



TRANSCRIPT: NIIT Technologies Ltd Q3FY2012 Results Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the NIIT Technologies Q3 FY2012 earnings call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations, NIIT Technologies. Thank you and over to you Sir.

Abhinandan Singh: Thank You and welcome everyone to our Q3 FY'12 conference call. Present along with me are Mr. Rajendra S. Pawar, our Chairman, Mr. Arvind Thakur, our CEO, Ms. Pratibha K. Advani, our CFO, and Mr. Arvind Mehrotra, President who heads our Asia Pacific Business and is also the person responsible for new emerging geographies such as the Middle East at NIIT Technologies. We will begin the call as usual with opening remarks from the leadership team and then the floor will be opened for your questions. At the end of conference call, in a few days, we should have the transcript of this call available at our website, which is mentioned in the invitation that was sent out to you earlier. With that I would like to hand over to Mr. Arvind Thakur, our CEO.

Arvind Thakur: Thank you Abhinandan and first of all let me wish you a very Happy New Year. This is the first time we are engaging in this New Year along with you. So welcome to our earnings call for Q3 of this financial year. During the quarter under review the volatility and turbulence in the macro environment continued to persist, which appears to be the new normal for some time to come. Despite the macro picture being turbulent, we are pleased to report another quarter of all round revenue growth in each of the geographies that we operate from and growth in every industry segment that we are focused on, in this quarter.

Revenue growth has been derived from a strong order book that we had built through the year with revenues expanding 16.7% sequentially to Rs.4330 million, which is up 44% year-on-year. This was no doubt aided by the currency gain as a result of the weakening rupee, but even without support from currency gains in constant currency terms volume growth has been an impressive 7.8%. Strong growth has been seen in the US and EMEA geographies, which pushed the revenue shares to 37% and 39% respectively. Amongst the industry segments we had maximum traction in the travel and transport segment. This segment now contributes to 38% of the revenue mix, which in fact exceeds BFSI, which is now 36% of the revenue mix. Business continues to be broad-based with a number of million-dollar clients increasing to 56. Our top five clients now contribute to 29% of revenues, top 10 to 44% and top 20 to 58% of our revenues.

We secured several multi million dollar fresh orders from our top clients during the quarter, resulting in an intake of US \$75 million of fresh order intake during the quarter. This not only includes fresh business from these top clients but also extension of an existing contract over two years amounting to an intake of over US\$ 20 million. As a result of all these intakes we now have firm order executable over the next 12 months of US \$245 million. We added four new customers, two in the BFSI space, one in the travel space and one in the manufacturing space.

During the earlier calls I had invited our geography heads to participate in this discussion. In the first quarter call we had Sunil Surya, who is our European Geography Head, who spoke about business in Europe. In the last call we had Lalit Dhingra, who is President of our US Geography, who talked about business in the US geography and this time we have the President of our Asia Pacific geography, Mr. Arvind Mehrotra and I would like him to share with you and give a flavor of what is happening in our business within the geography that he manages.

Arvind Mehrotra:

Thank you, Arvind and good afternoon ladies and gentlemen. The Asia Pacific region, in the quarter gone by, had to deal with natural disaster in Thailand flood and continued to deal with the effects of Japan and Australia calamities. We ensured, since Thailand is our managed services hub, that all our customer operations continued to run smoothly. There was no outage and all services were operational 24/7 during the period of floods despite the fact that our staff were personally affected., So effectively we demonstrated that in spite of tragedy we could continue running our operations smoothly. We also established an ODC for one of our large travel clients during the quarter from the Asia Pacific region.

As far as India is concerned, we saw the successful commissioning of our prestigious BSF Intranet Prahari project, which demonstrates our ability to successfully execute large projects. We also strengthened our relationship with MHA and NCRD by successfully winning last quarter and commencing the project CCTNS in two states namely Jharkhand and Tamil Nadu, and we continue to see strong traction coming from MHA and the government business.

