



TRANSCRIPT: NIIT Technologies Ltd Q2FY2014 Results Conference Call

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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator

Ladies and gentlemen good day and welcome to the NIIT Technologies Q2 FY2014 Earnings Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing * followed by 0 on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations at NIIT Technologies; thank you and over to you sir.

Abhinandan Singh

Thanks and good afternoon everyone. Welcome to our Q2 FY2014 conference call. Present along with me today on this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Sudhir Chaturvedi, our Chief Operating Officer who has, you would be aware, joined us recently in the last week of August; and Ms. Pratibha Advani, our CFO. You would have received our results emailed to you earlier today. The same is also available at our website www.niit-tech.com. As usual, we will begin this forum today with opening remarks by Mr. Arvind Thakur and after that the floor will be open for your questions. With that I would now like to hand over the call to Mr. Arvind Thakur, our CEO.

Arvind Thakur

Thank you Abhinandan and good afternoon and good evening to all of you. Before I start I would just like to comment a bit on what we are seeing in the environment. The interesting thing is that we are seeing some recovery in the US whereas emerging economies like India are facing weaker growth, increasing deficits as well as high inflation. What I think is significant is that the economic recovery in the US seems to be at a steady pace. We have seen unemployment data falling to 7.3%, lowest since 2008. We have seen the economy grow 2.5% in the second quarter which is more than double what was registered in the first quarter. Europe continues to remain somewhat soft although in the UK we seem to be seeing some momentum, we saw 0.7% growth in GDP in the second quarter. Euro zone however continues to deal with its problems. The result of the elections in Germany last month however point to the continuance of policies in place to deal with issues; we believe the euro area will take some time to get back fully on its feet.

For us of course the most significant development has been the sharper than usual volatility in the Indian rupee. So, with this background, I would like to share with you the results of our second quarter for the financial year 2013 –14. But before I get into the results I would like to introduce Sudhir to all of you. Sudhir is actually on his way to Heathrow, he is going to the US but I requested him to join us on this call for some time so that I could introduce him to you. As you know, we announced a structural change in the organization where we created the new position of a Chief Operating Officer and Sudhir has assumed responsibility as Chief Operating Officer of NIIT Technologies and he will be responsible for sales and delivery worldwide for NIIT Technologies software solutions and business services. He joins us from Infosys, where he last served as Senior VP and Head of Financial Services of the America's Business Unit. He spent 13 years with Infosys in different roles which includes the leadership role where he was the head of the company's Middle East, EMEA I would say, Retail Head he

was the Sales Head for Europe, as well as the Manufacturing Vertical Head while he was in Europe so he comes with good experience across industry segments, across geographies and we are very pleased to induct Sudhir into the organization. At this point I would request Sudhir to say a few words to all of you, so Sudhir if you want to share anything that you have been experiencing at NIIT Tech or what you see in the environment. Please go ahead.

Sudhir Chaturvedi

Thanks Arvind. Firstly good afternoon and good evening to you all. I am very excited to be part of the leadership team driving our growth agenda. I have spent six weeks or so in the organization now and I am going through a very thorough induction program, part of which is travelling globally to meet our teams and our various clients. As Arvind just said, my personal experience has been in different businesses in different verticals in different geographies and my first impression is that there are several areas of strength that we have that we will build on. For example our strength in verticals like Travel and Insurance, our Geo strength in US and UK. Our services like Infrastructure Management Services and our products business, all of which I believe can be leveraged for significant growth in our target markets. The other thing that I have seen is that there are several marquee clients with whom we have long standing relationships; we were clearly demonstrating very high level of value addition to their business which resulted in that longevity of relationship. So, I think this is very key because what is happening in the market as I see it from our perspective is that there is a clear shift from beyond cost arbitrage to clear value. And that value is becoming a very significant way of how relationships in future are going to be built. So, we are moving the needle in this direction. An NIIT Technologies Leadership Meet in September which, I participated in, clearly established this agenda. The next step is to detail this out in the various regions and that's part of the reason why I am travelling to the US right now. If you have questions for me, all I would say is that I would need a few more weeks to cover all the regions and meet the teams and the clients and thereafter I will be happy to engage with you. Thank you.

Arvind Thakur

Thanks a lot Sudhir. So, I think you will be seeing more of Sudhir once he is thoroughly inducted into the organization and he has visited all the geographies interacted with most of our customers. You can look forward to interacting with him after a couple of weeks, so with that introduction, let me just get back to the meat of our conference call where I will first start with doing a bit of revenue analysis.

