

Management's Discussion and Analysis

Management's Discussion and Analysis: FY 2020

(of consolidated performance, unless otherwise stated; the Company's consolidated financials include the financials of NIIT Technologies Limited and its subsidiaries, including subsequent level companies after eliminating inter-company transactions and excluding the GIS business divested in April 2019.)

NIIT Technologies recorded **one its best annual performances ever in FY2020**, on the back of a similarly strong performance delivered in the preceding year. This was accomplished in the face of a challenging last quarter of FY2020 when the firm overcame unprecedented headwinds due to COVID-19 to deliver industry-leading growth. This was driven by sharp execution of the firm's growth strategy.

Clear Strategy, Strong Execution

At the foundation of the Company's core strategy is its intent to build a hyper-specialized business with predictable and profitable growth. In order to drive growth and differentiate itself, the Company's strategy is to transform at the intersect of unparalleled domain expertise ("Transform at the Intersect") and emerging technologies ("Engage with the Emerging") to achieve real-world business impact for clients.

The Company has been augmenting its domain specialization and existing capabilities set with investments in new partnerships and competencies. Over the years, NIIT Technologies has progressively become hyper-specialized in select, high potential verticals, sub-verticals, and service lines. The Company enjoys strong domain depth and differentiation across the Travel & Transportation, Insurance, and Banking & Financial Services (BFS) industries.

Outperforming by out-innovating: Investing in new technologies to drive growth

During the year the firm continued to strengthen its offerings portfolio in AI (Artificial Intelligence), Machine Learning, Blockchain, User/Customer Experience, Digital Engineering, Cloud and more recently Quantum. NIIT Technologies recently launched the beta version of Digital Foundry, its digital engineering platform that enables composing digital solutions at an accelerated pace. A repository of plug-and-play digital assets based on its Digital reference model that ensures repeatable fast engineering, the Company's Digital Foundry has multiple digital studios and assets that its engineers can leverage to deliver solutions for clients to innovate or transform their business operations. This one unique platform that brings together many of the firm's digital accelerators, utilities, pre-built components, prototypes and frameworks in one place is yet another example of NIIT Technologies' technology leadership in the digital space.

The firm's "Innovation as a Service" offering leverages its Digital Foundry's 7 studios, 40 digital assets and SimplyCrowd, which is its crowd sourcing service, enabling customers to ideate, innovate and incubate.

Strengthening capabilities, building a robust partners ecosystem

NIIT Technologies has over the years invested in reinforcing its competencies across multiple emerging technologies including Cloud, Data and Analytics, full spectrum Automation, Cognitive technologies, and Digital Integration. The firm's Advisory Services practice, along with its Technology Consulting Group that was incubated last year, enables it to design and deliver solutions for clients by combining domain specialization with technology-led expertise.

Capability development is an ongoing process at NIIT Technologies. For instance, during the year under review, the firm developed a next-gen quality engineering platform CoTAP (Cognitive Test Automation Platform), which provides test analytics and allows auto healing of test cases. The firm also expanded its full suite Duck Creek capabilities aimed at the Insurance vertical by expanding its footprint to include Duck Creek Data Insight and Duck Creek Customer 360 platforms. In line with the Company's focused initiatives around Automation, Cloud, Integration, and Data, the team at its Cognitive Center of Excellence has been leveraging AI in multiple client engagements. In line with the Company's intent to make AI real, exploitable and explainable - all the while delivering business value to its clients - during FY2020 the Company also created a core technical group on AI whose charter is to work with academia to commercialize the latest research and engage with clients on advanced AI use cases.

NIIT Technologies has also enhanced its powerful offerings combination in the Digital Integration and Process Automation space through the strategic investment made during FY2020 in WHISHWORKS IT Consulting, a MuleSoft® and Big Data specialist, wherein the Company acquired a 57.6% stake on fully diluted basis (with the remaining equity to be acquired over two years through pay-outs linked to financial performance).

The firm believes in collaborating with multiple technology partners to create value and deliver impact for customers. It has established several long-term partnerships that allows it to offer greater expertise, innovation, and scale to customers. Inorganic initiatives have further bolstered the firm's partner ecosystem. The Company's Salesforce partnership, for instance, has flourished with its partners status now being upgraded to Gold, on the back of the relationship it enjoys with Mulesoft. Similarly, the firm's market leading Pega practice received an award of "Partner Excellence in Growth and Delivery" at Pega World 2019 for the second consecutive year.

