tech and telecom vertical. So if you could see the recent job employment report, specifically in the U.S., we could see a strong hiring momentum in health care and life science vertical, but that's not reflecting in our quarterly numbers in this quarter.

So if you could throw some light of what happened in that vertical? And also regarding the technology vertical, tech and telecom, we could see news regarding layoffs in Microsoft, Google and amazon etc. And how can we expect this vertical to be a growth vertical in upcoming quarters?

Sapnesh Lalla: So I think I couldn't quite understand your second question. Can you say it one more time, please?

Sankaranarayanan S: Sir, we have seen news regarding the layoffs

Sapnesh Lalla: I get it now. Okay. So let me answer the second question first, and then I'll come to the first question. I think your second question was that a number of technology companies are laying off people and how do we expect to grow in an environment where a number of technology companies are laying off people.

I would say if you go to the core of the issue on why technology companies are laying off people is, to one extent, uncertainty and the second extent is the rapid change that's going on with the technologies. And so as technologies change, there is obsolescence of skills. And I think when there is obsolescence of skills, people who do not keep up with the skills end up on the short end of the stick.

I think this this rapid change in technology will create actually more opportunity for us because while organizations will end up with fewer employees, the employees who are left will need to be continuously trained, and we will see an opportunity of increased training consumption for the employees who are left at the organization.

So I think also as cost becomes important, large technology companies will resort to outsourcing, which will be beneficial for us. And I think while we have seen significant growth this past couple of quarters in our technology segment, we should see continuous growth as we start doing more with technology customers. That continues to be a focus segment for us.

Your second question was that there is increase in hiring in health care and life sciences. I guess you're saying you're seeing that happen because the world is getting older and requires more help from a health care perspective. We've seen year-on-year growth in health care over the last few years. The top 8 or 9 out of the top 15 pharma companies are our customers.

And over the last 2 years, we ramped up in a significant way. Even as I look at the year that went by, we saw 4% growth in our business in life sciences. We have some of the largest pharma companies as our customers. And I think our business will grow in pharma. In fact, one of the 2 contracts that we signed this quarter was with a large pharma company.

Sankaranarayanan S: And my second question is regarding one of your service - content creation. So with regards to generative AI, it could be able to generate the content without or with lesser human assistance. So how could we see the content creation vertical? I know that generative AI can leverage this segment.

But how you could see because eventually, you are needing lesser human assistance so that will customers ask for a price discount or even see a pricing pressure in this segment because that's what many industry analysts like even Jose B, he was saying regarding this content creation. So just your thoughts on this.

Sapnesh Lalla: So I think it's a very good question and a very appropriate question. See, like I pointed out, if we kept doing the same thing that we've been doing, AI will be able to do it for almost for free. However, I think the opportunity we have is to create more effective training that results into better outcomes. And I think this is really what we are hearing from our customers.

Our customers don't want to dramatically reduce their spend on training. I mean, there are times when it's tough for them and the budgets go down marginally. There are times when the budgets go up marginally. If you look at data for the last 20 years, and L&D has gone through many transformations over the last 20, 30 years, the average spend on training per employee has hovered around about $1,100 over the last 30, 40 years.

So organizations do believe in the value that training generates, and they don't want to very significantly lower the training. However, the expectation on outcomes from training are going up and should be going up because we should be able to leverage generative AI to improve the outcome.

We classify content in level of complexity or level of interactivity or outcomes it can generate as Level 1, Level 2 and Level 3. I believe that going forward, our opportunity in Level 1 content creation will diminish significantly because you really don't need to create that training content. If training was just informational, you could just as well go to Gen AI, not have to go to a training class at all. But training will specifically focus on higher-level outcomes, and I think that's where our opportunity will shift.

Sankaranarayanan S: And my last question is regarding your long-term guidance of achieving $400 million to $500 million.

Vijay Thadani: Shankar, there are a large number of participants. I'm going to request you to rejoin the queue. I request everybody else to limit their question to one.

Moderator: Next question comes from the line of Shradha with AMSEC.