Revenues for the quarter grew 8.4% sequentially to Rs.5,873 million, so that's 8.4% sequential growth. What we saw during the quarter was sequential growth (constant currency) in services of 2.8% whereas we saw a decline in our domestic revenues on account of lower PFR revenues during the quarter. Americas showed a sequential growth of 15.1% and now contributes to 41% of revenues whereas EMEA grew 11.4% sequentially and now contributes to 36% of our revenues. The rest of the world which includes APAC in India now contributes 23% of revenues.

In terms of industry segments – We saw a strong growth in both the BFSI as well as the Travel and Transport space. BFSI grew by 16.2% sequentially during the quarter and 12.8% has been

the growth of the Travel and Transport segment during the quarter. BFSI contributes 33% of our revenues and TTL, which is the Travel and Transport vertical, to 37% of our revenues. The government business is what has declined during the quarter and now contributes to 10% of our revenues as you would recollect in our earlier discussions around the government business that is the level of business that we want to maintain and sustain with respect to our overall revenues from the government's business. We saw improvement in the share of our top 5, top 10 clients they stand at 36% and 49% of revenues, respectively. We have seen an increase in our onsite revenues as a result of new programs getting initiated and so our onsite revenues now contribute to 65% of our total revenues.

Looking at margins, operating profits for the quarter stood at Rs.886 million which has grown 13.2% sequentially, operating margins have improved 65 basis points to 15.1%. This improvement has been on account of better utilization as well as currency benefits that we have experienced during the quarter. Net profits has improved 17.2% sequentially to Rs.624 million, once again a good contributor to the improvement and net profits has been higher other income which has been as a result of revaluation of foreign currency and assets as well as lower taxation. We had fresh new business of US\$84 million secured during the quarter. We added 3 new customers, all in the Travel and Transport space, and this includes a major global airline as well as midsize carriers; and with one of the midsize carriers we secured significant business approximating US\$10 million during the quarter. Orders executable over the next 12 months now stand at US\$248 million.

Our outstanding hedge position is in US dollars is \$42.5 million at an average rate of Rs.59.67 per dollar. During the quarter, there was a net reduction of 190 people during the quarter; this is primarily on account of some large domestic programs which have gone live, as well as improvement in utilization level. Utilization for the quarter stands at 80.3% and attrition for the quarter remained at 12.4%. Cash and bank balance at the end of the quarter is Rs.2,120 million; this is lower than previous quarter, primarily on account of the dividend payout during the quarter. We spent Rs.196 million on capex during the quarter of which 78 million were on account of the spent in our second phase development of our campus building block.

Debtors at the end of the quarter were 100 days of sales outstanding. We continue to see uptake in the Travel segment that remained strong for us. If we look at research reports or industry forecasts like what IATA typically presents and they have predicted good growth in both Passenger as well as Cargo – growth through 2013 and their initial outlook for 2014 also shows an uptrend. We are encouraged by the improved economic conditions in the US which should support our BFS business. We would see the government business decline going forward primarily because of the component of PFR which would have got consumed and so while we will see our services business continue to improve, much of these gains would be lost as a result of reduction in PFR in the subsequent quarter. With these comments we are happy to now open up the call for your questions.

- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Sagar Rastogi from Credit Suisse. Please go ahead.
- Sagar Rastogi** Sir, I wanted to understand for your ongoing government projects, do you need frequent sign offs by bureaucrats in order to recognize revenue and if that is the case do you think that could slow down given the upcoming general elections that are coming up.
- Arvind Thakur** Interesting question. Yes, of course sign offs are required on the program because these are all large turnkey programs which have certain milestones in deliverables which have to be met for you to secure your payments. But we have not experienced that in the ongoing programs that we have been executing. I think the programs that we are executing have been reasonably well selected, well supported and funded by the center and the center themselves are very keen to ensure that the funds that they have committed to these programs get consumed during the financial year so we have not experienced that kind of difficulty in these programs.
- Sagar Rastogi** I have just one more follow up. Again, relating to your all domestic contracts not necessarily just the government ones but say the Airport Authority of India project. I understand that your pricing is in INR but then a large part of your costs hardware and software, your capex would be dollar denominated so in that case given the recent INR depreciation can you renegotiate pricing for those components or would you have to just take that impact on your margins?
- Arvind Thakur** Most of the arrangements are back to back and but as far as large program like Airport Authority is concerned all the I would say supply orders have already been given to the contractors who have to make those supplies, so the issue around rupee depreciation is behind us.
- Moderator** Thank you. We have the next question from the line of Dipen Shah from Kotak. Please go ahead.
- Dipen Shah** First of all if you can give us the constant currency growth if you have in across services and geographies please?
- Pratibha Advani** Yes, so the constant currency growth in America is 6% and EMEA is 3%.
- Dipen Shah** And how about Travel Transport and BFS Insurance?
- Pratibha Advani** TTL is 5% and BFSI is 8%.
- Dipen Shah** Has the Travel Transportation also grown in constant currency?
- Arvind Thakur** 5%.
- Pratibha Advani** 5% that's right.