Reinforcing the executive team, creating best-in-class Sales and Delivery organizations

NIIT Technologies has made significant additions to its front-end executive team, inducting multiple new leaders with deep domain or tech experience with an established track record at Tier-1 players within the industry.

During the year under review, the Company further strengthened its sales infrastructure and solidified its already strong delivery organization, by incrementally inducting new leaders across the roles of Business and Function Heads, Sales, Client Partnership, Consulting and Technology Capability.

The afore-discussed approach has yielded rich outcomes in recent years, including the year under review, with the Company delivering consistently robust growth and healthy margin performance combined with a considerable uptick in deal wins, order bookings, and new customer acquisition.

Delivering consistent, predictable, and profitable growth

During the year under review, the Company registered robust performance across multiple key parameters including revenue, profitability, earnings, cashflow, and deal wins. The Company's operating performance and financial results for the period under review reflect the investments in capability and leadership augmentation made in recent years.

Revenues during FY2020 increased 13.8% on a consolidated basis to Rs. 41,839 million from Rs. 36,762 million in FY2019. This growth was achieved on the back of growth across all businesses and geographies, led by significant traction in the emerging tech space including Digital. Digital Services grew 47% during FY2020, contributing to 37% of overall revenues. This is a noticeable increase over the preceding year FY2019, when Digital Services accounted for 29% of total revenues.

In terms of industry verticals, Insurance grew 20.5% during the year under review, contributing to 30% of overall revenue. Travel & Transport grew 18.0%, contributing to 28% of the revenue, and BFS was up 13.9%, contributing to 16% of revenue during FY2020. Broad-based growth across these key verticals drove expansion in each of the major geographies the Company operates in. Among geographies, the Americas grew by 11.7% and contribute 48% of our global revenues, EMEA grew by 27.9% and now represents 37% of the revenue mix, while Rest of the World revenues contracted 6.5% and that contributed 15% to the Company's total revenue in FY2020. Within that, India contributed 6% to the firm's total revenue and contracted by 22.2%.

The significant acceleration in revenue growth was also accompanied by a material uptick in profitability during the year. EBITDA increased by 11.6% from Rs 6,452 million in FY2019 to Rs 7,197 million in FY2020, with EBITDA margin contracted from 17.6% in FY2019 to 17.2% in FY2020. FY2020 EBITDA includes one-time transaction expenses amounting INR 234 Mn. Adjusted EBITDA margin excluding one-time non-recurring expenses stood at 17.8%

Verticals: contribution to consolidated revenues (in %)	FY 2020	FY2019
Insurance	30%	29%
Travel & Transportation	28%	27%
Banking and Financial Services	16%	16%
Manufacturing, Media and Others	26%	28%

Geographies: contribution to consolidated revenues (in %)	FY 2020	FY 2019
Americas	48%	49%
EMEA*	37%	33%
Rest of World	15%	18%

* Comprises of United Kingdom, Europe and Middle East.

Cash flows

NIIT Technologies generates strong cash flows from its operations and this trend continued during most of FY2020 as well, except for some increase in Days Sales Outstanding (DSO) towards the end of the financial year reflecting the impact of COVID-19 as well as shifts in exchange rates. Resultantly, DSO increased to 74 days as on 31 March 2020, compared to 62 days a year ago. DSO in \$ terms as on 31 March 2020 was 69 days.

Robust balance sheet

NIIT Technologies enjoys a solid balance sheet, enabled by sustained healthy cash flows. Cash and cash equivalents decreased from Rs 9,758 million a year ago to Rs.9,365 million as on 31 March 2020. The Company's total liabilities as on 31 March 2020 were Rs 10,433 million that included Future Acquisition Liability of Rs 1994 million and lease liabilities of Rs. 973 million. The Company's net worth as on 31 March 2020 stood at Rs.23,965

million, which is 15.6% higher than Rs 20,723 million a year ago. Return on Net Worth (RONW) for FY2020 stood at 20% compared to 21% in the preceding fiscal.