Shradha: So just on the guidance for FY '26, we saw that in FY '25 because of macros through the quarters, we had to cut down the guidance. So what is the confidence level in terms of FY '26 guidance? What have we baked in terms of macros? Is the guidance baking in any deterioration in macros? And any cancellations that might come up, given what is happening at the macro and how our existing clients are talking of in terms of their spending patterns?

Sapnesh Lalla: So pulling together this guidance was really hard this quarter. It's been harder than it's been for the last several quarters. We've tried to do as good as a job as we can, but our ability to base on the crystal ball is only so good and things seem to be changing on a daily basis. So we will continue to reevaluate our guidance on a quarterly basis. We have baked in what we know. We know that our contract with the North American real estate business will end in June. So we baked that in. We baked in the pipeline and our expected probability of winning from that pipeline. We've baked in some conservative estimates of what our existing customers will spend with us.

So we've tried to be as data intensive as we can be, and we've tried to be as transparent as we can be and what the guidance reflects is our view today. Will the world change as rapidly as it has changed over the last 3 months, time will tell. But we've tried to do as fair and as objective a job in coming up with the guidance as we could.

Shradha: So the guidance does build in that whatever we have in pipeline, some deal closures would happen and ramp-up of that will take care of the guidance of 10%...

Sapnesh Lalla: That is correct.

Shradha: Right. And on the margin guidance, sir, on the 20%, 21% margin guidance that we have for this year, should this be treated as a new normal for margins? Or this is just a '26 guidance on margins. And going forward, we should look at some improvement and coming back to the 24%, 25% average level of margin of 23%, 24%?

Sapnesh Lalla: See, like I pointed out earlier, both for revenue and margin, this year will be a little bit of a transitioning year. I think things will settle down by the time we get to the fourth quarter of the year. And I think then on, we will get to a steady state. So the first few quarters of this year will be transitionary in nature.

Like I pointed out, long term, this business is a 2020 business. We hope that we'll be able to get to 20% growth as certainty comes back. And from a margin perspective, we think that it should be in the 20% to 22% range this year, this coming year, given the netting effect, we think it will be 20% to 21%. But over time, we may have an opportunity to go beyond 20%...

Moderator: Next question comes from the line of Ankur Shah with Capital.

Ankur Shah: Sir, just one question on the business. Sir, when we mentioned about cancellation of contracts -- or sorry, cancellation of training, like what do we mean that it is a scheduled training, which has been canceled and the related outsourcing cost, which we had committed, we have to pay them or our costs are also variable subject to the cancellation or the scheduling of the training. That is something I'm a little unsure.

Sapnesh Lalla: So the part that you mentioned about cancellation of training is accurate. So in times of uncertainty, a number of organizations have to give up their budgets. And in turn, that results into cancellation of classes that are scheduled or that are on the calendar. Now in terms of expenses, all training that we deliver is not outsourced expense. It is not variable expense. A fair part of our expense is variable.

However, a large part of our expense is also fixed. The part that we cannot recover is the fixed expense. The classes that have fixed expense allocated result into lower utilization of headcount as compared to what was planned and therefore, results into margin depletion.

What was to be outsourced often does not need to be outsourced and therefore, there isn't margin depletion. And that's the reason why I made the comment that as we look ahead, we will have higher variability in our business given the uncertainty.

Ankur Shah: And sir, is that variability component driving slightly lower guidance in margins?

Sapnesh Lalla: Well, fixed costs when utilized to the maximum result into lowest expense. Variable costs come at a premium. So variable headcount, variable staff come at a premium. And if 100% of our cost basis was variable, then our unit cost would be higher because you would have to pay a premium for that.

We have time for maybe one or two question.

Moderator: Next question comes from the line of Venkat with Mirabilis Investment Trust.

Venkat: My question is regarding on the RE real estate deal again. You mentioned that the deal is converting into nonexclusive basis. Are we planning to bid for the deal in this nonexclusive basis? Or will the deal ramp down to 0 from next quarter?

Sapnesh Lalla: So we have assumed that in the guidance that we have provided, we have assumed that it will ramp down to 0. We are in conversations with a number of players who are likely to participate in the deal. Just so you know, and this was true when we won the contract 7 years ago as well. To be able to be a partner, you have to be an accredited college. We partnered in our first go around, we partnered with one of the accredited colleges, and that's how we were able to consummate the deal.

