

## Management's Discussion and Analysis

### Management's Discussion and Analysis of Performance: FY 2018

(of consolidated performance, unless otherwise stated)

#### Review of the macro-economic environment & Industry outlook

The macro-economic environment has been relatively stable during the financial year under review, with the IMF in its World Economic Outlook released during the year forecasting global economic growth of 3.6% in 2017 and 3.7% in 2018. In a report issued in January 2018, the World Bank too said it expects the global economy to grow much faster than anticipated earlier in view of the global economy experiencing a cyclical recovery, reflecting a rebound in investment, manufacturing activity and trade.

The US economy continues to do well, expanding at a healthy pace. The substantial tax cuts that were legislated there appear to have provided further impetus to the economy. The Eurozone too appears to be doing better now compared to the preceding year, with GDP growth picking up. In the UK, however, the Brexit negotiations have been weighing on sentiment and economic activity. The Asia-Pacific region has been a clear front-runner and that trend is likely to continue. In India a slew of structural reforms have had a transient impact on growth but it is still among the faster growing economies.

The Indian IT industry's sustained and profitable growth in the face of a challenging environment is, to a large extent, due to the talent, skills and delivery capabilities that industry players have been able to build over the years, as well as the willingness to embrace change and adapt to evolving industry and technology trends.

The outlook for the Indian IT Services sector remains positive, with NASSCOM expecting continued growth in IT-BPM exports during FY2019, in the range of about 7% to 9%.

#### NIIT Technologies: Engage with the emerging

NIIT Technologies has a clearly articulated strategy for growth - to "Focus and Differentiate", an approach that has yielded rich dividends over the years, with the Company emerging as the preferred choice for customers in its industry verticals of focus that include Travel & Transportation, Insurance and Banking &

Financial Services. The Company's highly differentiated position in these industry verticals is driven by its domain specialization, established track-record, investments in intellectual property (IP) and strong capabilities. Building on this specialization the company is leveraging domain understanding using emerging technologies to innovate, and incubate digital solutions which are industrialised through intelligent automation.

#### Capitalising upon opportunities arising from disruptions and discontinuities

The financial year under review saw the Company effectively transform itself in order to capitalize upon the opportunities arising from disruptions and discontinuities in the technology and demand landscape. The Company has scaled up its Digital Services business, which has been a key growth driver during FY2018. It acquired controlling interest in RuleTek, a BPM architecture services company with a track record of successful implementations for Fortune 500 companies, during the year under review. This transaction further strengthened the Company's Digital Integration capabilities, expanded its footprint in the high-opportunity North American market and added near-shore capabilities to its existing delivery model.

The Company continues to leverage advanced technologies like Automation, Robotics, Analytics, Artificial Intelligence (AI), and machine learning to deliver 'Smart IT' solutions that enable business agility, self-enablement and superior experiences.

#### Restructured for growth with new leadership

During the year, the Company inducted new leaders drawn from Tier 1 organizations to lead major industry segments globally and further sharpen the focus on select industry segments.

With a view to ensure better connect with the marketplace, these leaders are based in the major markets they serve.

The company also inducted a new CEO Mr. Sudhir Singh who joined in May 2017 was appointed as Chief Executive Officer in January 2018. He is based in New Jersey, USA.

The fundamental principles underpinning this reorganization, effective from the start of the new financial year, were centered around further accelerating revenue growth, enhancing market impact, moving the center of gravity of the Company's leadership team to the markets and creating new growth vectors.

#### Cloud, Automation, and Data – the new growth vectors

While the Company already has a formidable presence and well-regarded position in industry verticals such as Travel & Transport, Insurance and Financial Services (particularly the Wealth and Asset Management sub-segments), it is focusing on buildouts along two dimensions on the capability front. This includes structuring of technologies that present an immediate

opportunity to scale and differentiate as Service Lines capable of replicating the success the Company has had in the fields of IMS and ADM. The Company expects to achieve this by building up two service lines around the following axes – Data/Automation and Cloud. In addition to that, the Company is also strengthening its Centres of Competence (CoCs) to advance and accelerate its capabilities in the areas of Blockchain and Artificial Intelligence.

### Review of operating and financial performance

(The Company's consolidated financials include the financials of NIIT Technologies Limited and its subsidiaries, including subsequent level companies after eliminating inter-company transactions.)

During FY2018, NIIT Technologies registered a 6.8% growth in revenues to Rs 29,914 million from Rs 28,021 million in the preceding year. Operating (EBITDA) margins for the year stood at 16.8% and profits after taxes (PAT) grew 12.1% to Rs 2,802 million from Rs 2,501 million in the previous year.