Human resources: Fostering a culture of innovation

As a knowledge-led organization, NIIT Technologies sees its human resources as its most important assets and it continued to implement measures aimed at enhancing the quality of its talent pool during the year under review. As on 31st March 2020, the Company had a total of 11,156 employees located across the globe. Attrition rate for FY2020 was 11.8%. The firm's rewards and recognition philosophy focus on fostering a culture that encourages value creation and promotes innovation. It offers its employees a world class infrastructure, a harmonious work culture, competitive compensation, and avenues for career development as well as the opportunity to work on exciting projects and new technologies.

Rising to the challenges posed by the Covid-19 pandemic: Customer-centricity at the fore

During the latter part of the year under review, COVID-19 emerged and has since turned into a global health pandemic, with the situation evolving on a continual basis. In response, NIIT Technologies has been proactive and agile in instituting and implementing practices and processes to ensure the safety of its own employees as the entire organization rose to live up to the trust reposed in the firm by its clients globally.

Among the multiple measures taken by the Company, while remaining compliant with all the applicable guidelines and directives from governments and health agencies, include extensive implementation of work-from-home model, ongoing simulations of BCP (business continuity plans)/DR (Disaster Recovery) across all locations, and provision of alternate business models to clients to help them through the current challenges.

NIIT Technologies has successfully managed to switch temporarily to a work-from-home-model in order to seamlessly manage business operations and serve its customers while maintaining optimal productivity levels. By the end of the financial year under review, near 100%, other than employees who have to work from clean room as per client's requirements, of the Company's delivery resources, including IT Services and BPO, were productively operating through the work-from-home model. Ensuring the safety of its human resources, actively supporting all its clients, and doing its part to minimize community exposure remains a top priority for the firm as it executes its growth plans while taking all necessary steps to mitigate the impact of COVID-19 on its operations, sales, and services.

Leading in a transforming industry

During FY2020, the industry body NASSCOM estimates that Indian IT services grew by 6.7% and approached the \$100 billion mark. Among other segments, BPM is estimated to have grown by 8%. IT Services, BPM, ER&D and products together generated \$175 billion in revenues for the industry. This growth has been realized amidst some weakness in several major economies, which is likely to be further exacerbated on account of COVID-19 led factors. The Indian IT industry's growth has been driven by significant digital disruption, hyper-personalization, core modernization, automation and other emerging technologies. NASSCOM expects this trend to sustain over the next several years as technology continues to play a critical role in facilitating multiple megatrends likely to be witnessed globally. While the COVID-19 pandemic has created some medium-term challenges for the industry, the long-term outlook for the Indian IT sector remains positive. Within the industry, firms such as NIIT Technologies that possess deep domain expertise in specific industry verticals and have managed to transform themselves through substantial investments in developing strong capabilities in emerging technologies are likely

to be better positioned to benefit from the opportunities generated by shifts in technology trends and customer behavior. This is reflected in the Company's ability to grow at a substantially better pace than the industry during FY2020.

Outlook: Well-positioned to benefit from a rebound in the global economy

After a robust performance in FY2020 and a strong start to the current calendar year, the firm's business, particularly in the Travel & Transport segment, is being impacted by the COVID-19 outbreak. However, the Company's assets including a world-class leadership, sales, and delivery team and an impressive portfolio of offerings across Digital, Data, Cloud, and Automation position it well to minimize downsides and benefit disproportionately from a rebound. The Company's deal pipeline remains encouraging, with a noticeable rise in large deals therein. The quantum of order intake during FY2020, at \$748 million, is the highest ever. These orders secured during FY2020 are also 16% higher than the total order intake of \$646 million registered in FY2019, with contribution from several large deals and coming from both existing customers as well as new clients acquired during the course of the year.

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 are regularly ratified and/or approved by the Board, the guiding principles being arm's length, fairness and transparency. The details of any related party transactions are provided 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.