As I mentioned earlier, it's going to move from exclusive to nonexclusive. So a number of colleges are going to be in the fight. We have discussions on with some of those colleges. And if we get selected, we may have some participation, but we have assumed that it will come down to 0 when we provided the guidance.

Venkat: Okay. And on your long-term guidance of USD400 million to USD500 million by FY27, do you think that goal is far fested? Or do you believe we have enough acquisitions in the pipeline to reach anywhere close to that?

Vijay Thadani: So our goal is to get to $400 million to $500 million by FY'28. And given that we have not grown at 20%, 25% year-on-year over the last 3 years, the climb has become harder. But I think with the strong balance sheet we have, the opportunities we have, I think we still have a chance.

Moderator: Next question comes from the line of Pranay Jain with Pan Tree Advisors Private Limited.

Pranay Jain: So when is the Ontario contract getting over?

Vijay Thadani: June of '25.

Pranay Jain: Okay. Okay. And secondly, so you used to give out top 5, top 10, top 20 customers revenue mix. So can you please share that with us?

Vijay Thadani: Yes, we'll be happy to to share it with you.

Pranay Jain: Okay. Okay, sure. And thirdly, so -- like are the margins for the AI-related contracts at same levels as that of company level margins?

Sapnesh Lalla: So we don't comment on margins for specific customers, but we believe that the AI contracts will generate same or better margins for us. Hit in our results data sheet, those numbers are provided already. If you could have a look at that.

Moderator: Next question comes from the line of Janish Shah with Investment Professional.

Janish Shah: Just to get some understanding on this AI, I mean you clearly mentioned that a lot of part of commodity or repetitive training is going to get replaced with the machine. In this transition, how do we see -- so generally, today, if you're talking about the cost advantage, which you have been mentioning is around like 40%, which is making the outsourcing more sensible with the client. So in an environment where the AI transition is going to happen, what choice does the customer will have? Do they have this -- I mean because the cost advantage is going to evaporate or reduce significantly.

And as you mentioned, that there's going to be a level up, which is going to happen from your side. But does it mean that the opportunity, client budget basically will get shrink because of the AI or the cost of training per employee, as just mentioned about $1,100 has remained for a decade. That's going to change.

And I mean, profitability you mentioned, but I'm just trying to understand the outsourcing. I mean, do you tend the clients to go for an outsourcing, especially when the industry total outsourcing is fairly minimum right now. And do you see that the transformation for the client from being an in-house to an outsourcing, it still makes sense in a changing environment that will help in understanding the landscape?

Sapnesh Lalla: I think you had 2 or 3 questions mixed up in one. But what I would say is, one, people don't outsource because they are looking at somebody else to do the same thing that they were able to do internally. People outsource because organizations want to achieve better outcomes as compared to what they are able to create internally.

And that's the reason why many organizations choose to outsource what is not core to them. And when I say what's not core to them, our customers in oil and gas, what's core to them is exploration, what's core to them is drilling, what's core to them is refining, what's core to them is distribution. Training is not core to them. And therefore, to be able to become the best in the world at training is not very advantageous for them from an investment perspective.

So what do they do? They look at organizations who can reliably support them for training, and be able to bring the best in the world to their employees so that their employees can get the skills that are so important for them.

While they are doing that, they also are able to get benefit from the scale that their partners have and therefore, save money. But it's not the cart before the horse. The reason why organizations outsource is because they don't want to invest in areas that are not core to their business.

Now AI will fundamentally transform training just as 30, 40 years ago, advent of electronic training or e-learning or digital training transform the training industry. So industries go through multiple transformations over their life, but that doesn't affect them. Like I pointed out, organizations have been spending about $1,100 per employee for many, many years. Sometimes it goes down to $1,050, sometimes it becomes $1,150, but it doesn't change to $300.

Vijay Thadani: I think we should now focus on the last question.

Moderator: We'll take the next that is Deepak from Sundaram Mutual Funds.

Deepak: Yes. Sir, I had just one question regarding your sector performance. So if I look at this quarter, the management consulting and professional services vertical has shown a good comeback, right?