Dipen Shah I thought you said retail, okay so Travel is grown by 5% constant currency, okay.

Pratibha Advani TTL, I said TTL.

Dipen Shah If I see the rupee revenue growth in all these if I see the Travel Transportation space in terms of rupee it has actually grown by about 11% Transportation space obviously the rupee would have contributed a large part of that so is there something which I am missing where I am seeing a 5% growth in constant currency?

Arvind Thakur TTL is 5.8%.

Dipen Shah Yes, but in rupee terms it has grown by 11%.

Pratibha Advani No, 12.8%.

Dipen Shah And the rupee also has depreciated by about 11.5%, so a large part of it would be captured in terms of the rupee so I just wanted to get this thing clarified.

Pratibha Advani No, we also have hedge loss etc in our top line.

Dipen Shah So the hedge loss would have contributed, okay that's one thing. And apart from that if you can just give us some update on the Morris, Room and GIS businesses please?

Arvind Thakur So, Morris revenues are Rs.357 million and the GIS business is Rs.235 million.

Dipen Shah And how about the NIIT Insurance Technology?

Arvind Thakur That is Rs.405 million.

Dipen Shah The margins for this would have improved?

Arvind Thakur Margins are for Morris is about 14%, NIITL is 17%, GIS is 15%.

Dipen Shah So that's a good improvement and just one thing on the macro front last couple of quarters we have had some issues with Travel Transportation as well as some other businesses were few contracts kind of not scaled up, we were expecting some improvements in this quarter so if you can just give us some update on those things please?

Arvind Thakur Well I think what we are seeing is an overall improvement as you have seen from the quarter-on-quarter numbers. I think what has been disappointing has been the intake. We were expecting some very large business to close in our favor which did not that is the disappointment in the Travel space otherwise I think it has been very good in the Travel space.

Dipen Shah So, is this large order will delayed a bit or has it gone?

Arvind Thakur No we have lost it, yes so one of the things you would have noticed is that intake is 84 million which was expected to be 100 million plus.

Dipen Shah But on a quarter-on-quarter at least it's flat so there is no de-growth at least if you remove the AAI project.

Arvind Thakur Absolutely.

Moderator Thank you. We have the next question from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu Headcount reduction has been steep is that related to the India business projects?

Arvind Thakur Yes mainly because of the two large programs that have gone live and so we have released people from there and redeployed this.

Madhu Babu So going forward how should look at the headcount, would there be a net addition over the next two quarters of this year.

Arvind Thakur Definitely.

Madhu Babu And sir can you give a break up of this hardware revenue because that is the thing which contributed the revenue decline what was it last quarter and what is it this quarter?

Pratibha Advani The hardware revenue last quarter was 59 crores and this quarter it's 47 crores.

Madhu Babu 47?

Pratibha Advani That's right.

Madhu Babu I guess on the debtor days I think again this quarter you said 100 days so what is the outlook on the working capital cycle from here on?

Pratibha Advani So, we expect the debtor days to come down hopefully but we do expect they would continue to be in the range of 85 to 90 – 95 days.

Madhu Babu So, madam 140 crores of net cash reduction has happened over the two quarters so how much was gone in dividend and how much was logged in working capital cycle, if that can be broken.

Pratibha Advani So, 54 crores has been on account of dividend and dividend tax the balance is on the gap in our working capital.

Moderator Thank you. We have the next question from the line of Vimal Goel from Sharekhan. Please go ahead.

Vimal Goel Just wanted to know what is the component of the non-linear revenue this quarter?

Pratibha Advani 24%.

Vimal Goel 24% okay. And madam what would be the contribution from AP Finance coming in this quarter?

Arvind Thakur I don't think we will be able to give you that number.

Vimal Goel Okay no problem. And madam Morris, the margin improvement would continue from here on because I think you should have taken a larger impact of the shift in transaction based pricing in this particular quarter, so Morris margins should improve going forward right?

Arvind Thakur Yes, most certainly.