Opportunities and threats

NIIT Technologies has, over the years, developed deep domain specialization, strong technology capabilities, and brand visibility in the market place. The Company has also been an early mover in adapting to evolving trends and embracing emerging technologies. It has a sound growth strategy and has continued to make investments in plugging gaps in its offerings and capability portfolio on an ongoing basis, as detailed elsewhere in this Report. All of this is expected to allow the Company to benefit from the growth avenues arising from the shifts in its operating environment, in terms of technology, supply-side factors, delivery models, and client preferences/expectations.

The ongoing disruptions and discontinuities in both the technology and demand space are creating opportunities for significant growth while also presenting risks in the event of inability to keep pace with the substantial changes being witnessed by the industry that the Company operates in.

In addition to this, unanticipated exogenous events or crises such as the COVID-19 pandemic and its after-effects can result in potentially material downside risk to both the sales and delivery operations of the firm. Some of these risks identified by the firm are discussed in the following paragraphs.

Natural and other disasters including pandemics: Unanticipated events or crisis emanating from natural or man-made disasters or health pandemics such as the COVID-19 outbreak can lead to potentially material downside risks to operations of the firm and its ability to secure fresh business or retain and execute on existing client engagements. NIIT Technologies has robust Business Continuity Plans and Disaster Recovery Plans and Processes in place which, combined with a proactive and nimble approach to responding to such circumstances as they evolve, does allow for relatively better outcomes.

Competition-related risk: The global IT services market is highly competitive, and the Company competes with both Indian and foreign IT firms that are present in many of its target markets. In addition to that, setting up offshore delivery centers 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, long-standing relationships with several key clients, and a highly-experienced front-end leadership team has been enabling it to deliver growth in a very competitive environment. NIIT Technologies intends to stay the course in terms of following its strategy to transform at the intersect of industry verticals and emerging technologies. 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 operates across geographies, with a business presence in North America, Europe & Middle East (EMEA), and the Asia-Pacific. The Company has a relatively diversified geographic and client mix, and it 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 48%, 37% and 15% of revenues respectively, during FY2020. The Company's also has a broad-based clientele, with the Top 10 customers contributing about 38% of FY2020 revenues.

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 or 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 ISO 27001 information security management certification.

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.

Exchange rate risk: 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 thus 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 realizations 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 other comprehensive income 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 other comprehensive income 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 and other tradeable securities or low liquidity assets like real estate. To mitigate risks related to market exposure and investment securities, the Company invests all surplus funds in bank fixed deposits, under review by the finance committee.

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, Data & Analytics, Cloud, and Automation reflect its ability to be market-ready with regard to any shifts in the business landscape.

Political and social risks: Geopolitical tensions, military conflicts, changes of government or terrorist attacks can have a negative impact on the firm's ability to conduct its operations in the usual manner. It can also impact customer confidence, behavior, and demand. The Company's diverse geographic presence, in addition to its robust business continuity plans and processes, provides some hedge against adverse developments in individual cities or regions.

Cyber security/IT risks: The Company's business is highly dependent on a secure, powerful and efficient Information Technology (IT) infrastructure. Any serious cyber-attack event or failure of the firm's IT system can result in significant business interruptions. System interruptions or loss of confidential data might also result in loss of confidential data that could impact reputation or lead to liability claims. The Company has taken appropriate steps towards achieving maturity in Cyber Security and Data Privacy, and has setup a cyber-intelligence center to stay abreast of the constantly emanating threats which plague the ecosystem in the form of Ransomware, Phishing attacks, Business Email Compromise, and the propagation of malware.

Internal controls

In order to ensure that its assets and interests are adequately protected, NIIT Technologies has in place an adequate system for internal control, commensurate with its size and nature of business. The Company's internal control policies cover its financial and operating functions. The internal control systems and processes are continually reviewed for effectiveness and augmented by documented policies and procedures. A robust internal audit program driven by a dedicated internal audit team helps ensure that proper processes and internal controls systems are strictly adhered to. The Company uses leading ERP solutions in its global operations to monitor and review its worldwide operations online, which helps it exercise internal control measures more effectively. The Board's Audit Committee, which is a sub-committee of the Board of Directors, reviews adherence to internal control systems, internal audit reports and implementation of suggestions or recommendations. This Committee also reviews all quarterly and yearly financial reporting of the Company and conveys to the Board its recommendation for consideration of such financial results and their approval.

("The Company" or "the firm" 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.