On a Q-o-Q basis, we have almost did a 25% plus revenue growth. So just wanted to understand, has the volume in management consulting has come back, which was kind of subdued due to business environment and push for cost reduction? Or is it that the volumes in management consulting still remain subdued, but because there could be a one-off which we booked in this quarter because of our advisory and strategic consulting revenue?

Sapnesh Lalla: So there are 2 parts to my answer. See, there is a seasonal impact to our consulting and advisory practice. It typically does better in Q1 as compared to Q4, predominantly because a number of the customers that we work with take vacation time in our Q3. Now this is contrast to several other customers who try to consume their budgets.

As you might know, for a number of big 4 and management consulting firms, they don't follow a calendar year as a fiscal year. They have midyear fiscal years, whereas a large majority of our customers have calendar years as fiscal years. So consequent to that, we have a seasonality in the consulting and advisory business. And we see a quarter-on-quarter increase when we go from Q3 to Q4. So that is one reason.

But I would also say that while last year, we saw budget cuts across most of our customers, this coming year, it looks like we are turning the bend, and we are likely to see growth.

Deepak: Okay. So there is an element of season and there is also you are seeing some green shoot in terms of L&D spending by the big 4s.

Sapnesh Lalla: That's correct.

Deepak: If you allow -- one more question. Okay. Sir, just to double-click on one of the earlier participant question as well, this cancellation part, you explained that there is a fixed component to it and there is a variable component to it, right?

And wherever there is fixed component, obviously, if the new customer doesn't ramp up his contract and you have fixed expenses for that contract, obviously, your margin gets pulled down, correct. But if I look at your P&L, most of the spike in expenses has come from this professional technical outsourcing expense, right, which is mostly variable in nature, if I'm not wrong.

So I'm not able to understand where is the fixed part coming from this professional and technical outsourcing expenses, which is impacting our margin because of slower ramp-up of new customer and cancellation of existing training schedules?

Sapnesh Lalla: So it will be hard for you to discern it from our P&L because there is netting. On one side, we are seeing ramp-up of our customer. And as we ramp up the customer, we have higher outsourced expenses to ramp up this particular customer.

And like I pointed out, as we ramp up the customer until we get to a steady state, we like to keep our costs variable so that we get to fixed costs once we have realized the consumption patterns. So that's one part of the answer. And that's why you see a spike or an increase in variable costs.

On the other hand, we had allocated fixed costs to a number of classes, which got canceled. And those fixed costs could not be utilized given the cancellations. So we had utilization problems or we had idle time issues because of cancellation on one side, and we had ramp-up costs, which were variable in nature on the other side.

Now the reason why we can't net off each of these because, I mean, an easy question could be that if you have people who have utilization issues on one side, why the heck would you spend money on outsourcing? That is because there are different skills that are needed to address different customer needs.

One customer might need Red Hat skills, another customer might need AWS, somebody else might need some other skills. So it is not like-to-like. So we couldn't exchange folks who had utilization issues with folks who we were outsourcing. Did that make sense?

Deepak: Sir, just to clarify on that. So for example, let's say, the new customer who was supposed to ramp up as expected in Q4 didn't ramp up, right? Is it that the trainer whom you have recruited as an outsourced agent to teach your customer, you paid that trainer in advance and that is where one of the elements.

Sapnesh Lalla: **W**e did not lose on outsourced expenses. Our margin is not local because we had unutilized outsourced expenses. The reason why we have variable cost is if we don't have utilization, we don't have to incur the expenses. Like I pointed out, we had one customer who was ramping up. They did ramp up quarter-on-quarter in a significant way, but did not reach the peak that we were expecting them to reach.

However, from a cost perspective, that is not what hurt us. It's not like we were paying contractors for not doing work. We paid them and they did the work. However, the outsourcing expense was higher compared to previous quarter because we saw that customer ramp up.

Deepak: Thank you so much.

Sapnesh Lalla: This time if you need more clarification, do get in touch with Kapil, and he'll be happy to have another discussion with you. And thanks for taking the time, everyone. I know it's a busy schedule for you.

Moderator: Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Sapnesh Lalla: Thank you. Thanks a lot for joining the call, even though it went on for a little bit longer than we had planned. We learn a lot from your questions, and we get a lot of insights, and we would love to continue this dialogue as we look ahead.

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