Pratibha Advani That's right because transaction based pricing today contributes 3% of our non-linear revenues.

Vimal Goel Sorry to make you repeat this but I just wanted to understand regarding the decline in the PFR revenues, could you give some more color on that the government vertical has declined within PFR you said.

Arvind Thakur Yes, so these are all turnkey projects and in that turnkey projects there is an element of hardware which is bundled into the solution, so more incremental hardware in the last quarter than it was in this quarter.

Vimal Goel Just last data point, volume growth in US and Europe please?

Pratibha Advani US is 6% and EMEA is 3%.

Vimal Goel Okay and your revenues from Proyecta this quarter?

Arvind Thakur 180 million.

Vimal Goel Margins in Proyecta were?

Pratibha Advani 5%.

Moderator Thank you. We have the next question from the line of Deepen Kapadia from B&K Securities. Please go ahead.

- Deepen Kapadia** Two things, sir one is the borrowing on our balance sheet has gone up could you throw some light on why that has happened?
- Pratibha Advani** Yes as I mentioned earlier there has been increase in our working capital requirement because of increase in debtor and it makes sense to pick up loans outside of India and that is what we have done so we have taken a \$3 million loan working capital line in US.
- Deepen Kapadia** Okay second point is could you tell me how is the Airport Authority deal shaping up and has there been revenues booked in this quarter or comparatively we have booked expenses this quarter if I am not wrong, so could you throw some light on that.
- Arvind Thakur** The Airport Authority engagement was delayed slightly on account of customer constraints in making available the site and resources so we have booked about Rs.4 million of revenue, so very negligible revenue has been booked, Rs.4 million of revenue has been booked in this quarter early.
- Deepen Kapadia** And comparatively going ahead could you tell me how the deal, I mean how do we see the deal shaping up?
- Arvind Thakur** This will pick up in Q3 and majorly in Q4.
- Pratibha Advani** So, we expect the same level of revenues in Q3 and major uptake will happen in Q4.
- Deepen Kapadia** Because we do keep booking expenses or related to them in spite of not getting the revenue am I correct in my interpretation?
- Arvind Thakur** Yes.
- Moderator** Thank you. We have the next question from the line of Ashish Agarwal from Tata Securities. Please go ahead.
- Ashish Agarwal** Most of my questions have been answered, but just one thing on the revenue growth going forward given the fact that our executable order book had declined to \$248 million what is the outlook on the revenue growth going forward. First of all do we foresee us doing a double digit type of a revenue growth in FY14?
- Arvind Thakur** Okay as you know we don't give specific guidance on revenues but what I do want to say is that our intake would be substantially more in the coming quarter, some of the deals that we are working on. It was unfortunate that we lost a major deal in this quarter which would have boosted up the executable in this quarter itself, so I think you will see recovery happening from the next quarter as far as executable is concerned.

- Ashish Agarwal** Right secondly on this Airport Authority of India deal if I understand correctly they were looking that Q3 and Q4 will be good quarter in terms of booking of AAI deal, so we are just talking about Q4 number right?
- Arvind Thakur** That's right because as I mentioned the start of the program had got delayed and so we can see very little revenue has been booked.
- Pratibha Advani** And just to add on the executable order book there is some compression that you are also seeing because of dollar so if you look at constant currency then our executable order book would be 253 million.
- Ashish Agarwal** But it has still gone down from 260 to 253 right?
- Pratibha Advani** That's right.
- Moderator** Thank you. We have the next question from the line of Sanjeev Hota from Sharekhan. Please go ahead.
- Sanjeev Hota** First question is the margins. Sir, in the last three quarters rupee had depreciated closed to around 15-16% your margins are not like it had declined by almost 70 basis point and all the factor is lower revenue growth. So, could you give some color on the going forward how do we see our margins going ahead?
- Arvind Thakur** So, margins have improved 65 basis points in this quarter sequentially but I think we have definitely seen that improvement also the proportion of the domestic business will be coming down in subsequent quarters so therefore you will continue to see improvement in margins as we go forward.
- Sanjeev Hota** The corridor you are giving for margins in the next two quarters or '14 or '15 fiscal?
- Arvind Thakur** Corridor meaning?
- Sanjeev Hota** 15% from here going forward you can see 18% or 17%?
- Arvind Thakur** Once again you are asking for specific guidance, no we don't give specific guidance but definitely I think you will see continuous improvement in margins.
- Sanjeev Hota** It has more to do with the currency or revenue growth?
- Arvind Thakur** No, it has got to do with improving cost structures and obviously this revenue growth you get better cost structure.
- Sanjeev Hota** And hardware revenue how much you are going to be booked in the next coming quarters, can you give some color on it?