The Company's growth performance during the year under review reflects its ability to mine existing accounts, receive fresh business from clients, secure large deals, and add new logos at an accelerated rate. This enabled the Company to report healthy growth for the year despite some headwinds from a decline in revenues from a couple of engagements – a Travel & Transport client account that has since stabilized and Morris Communications, which is a media company that divested a significant part of its business during the year.

Growth during the year has been broad-based, with the number of million-dollar clients rising to 80 from 73 at the end of the preceding year. Revenues from Digital Services grew 27% during FY2018, contributing 24% to overall revenues.

Geographies: contribution to consolidated revenues (in %)*	FY 2018	FY 2017
Americas	49%	48%
EMEA	31%	33%
Rest of World	20%	19%

Among verticals, the Insurance and BFS businesses registered growth, while the Travel & Transport declined as a result of sluggishness in some accounts.

Verticals: contribution to consolidated revenues (in %)*	FY 2018	FY2017
Travel & Transport	28%	32%
Insurance	26%	23%
Banking and Financial Services	17%	19%
Government	1%	3%
Manuf, Media and Others	28%	23%

\*The FY2017 revenue mix excludes impact of the settlement.

### Human Resources

The Company had a total of 9,423 NIITians, as its employees are often referred to, as on 31st March 2018. NIIT Technologies is a people centric organisation with a rewards and recognition philosophy that focuses on fostering a culture of appreciation, encouraging value creation and promoting innovation at the workplace. As a result it, it enjoys much lower attrition rates than many peers. Attrition rate for FY2018 was 10.47%, an improvement from 12.7% in the previous year.

**Order intake and 12-month order book:** Total fresh order intake during FY2018 was US\$507 million and the order book executable over next 12 months stood at US\$ 339 million as on March 31, 2018. This was led by multiple new engagements secured by the Company during the year, as well as 7 large multiyear deals. A total of 31 new clients were acquired during FY2018, which is more than twice the number of new customers added by the Company in the preceding year.

### Outlook

NIIT Technologies has been quick to adapt to the shifts in customer expectations as well as technology-led discontinuities and disruptions, reflected in the manner in which the Company has transformed itself. The outlook for the Company remains strong, with improved revenue visibility on the back of robust order-booking during the financial year under review.

Order Intake (in US\$ mn) by geography	FY2018	FY2017
Fresh Order Intake	507	457
USA	249	205
EMEA	149	173
ROW	109	78
Executable Order Book over Next 12 Months, US\$ mn	339	320

### Related Party Transactions

Related Party transactions are defined as transactions of the Company with the Promoters, Directors or the Management, their subsidiaries or other related parties who may have a potential conflict with the interests of the company at large. All transactions covered under related party transactions were regularly ratified and/or approved by the Board, the guiding principles being arm's length, fairness and transparency. The details of related party transactions are given in the Notes to Accounts section.

### Discussion of Risks, Risk Management, and Mitigation

The Company's operations and engagements are global in nature and thus its business, financials, and operating performance may be affected or impacted by

a number of factors. Some such challenges and risks that would have to be addressed and/or managed, as well as the Company's approach towards mitigating them, are discussed below. This may not be an all-inclusive list of factors and neither is this necessarily in order of importance, and some presently not known or deemed immaterial uncertainties could emerge in the future.

**Execution risks:** The Company pursues and has entered into multiple large and transformational engagements across geographies. Some such engagements are at times priced on a fixed-bid/fixed-price basis and any inability to adhere to delivery schedules or quality could have an adverse impact. The Company does have a strong track record of undertaking and delivering complex programs and has also made investments to strengthen its project/program management capabilities. It follows global standards of development, including an ISO 9001:2000 certification, assessment at Level 5 of SEI-CMMi frameworks and BS 7799 information security management certification.

**Competition-related risk:** The Company operates in the highly competitive global IT services and solutions market, against several Indian and foreign players present in many of its target markets. In addition to that, setting up offshore delivery centres in India by some global IT players, pose a challenge to the Company's efforts to attract and retain talent from a limited supply pool of skilled human resources in the country. The Company's differentiated business model, recognition in the market place as a competent solutions provider, domain specialization, IP assets and long-standing relationships with several key clients has been enabling it to deliver growth in a highly competitive environment. The Company intends to stay the course in terms of following its strategy to Focus and Differentiate. It also has an active marketing program and has established relationships with various industry analyst firms worldwide, and frequently participates in or organizes IT conferences and industry-specific events attended by CIO's and executives of major corporations. The Company is also well-regarded for its people practices. These factors are expected to support the Company's efforts to maintain its competitive edge in the market.

**Concentration risks:** NIIT Technologies has a relatively diversified geographic and client mix and the Company has been able to ensure that it does not become too dependent on any particular geography or client. North America, EMEA (Europe & Middle East), and Rest of the World (including Asia-Pacific and India) contributed 49%, 31%, and 20% of revenues respectively, during FY2018. The Company's also has a broad based clientele, with the Top 10 customers contributing about 42% of FY2018 revenues.

