



**FREQUENTLY ASKED
QUESTIONS - NSEIT DEX
ACQUISITION**

PR FAQ – DEX Deal

1. **Please share an overview of the Global Assessments Market and what is the market opportunity provided by the acquisition of NSEIT DEX?**

Assessments is a vast and rapidly growing market opportunity not just in India but globally. As per the current estimates, the Indian market is about INR 7,014 Cr strong and growing at 12 percent per annum while the global opportunity estimates are around USD 15 Bn and growing at 10 percent per annum. The Assessment opportunity exists for Higher education, skills and certification, Internal corporate training and certifications, recruitment and internal promotions, etc. Digital assessments as a percentage of the overall landscape are increasing in size and over the next 5-10 years, it is expected that the majority of the assessments in a country like India would be digital.

NSEIT DEX is step down subsidiary of **National Stock Exchange Limited** with nearly 20 years of presence in the relevant space. Due to NSE's larger objective to focus on core-businesses the Company chose to divest this business. In the relevant space, the Company is currently the 2nd largest player in India with about a relative 20%+ market share.

On a global scale, according to market reports, North America represented about 30% of the assessment market in 2023, driven by its focus on education and talent management, particularly in the U.S., where pre-employment, educational, and certification assessments are well-established.

Europe captured around 25% of the global market, with demand fuelled by a strong emphasis on education and skill development. Key markets such as the U.K., Germany, and France are driven by assessment-centric educational policies and competency-based learning.

The Asia-Pacific region accounted for roughly 20% of the global market, experiencing significant growth due to its large population, rising education standards, and increasing demand for skilled labour. Major contributors include China, India, Japan, and South Korea, with a focus on examinations, vocational skill assessments, and pre-employment testing.

2. How large is the Market for Assessments, specifically Digital Assessments, in India?

The Business Opportunity in the Assessment space is expected to reach INR 13,000 Cr by FY'28, growing at a CAGR of 12% per year as estimated by a leading Consulting firm in 2023. The Digital Assessment market will be about INR 9,500 Cr in 2028 as per their research estimates.

Amongst these,

- i) Recruitment & Promotion exams are expected to be the biggest chunk at INR 2,685 Cr,
- ii) Professional Certification and Entrance examinations expected to reach INR 2,158 Cr each.
- iii) Employability enhancement and University Digital examinations are expected to contribute INR 1,025 Cr and INR 770 Cr, respectively.
- iv) Vocational assessments are expected to reach INR 862 Cr

3. NSEIT DEX has built a strong name for itself in this business. How do you believe it will compete once outside the ambit of the NSE family?

NSEIT DEX is the #2 in the assessments market with a concurrent capacity of 100,000 assessments. Due to the NSE parentage, excellent governance and trust as well as high quality technology investments made into the business, NSEIT DEX has built a formidable reputation and client list.

While NSE is a huge brand in itself, CL Educate is also a trusted name in the education space with three decades of market reputation. The DEX business is run by a strong and experienced independent leadership team and promises to enable healthy growth of the assessments business in the years to come.

4. Many well-funded EdTech companies are currently facing considerable challenges. Is there a potential risk in increasing investments within the EdTech sector, especially in areas that may not align directly with one's core business operations?

At CL, we believe that education and career related spend by individuals and families is a secular and robustly established practice beyond any doubt. The most critical success factor for any brand or company

to achieve is the student or candidate success in a credible and sustainable way which ensure or enables growth at lower marketing costs as time progresses.

New age EdTech's have been facing challenges for a variety of reasons including unproven unit economics, unestablished student outcomes, and even poor governance in some cases.

From an investment standpoint, we believe that NSEIT DEX is not just a good, related diversification in an adjacency of EdTech and a business that offers scale, predictability and growth. We believe that this proposed investment is a robust and established opportunity of buying a business that has produced revenues of Rs.198 Cr last year and has an order book to exceed that in this financial year. Additionally, the business delivered an EBITDA of around 17% in FY'24 and should produce a significant improvement on that in FY'25 making the business sustainable and less risky. The business is currently Zero debt and cash accretive and with a huge opportunity to grow not just in India but in rest of the world.

The business has been run by a stable and seasoned leadership team that will be moving to us with the business in totality. Also, there is a long-term incentive plan already in place for the leadership team to ensure continuity and CL will only take greater steps of incentivization for the existing team but also broad base the existing Leadership team with additional hirings as required by Business.

Another important facet to highlight about NSEIT DEX is the resilience shown in bouncing back after a crippling COVID period for the assessments business during 2020-2022.

5. Why did CL consider NSEIT DEX? Do you think CL should have focused on its existing business lines when exploring inorganic growth opportunities?