- Pratibha Advani** It should be around 20 crores – 25 crores.
- Sanjeev Hota** For next two quarters?
- Pratibha Advani** Yes.
- Sanjeev Hota** And how do you see the GIS business shaping up still we are way below the margins we wish to enjoy so still below that so how do we see GIS business going forward?
- Arvind Thakur** GIS, I think is improving and it will continue to improve. We have to just be little mindful of the fact that with the current situation in the government the deficit and so on, we are just hoping that there are no cutbacks in terms of spends that are committed for various programs in the government but otherwise it is expected to pick up.
- Sanjeev Hota** And last question, do you see that FY14 is going to be soft and we can see a much better FY15 given that there is mark improvement in macro environment and business visibility also improving going forward?
- Arvind Thakur** I think the major markets are the markets in the west and if we are beginning to see signs of improvement over there definitely I think by 2015 the picture would be much better than what we are seeing in 2014.
- Moderator** Thank you. Next question is from the line of Deepesh Mehta from SBI Caps Securities. Please go ahead.
- Deepesh Mehta** I just want to understand if I see last few quarters our revenue in constant currency was largely flattish and if we see order book addition despite two quarters of more than 100 million of addition and this quarter of (+80) million executable order book over next 12 months continues to remain more or less flattish for last four five quarters so just want to understand growth trajectory for next couple of quarters if you can help us to understand where you see growth coming back and if you can first understand geography and vertical which would drive growth for us in may be couple of quarter down the line because one of the factor you hinted that hardware revenue would decline now to feel that you require service revenue growth to be much higher than only to fill that gap thank you?
- Arvind Thakur** Yes I think they are all very good in pertinent questions which is why I gave the background of what we are saying in the economic environment as well as our own experience in this particular quarter where we have seen improvement in revenues coming from our customers in the US I think that is very significant. All are customers in the US have shown an improvement mid-sized ones as well as the large one is basically an indication that the spending is coming back in to technology in these companies so I think that's a very good sign. We are also anticipating good intake from the US in the coming quarter and that would further strengthen our position of servicing in that particular market space. We were in the beginning of last year concerned about Europe. We had a dip I think the first quarter in Europe

but we saw that also coming back and in fact the new businesses that we acquired in the Travel space they have all in good intake which has happened in the EMEA region itself so I think that also is encouraging. So, hopefully the revival of the west will enable us to fill the gaps which are getting created by hardware revenues coming down in the subsequent quarter.

Deepesh Mehta

So, you expect Q3 onwards growth trajectory to change or you expect it to be maybe Q4 or may be next year onwards?

Arvind Thakur

I think a change in the trajectory will happen significantly only next year but we will continue to see improvement in growth this year.

Moderator

Thank you. We have the next question from the line of Hitesh Jhaveri from Birla Sun Life. Please go ahead.

Hitesh Jhaveri

Actually my question pertains to segments in your business where there is some opportunity for you to get excited about... now there are some areas that you did mention, like possibility of revival connected with US macro, but in the Financial Service sector. When I look at some of the peers, in Transportation the success that we are seeing, I am just wondering why are there not opportunities to replicate those successes in other verticals that you serve?

Arvind Thakur

Sudhir in his opening remarks talked about the Leadership Meet in which he participated. We have actually identified some areas where we are going to be very, very sharply – so one is as compared to our peers, our size in the US is not as significant as compared to the others so that is going to be an area of focus and to my mind the growth in the US will happen in the BFSI space. In terms of TTL we are already critical in size in fact if you look at the revenues from TTL from amongst our peer group again next to only TCS, in fact we are number two in terms of revenues in this particular space. So, our direction is to assume absolute leadership position as far as TTL is concerned that's the other area of focus. And the third is we are going after large deals and what we are seeing is that large deals are happening with a significant element of Infrastructure Management as part of it so that would be another area of focus so these are three area that we are going to be focused on to build and scale our business going forward.

Hitesh Jhaveri

So, if one of the objectives probably rightly to be focused on is growing the US part of the business, then the question is that there is so much of cash you have that can be put to good use now in that context on the area that where you want to grow, whether you can be more acquisitive, that's question one. And question two is about your million dollar customers. About five million and less is stuck at 48 numbers, say in absolute numbers for few quarters...so the question here is about client mining, about what kind of client mining you are seeing. These are two separate questions but I do see some connection where some acquisition allows you to open the doors and then mine the clients better.