Middle East as a region continues to grow strongly for us and we are scaling significantly. We also see strong demand and continued volume growth. We also established a new ODC for a manufacturing client during this quarter. Thank you Arvind.

Arvind Thakur:

Thanks a lot Arvind for giving this brief overview. Now in terms of our business during the quarter 63% of revenues came from onsite activities. The larger proportion being a result of business initiated with our new transformational engagements and also the integration of our Spanish acquisition. Operating profits for the quarter stood at Rs.780 million, which is an improvement on 41.8% quarter-on-quarter and up 25.4% year-on-year. Operating margins for the quarter stood at 18%, which is up 319-basis points quarter-on-quarter, but down 268-basis points year-on-year. The operating margins of 18% reflects the benefit of the currency gains as a result of Rupee depreciation which has been offset considerably by the transition cost associated with large transformational engagements, which would persist till the end of the financial year as I had explained in my last call.

Net profits grew 39.8% quarter-on-quarter and 33.8% year-on-year to Rs.640 million. This was supported by an increased other income of Rs.174 million as a result of gains in revaluation of assets and liabilities. Net currency gain in revenues during the quarter has been almost 9% sequentially. This includes a hedge loss of 2.3%; outstanding hedges in US dollar are \$36.75 million at an average rate of Rs.48.62 to a dollar. In GBP we have 8.24 million outstanding at an average rate of Rs.79.02 per Pound and €4.37 million are outstanding at an average rate of Rs.68.01 per Euro.

We added a net addition of 245 people during the quarter taking our total head count to 6978. Attrition reduced further to 12.5% during the quarter and utilization of direct resources during the quarter was 80.2%. Cash and cash equivalents for the quarter stood at Rs.2083 million. We consumed Rs.179 mn. of Cap. Ex. during the quarter and debtor at the end of this period was 91 days. So with this brief background, I would like to now open up the discussion and would be happy to answer your questions.

Moderator: Thank you very much. The first question is from the line of Sathyanarayanan from Cholamandalam Securities. Please go ahead.

Sathyanarayanan: What was the share of non-linear revenue during this quarter?

Arvind Thakur: Non-linear revenues were 25% during the quarter.

Sathyanarayanan: So what was the rate at which the dollar has been recognized during the quarter?

Pratibha K. Advani: Rs.50.72.

Sathyanarayanan: Can you just throw some colour on the Cloud business part, how is it progressing?

Arvind Thakur: I am going to ask Arvind Mehrotra who looks at that business to talk about the same.

Arvind Mehrotra: This quarter we saw some of our new customers who went live on our Cloud business on the banking side, which is for the tier III and tier IV banks in the rural and cooperative and urban cooperative sector, so we acquired two more customers and one large customer went live. We also saw additions in our Infrastructure as a Service suite where we acquired five new customers in Thailand including organization like YUM International.

Sathyanarayanan: How much was the revenue during this quarter, like if you can just give me the data point.

Arvind Thakur: We do not share the revenue numbers on Cloud. It is actually quite negligible at this point in time.

Sathyanarayanan: Sir, I just missed your hedge position detail, can you just give me like what is the hedge book and what rate it has been?

Pratibha K. Advani: Our current hedge position is as follows; we have booked \$36.75 million aof hedge at an average rate of 48.62.

Sathyanarayanan: So how is the revenue from EuroStar. Has it started to kick in, like how has it been progressing?

Arvind Thakur: **We have started** executing on the project, but we are not going to be discussing specific commercials of each particular client.

Sathyanarayanan: That is all from my side. I will be just joining the queue.