CL looks at 'assessments' as a related adjacency and has chosen to invest in a business that is asset light, tech-driven, globally scalable and with great parentage. DEX will also propel CL Educate into another orbit of size and competitiveness due to complementing strengths and business synergies. The testing and assessments business also has a strong entry barrier arising from technology and on the other hand,

we continue to keep an eye out for good opportunities in the Test Prep / content publishing domains as well and will act appropriately should something relevant present itself.

6. How do you plan on growing the NSEIT DEX business?

NSEIT DEX has established itself as a dominant force in the competitive assessment space, securing an impressive #2 position with a robust relative 20%+ market share. This strong foundation positions us for significant growth opportunities. We will actively pursue strategies to expand our market presence, including targeting new clients in the dynamic private sector and exploring lucrative international markets. Our proven track record and strategic vision for expansion underscore our potential for increased market share and enhanced shareholder value. With our competitive edge and clear growth trajectory, we're poised to capitalize on the evolving global assessment landscape, driving both domestic and international growth. This strategic positioning not only reinforces our current market strength but also opens up exciting avenues for future revenue expansion and profitability.

7. What kind of Margins does this business provide. How do you see margins moving in the years ahead?

From an EBITDA margin perspective this business delivered returns in the 17%+ range in FY'24. Going forward it will be the business team's endeavour to run a lean, efficient operation that will continue to deliver consistent margins in the range. Our diligence and review have indicated that the business shall be able to sustain the margins in the coming years.

Additionally, the company can enter other segments leveraging the same infrastructure and resources, which can push margins higher.

8. How much is the cost of the proposed Acquisition and how will it be executed?

The acquisition is expected to cost the organization a total consideration of Rs.230cr being a committed value that is paid at the time of the transaction closure and an earnout of Rs.75cr in the form of a variable payment that is paid basis achievement of FY'25 business goals which have been mutually agreed upon.

The acquisition is being executed as a share purchase of NSEIT Limited, a step-down subsidiary of NSE Limited, which currently houses the DEX business. NSEIT Limited had two business lines – IT Services – which the company has sold to another business entity and DEX – which will be the residual business remaining in the entity. On completion of the sale of the company, NSEIT Limited will undergo a name change to reflect its new parentage.

9. What kind of Revenue and EBITDA outlook can you give for this business?

In FY'25, the revenue outlook for this business is Rs.240cr with an EBITDA of Rs.38-40cr. Over the years ahead, these numbers should continue to grow as the organization benefits from business expansion as part of the CL Educate brand and explores newer global markets.

10. How do you intend to fund the acquisition of NSEIT DEX?

We plan to fund the acquisition through a mix of existing cash reserves and raising the remaining funds in the form of debt. We believe that the internal accruals would be robust enough to retire the debt in a 4-5-year period.

11. Do you believe the business's cash flows will be sufficient to meet its debt obligations?

Based on FY'24 numbers, CL Educate and DEX would have had a combined EBITDA of more than Rs.70cr, which will only grow over the years ahead by 15-20% per year on an overall basis. This quantum is sufficient to service the debt in a 4–5-year time frame without assuming any further fund raise as equity.

12. What are the key differentiators that give DEX a competitive edge over other players in the Digital Assessments market?

A few key differentiators in our opinion are as follows:

- ❖ Widest geographical coverage with almost all districts covered in India.
- ❖ One of the most robust technologies in terms of security layer and product architecture
- ❖ Long lasting client relationships with the finest of organisations and institutions
- ❖ Smaller working capital cycle
- ❖ One of the most experienced teams
- ❖ Well-oiled machinery that can take up assignments of any scale
- ❖ Readiness to expand internationally

13. How do you intend to run / operate the acquired DEX business?

The team that is currently running the business and has achieved significant improvements in margins over the last few years is to be retained in its entirety and will continue to operate the business from a day-to-day management perspective.

The Chief Business Officer of the DEX business currently will take overall responsibility for the division and will report in to the CL Educate Board or the internal CL Management Committee that will oversee and guide DEX leadership and business.

14. Does CL Educate have adequate leadership bandwidth to effectively manage this business?

The addition of the new business is unlikely to require significant business leadership bandwidth as the NSEIT DEX team currently running the business is more than capable of managing it from an operational as well as growth perspective. However, we do foresee the expansion of business and operational leadership getting strengthened under the NSEIT DEX leadership team to enable growth of the business through client and geographical expansion.

CL Educate hopes to be able to provide more focus, attention and open new doors for the business to grow, to help expand the business and does not envisage a management bandwidth challenge for the same.