Arvind Thakur

Yes, you are absolutely correct Hitesh that's always on our mind and as I keep repeating every time, we are continuously evaluating opportunities for acquiring assets and even as I speak

there are many dialogs going on. But fact of the matter is that it all has to make sense in terms of the target having the opportunity to integrate well and add value the way we are trying to grow our business. So, to answer your question yes, inorganic initiative is definitely a part of our growth strategy. In terms of account mining, you would have seen that our top clients are definitely gaining in size. Sometimes you will find addition of million dollar clients and sometimes you will find large account scaling so in different quarters you see a different picture emerging around that. The whole idea of structuring the organization and bringing Sudhir on board has been to develop our western markets, I don't know if you are aware but Sudhir actually is based in the UK enables him to be in the geographies which matter the most which is basically US as well as Europe and the fundamental thought behind that was to really open up more accounts as well as be close to the customer and scale them up.

Hitesh Jhaveri

And lastly you have in your fact sheet there is around 8% - 9% increase quarter-on-quarter in our onsite personnel is it something pertaining to select clients or it is kind of pointing towards quite a few or new account starting which hopefully will get reflected when offshore personnel get it later on.

Arvind Thakur

Yes, it's basically that. It's basically new account starting as well as new projects starting which has contributed to increase in onsite revenue.

Moderator

Thank you. We have the next question from the line of Sonaal Kolhi from E&R Advisors. Please go ahead.

Sonaal Kolhi

Firstly, on your hedging position could you throw some light on how is your hedge position for the coming quarter and for next 12 months?

Pratibha Advani

For Q3 our designated hedges are \$13.81 million at 57.74, in Q4 these are 12.21 million at 58.12, in Q1 FY15 it's 10.3 million at 59.93 and Q2 FY15 it's 6.21 million at 66.59.

Sonaal Kolhi

On account of some of these government projects which you have taken what would be debtor days in those projects versus for overall company which stands at 100 days can you throw some light on that part and is the debtors the reason for debtors not reducing is it largely because of these government projects.

Pratibha Advani

So, actually Sonaal we are seeing a very interesting phenomena as customers are realizing that our industry is sitting on a cash file they are either in fixed price contracts shifting milestones towards the end or also looking at increasing the enhancing the credit terms. So, some of this stands from the new deals that we won where now customers are looking at longer credit cycle.

Arvind Thakur

But yes majority of the issues are around the government contracts where lot of the money is not due because the milestones have still have to be secured.

- Sonaal Kolhi** Okay I thought some of these projects would be more like on a monthly run rate kind of basis where you meet a milestone on a monthly quarterly basis.
- Arvind Thakur** No, these milestones are when things are integrated so you supply the hardware, you put the software together you test it, install it so the major payments happen on that.
- Sonaal Kolhi** And what do you expect them this number to fall or is there any other reason why this number would remain elevated?
- Arvind Thakur** No that's what I think Pratibha indicated it would fall and as the element of government engagement reduces the debtor days will improve.
- Sonaal Kolhi** And is there any change in thought process of the company towards government projects, you know last two – three years have experienced at government projects what are the thought process of taking further government projects in India.
- Arvind Thakur** We have tried to maintain the level of government projects to be less than 10% but sometimes you get a contract you have to execute it at exceeds so I think now we have been able to bring it to 10%, we want to keep it below 10% but our experience has been good, these are all very complex deals and I think we have gained enormous amount of experience in executing these large turnkey projects.
- Sonaal Kolhi** Arvind I have a more strategic question for you. I recall two-three years back we were the highest margin company in the midcap IT space and we were delivering at about 19% - 20% EBITDA margins for a fairly long period, post that we saw a phase of high growth and because of investments in growth the margins have fallen. Now we are seeing a phase of last one-and-a-half year or so where the growth is on the lower side and even the margins are on the lower side, so is there any structure headwind we are facing in our lines of business related to Transport or some other sector where our pricing was earlier much higher and now it's seeing a decline because of competitive intensity or the nature of the industry is changing in our lines of the business?
- Arvind Thakur** No, I don't think it's that. There are no pricing pressures, if that's the question you are asking. I think it's just the nature of engagements which has changed where over the last couple of years we have got into large transformational kind of engagements and a lot of them in the initial periods were engagements where there were upfront costs that had to be dealt with. So it's the changing nature of the engagement. So I think you would have seen for the last three years we have had very good growth because of these large deals that we had executed and large revenue growth comes at the cost of margins and the expectation is that as you begin to understand how to execute these large programs more efficiently and effectively margins pick up. So the focus has really been on acquiring and getting market share and then working on the margins to bring it back to those levels that we had earlier.