**Employee-related risks:** Employee attrition and/or constraints in the availability of skilled human

resources could pose a challenge as the Company undertakes measures for continued business growth. NIIT Technologies has a healthy and harmonious work environment, and has initiated multiple steps aimed at strengthening its recruitment processes, aligning employees with organizational values and vision and retention of the best talent. It also offers world class infrastructure, an excellent work culture, competitive salaries constantly benchmarked to the market, high quality training, avenues for career development and long term growth prospect in order to remain an employer of choice.

**Environment risks:** The Company serves clients globally across multiple countries, and its operations are subject to risks emanating from protectionist policies, restrictions on immigration/visas, or other restrictive legislations in any of those jurisdictions that may have an impact on its ability to deliver solutions and compete there. Among the measures to mitigate such risks, the Company has been making active efforts to enhance localization of operations with recruitment of local talent and increasingly building local capabilities within the countries that it operates in.

Additionally, given that the Company's revenues tend to be denominated in multiple currencies that include the US dollar, British pound sterling, and the Euro, fluctuations in foreign currency exchange rates could have an impact on the Company's performance. The functional currencies for the Company and its subsidiaries' operations are the respective currencies of the countries in which they operate. The Company actively books foreign exchange forward covers/derivative options to hedge against foreign currency fluctuations related to its bills receivables and anticipated realisations from projected revenues. In accordance with its risk management policies and procedures, the Company uses derivative instruments such as foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and highly probable forecasted transactions. The derivatives that qualify for hedge accounting and designated as cash flow hedges are initially measured at fair value and are re-measured at a subsequent reporting date, with changes in the fair value of the derivatives (that is, gain or loss, net of tax impact) recognized directly in shareholders' funds under hedging reserve to the extent considered highly effective. Gain or loss on derivative instruments that either does not qualify for hedge accounting or not designated as cash flow hedges or designated cash flow hedges to the extent considered ineffective are recognized in the Profit and Loss account. Hedge accounting is discontinued when the hedging instrument expires, sold, terminated, or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss on the hedging instrument recognized in shareholder's funds under hedging reserve is retained there until the forecasted transaction occurs, after which the same is adjusted against the

related transaction. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in shareholder's fund is transferred to Profit and Loss account in the same period.

M&A execution risks: The Company has chosen organic and inorganic routes to grow exponentially in the future years and in the process the Company may be exposed to risks such as increase in cost on account of staffing/ advisory fees, due diligence lapses and practical challenges in integration. NIIT Technologies follows a strategic approach in pursuance of its M & A activities and many of the risks are mitigated by restricting the choice of target companies by applying certain rigorous selection criteria as also by proper resourcing of the integration efforts. The Company also uses teams of experts for conducting due diligence, thereby reducing the risk of lapses.

Liquidity Risk: NIIT Technologies has a robust process for contract evaluation, multiple-vetting procedures and strong account management processes & systems for collection of receivables. It also shares long term relationships with many of its clients and monitors projects on a regular basis, tracking issues relating to cost escalations.

Investment portfolio related risks: NIIT Technologies is a profitable, cash-generating company. The Company, as a policy, does not prefer to invest its surplus cash in high risk assets such as equities or low liquidity assets like real estate. The primary area of risk for the Company's market exposures are related to the interest rate risk on its investment securities. To mitigate interest rate risk, all surplus funds are invested in appropriate avenues upon a review by the investment committee. All investment decisions are driven by certain guiding principles including the safety of investments, liquidity, and returns.

Obsolescence Risk: The Company operates in a highly dynamic industry, which is exposed to changes in technologies, software, products, method of services delivery, systems, processes, standards etc. The Company has had extensive experience through operations involving multiple aspects of technology like application development, maintenance of new and old applications, software application support, IT Infrastructure management, ERP implementations, managed services, remote infrastructure management, data center management, product sale, platform based services, BPO services, etc. The Company has always adapted to evolving market dynamics and new engagement models, and also has a track record of identifying relevant industry trends and staying ahead of the curve – its forays in emerging areas such as Digital Services, SMAC (Social Media, Mobility, Analytics, and Cloud), and Automation reflect its ability to be market-ready with regard to any shifts in the business landscape. ("The Company" in the context of this report means NIIT Technologies Limited and/or its subsidiaries.)

Important note: *Certain statements made in this report relating to the Company's objectives, projections, outlook, estimates, etc. may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ from such estimates or projections etc., whether expressed or implied. Several factors including but not limited to climatic conditions and economic conditions affecting demand and supply, government regulations and taxation, natural calamities, etc., over which the Company does not have any direct control, could make significant difference to the Company's operations.*