Sonaal Kolhi What kind of margins Arvind would make you feel happy and comfortable, what is that targeted EBITDA margin range?

Arvind Thakur Well, we were looking at 17% in the beginning of the year; towards the end of this year that is what we are looking at.

Sonaal Kolhi And lastly I missed you mentioned about having lost a major deal which deal was this and is it what your existing customer or was it for a new customer?

Arvind Thakur A new customer, it was very nice right up our sweet spot. Of course we did not lose it to any peers, we lost it to our global consulting firm so you can understand the kind of engagement that we are now getting involved in, so that's what happened.

Sonaal Kolhi And lastly Pratibha what will be your tax rate for this year and next year?

Pratibha Advani Would be in the range of 28% to 29%.

Sonaal Kolhi For both the years?

Pratibha Advani For both the years, yes.

Moderator Thank you. We have the next question from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar I was just looking at the BFSI seems to have grown pretty well both the Banking and Financial Services and the Insurance and also the NITL has grown well, so I just wanted to know what is driving this growth and what is the outlook that you are looking, is there any pick up and also related question is in the ING account are we seeing some growth coming back?

Arvind Thakur Yes as I mentioned earlier these are all linked to I think the good economic indicators that we are seeing from these markets, so that's what I said when I was answering the earlier question is that the focus that we are bringing in the US will help us further grow at BFSI business. So, really these are on the back of the good economic indicators that we are seeing in these markets.

Abhishek Kumar And just couple of data points I need. One is Pratibha if you can just tell me what is the interest rate on the \$3 million loan that we have taken?

Pratibha Advani That's roughly 3.5%.

Abhishek Kumar If you could just break down the revenue from India for this quarter?

Pratibha Advani For the India revenue 16%.

Moderator Thank you. We have the next follow up question from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu Can you give us the breakup of Rest of the World between India and APAC?

Pratibha Advani APAC is 7% and India 16%.

Madhu Babu What is the outlook for this year and is there any reduction in capex?

Pratibha Advani Capex for the quarter was 196 million and next quarter we expect about 650 million and our similar number the following quarter.

Madhu Babu That is for the Noida campus?

Pratibha Advani Yes for the Noida campus and also for the Airport Authority of India project.

Moderator Thank you. We have the next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Yes if I just see the hedge position it has gone down by roughly 10% is there any specific reason behind that?

Pratibha Advani Yes actually our foreign currency denominated expenses are going up, we hedge on our net cash inflow so these expenses provide us an actual hedge and that is why the reduction.

Rahul Jain So, if you could explain a bit in detail how you have arrived at this total quantum.

Pratibha Advani No, I wouldn't have the exact working but just to explain to you for our Airport Authority of India program for example our partner is SITA. Now SITA needs to be paid in foreign currency so when we take our hedge, we net off the amount that payable to SITA and on the balance we take the hedge.

Rahul Jain And on the people count, what were the number of people that has gone down because this project completion.

Pratibha Advani 190.

Rahul Jain So, what I am trying to understand is the key revenue driver for us which we are pretty confident would be non-volatile in nature and would be providing the sustainable growth for four to six quarter.

Arvind Thakur So, what I am saying is if we sustain growth in the western markets is what is going to be the main revenue driver.

- Rahul Jain** So, are we trying to say that whatever growth we have delivered in the recent past, if we are able to sustain the same in the coming period or you mean to say any incremental factor that could drive it?
- Arvind Thakur** Incremental factors as well which would be the new intake that we acquire in these markets.
- Rahul Jain** Because my primary concern is that some of the growth areas for us in past have been little volatile from the quarterly perspective let's say GIS or any other smaller are sub-segment of our business, I am trying to understand which are the key areas which we see okay this function or vertical is doing pretty well and would be the major driver let's say in Europe.
- Arvind Thakur** Yes, no I understand your point. So, like as I mentioned earlier the key vertical is the Travel space because that's critical in size as I mentioned earlier we are among the leaders in our peer group in that particular space we would like to see that continuously growing and driving our business forward and the other would be business in the US where I think with the improved economic conditions and the additional efforts that we will be putting, we would like to see those revenues sustaining a growth in a consistent manner going forward.
- Rahul Jain** So, from vertical standpoint Travel and Transportation and in general overall growth from the US and Europe market?
- Arvind Thakur** Yes.
- Moderator** Thank you. We have the next question from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.
- Abhishek Shindadkar** Just to reiterate and clarify we hedge 70% of our net inflows for any quarter is that fair or correct?
- Pratibha Advani** Well, no the average actually works out about that much but following quarter would be 90%, the second quarter would be 80%, third quarter would be 70% and fourth would be 60%.
- Abhishek Shindadkar** So 13.8 million is approximately 90% inflow, okay. And the second question I have is regarding the GIS business, sir you mentioned that there is a risk to cutbacks by the government to that business so is it possible to quantify any number at least for FY14 or for the next two quarters which could be at risk or which could potentially turn into a risk?
- Arvind Thakur** No, I don't think it's a risk but one has to just be mindful of the fact that the deficits are things with the government is working on quite seriously and so if departments have not consumed the budgets they may want to call for the money back and so that's the only point.
- Abhishek Shindadkar** Okay and lastly if I can add one more sir, any thoughts on what could be potential volume growth for FY14 as a whole, do we think can we top 12% or 13% kind of volume growth I mean from the visibility that we have?

Arvind Thakur That would be giving guidance that we don't give.

Moderator Thank you. Next question is from the line of Neerav Dalal from SBI. Please go ahead.

Neerav Dalal I just wanted an update on the large deals last quarter you had spoken about five large deals so just wanted an update on that.

Arvind Thakur Okay I think as I mentioned we have secured some.

Neerav Dalal Okay so what is the current large deal pipeline then?

Arvind Thakur We have secured some, we have lost one and there are two which have slipped into the next quarter.

Neerav Dalal Also in terms of the TTL if you see in the last two quarters you have secured some eight new clients so even after that you don't see TTL looking up that much.

Arvind Thakur No, it is looking up. TTL is the strength area of the company.

Neerav Dalal Okay and moving on to the DSOs now you spoke about DSOs for the company down to 85 to 95 but then how I feel to understand how that would happen because now that the AAI deal would come in from fourth quarter onwards so again the DSOs would be higher there so just wanted a little more take on that.

Arvind Thakur So, AAI is different deal. You see the other projects that we talked about whether it is CCTNS or BSF or anybody else the hardware was you know-

Neerav Dalal Yes that I understand.

Arvind Thakur So, let me just explain to you the difference. In AAI the hardware is our asset, okay, so the situation in terms of bills receivables in that case is very different from what we are seeing in the other projects.

Neerav Dalal But it would still go by the same approval pattern right as the other government deals, as it being a services deal?

Arvind Thakur Yes, but your monies are not caught up in that situation.

Neerav Dalal Okay, so the working capital requirements will be lower.

Arvind Thakur Yes.

Neerav Dalal The entire capex of the AAI deal would be done in FY14 or it will now be partly done in FY15?

Pratibha Advani Largely done in FY14 with some spillover in FY15.

Moderator Thank you. We have the next question from the line of Sharad Ruparel an individual investor. Please go ahead.

Sharad Ruparel Could you please tell me how much forex loss has been accounted for in the revenue?

Pratibha Advani 109 million.

Moderator Thank you. We have the next follow up question from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.

Deepesh Mehta Just two data points first is how many freshers you recruited during the quarters and what is the plan? And second is expected tax rate?

Arvind Thakur I don't have that number right now.

Deepesh Mehta And for tax rate also because if I see first two quarters it appears to be higher than.

Pratibha Advani Yes as I mentioned earlier in Q3 it should be between 28% to 29%.

Moderator Thank you. We have the next follow up question from the line Sonaal Kolhi from E&R Advisors. Please go ahead.

Sonaal Kolhi Pratibha just wanted to check with you what was the hedge rate for this quarter and the hedge position?

Pratibha Advani 48.15 million and the hedge rate was 57.65.

Sonaal Kolhi Hedge position was 48.15 million and it's going down to 13 million next quarter.

Pratibha Advani You want the Q2?

Sonaal Kolhi Yes.

Pratibha Advani Yes so it was 14.45 and the rate was 57.16.

Moderator Thank you. As there are no further questions from the participants, I would like to hand over the floor to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments; over to you sir.

Arvind Thakur Thank you very much, thank you everybody for participating in this call and look forward to interacting with you subsequently later for any other clarifications that you may want to have. Thank you very much.



NIIT Technologies Limited
October 15, 2013

Moderator

Thank you sir. Ladies and gentlemen on behalf of NIIT Technologies that concludes this conference call. Thank you for joining us you may now disconnect your lines.

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