- Moderator:** Thank you the next question is from Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** Congrats on a good set of numbers. I had a couple of questions. First of all wanted some more details on the revenue breakup for the quarter. We did 433 Crores versus 356 Crores in the previous quarter. Just wanted how much was contributed in the current quarter by Morris and also how much did Proyecta bring in?
- Pratibha K. Advani:** Our revenue for the previous quarter (Q2) was 371 Crores.
- Dipen Shah:** How much was contributed by Proyecta in Q3?
- Pratibha K. Advani:** The Proyecta revenue for the quarter is Rs.151 million.
- Dipen Shah:** And how much that was brought in from the Morris deal?
- Pratibha K. Advani:** From Morris we got Rs.243 million.
- Dipen Shah:** Morris deal would come at very, very marginal profitability or almost no margins?
- Arvind Thakur:** Yes, no margins there.
- Dipen Shah:** Also like does your revenue contain any hardware component from some of the new deals, which we have started off?
- Pratibha K. Advani:** Yes, if you recall Arvind had mentioned last time, that we are participating in this CCTNS program, so our total hardware revenue for the quarter including this program would be about Rs. 89-odd million.
- Dipen Shah:** So on an organic basis if we have to remove these deals, the volume growth you say is 7.8% is that correct?
- Arvind Thakur:** 7.8 would be the volume growth, yes, but organically I would remove Proyecta and so that would be 6%.
- Dipen Shah:** Also in terms of margin impact can you give us a break up of how has the margins moved because of what factor?
- Pratibha K. Advani:** So if you actually look at margins, Dipen, in the last quarter we had one time expense on account of some of the transformational wins that we had. So if we were to actually stack the margins between last quarter and this quarter, they would be like-to-like.
- Arvind Thakur:** So it would be 18% last quarter and 18% this quarter.
- Dipen Shah:** Also like some of the margin improvement would have been obviously because of the rupee, so how much did rupee contribute to this?

- Pratibha K. Advani:** Rupee would have contributed about 183-basis points to the margin, but again to refresh your memory we had mentioned that we are going to make some upfront investments in the large transformational wins.
- Dipen Shah:** Just lastly, sorry for this, but in the revenue what is the component of the currency impact? I understand last quarter there was a very negligible impact of currency in the revenue, what would be the impact this time around?
- Pratibha K. Advani:** This quarter the impact is 8.9% .
- Dipen Shah:** 8.9% impact. Thank you very much. I will come back for more later.
- Moderator:** Thank you. The next question is from Vimal Gohil from Asit C Mehta Investment. Please go ahead.
- Vimal Gohil:** Thank you for taking my question. Congratulations on a very good set of numbers. Sir, firstly what would be the volume growth in reported currency? I understand the volume growth in constant currency has been 7.8, but what would be the same in reported currency terms?
- Pratibha K. Advani:** Our reported currency is INR.
- Vimal Gohil:** So what would be the volume growth in that if you just could give me the numbers?
- Pratibha K. Advani:** Volume growth is 7.8%.
- Vimal Gohil:** Secondly, I would just like you to comment on the traction you are observing in the aviation and the non-life insurance space currently?
- Arvind Thakur:** As you would have seen our growth has been the most significant in the aviation space and so our component of business from the travel space has now increased to 38% of the total revenue mix and as I mentioned earlier it is now the largest vertical that we focus on.
- Vimal Gohil:** What would be the volume breakup if you could give it to me in US and Europe?
- Arvind Thakur:** Well the US contributes to 37% of revenue.
- Vimal Gohil:** I am talking about the volume breakup. You guys share that number every quarter?
- Arvind Thakur:** Overall or you are talking about for the geography?
- Vimal Gohil:** For the geography?
- Arvind Thakur:** For the US it is 7.2%, and for Europe it is 13.3%.

- Vimal Gohil:** Your European numbers are looking particularly good and some of your larger players have also reported some pretty good numbers, but this related to you what exactly are you seeing, are you seeing more acceptability of offshoring in Europe? Has it suddenly increased or is it some of the contracts, which have not been, which were not executed before have been started to or are getting executed now, so what changes are you observing in the European geography?
- Arvind Thakur:** In fact we have a very strong order intake in the EMEA region even in this quarter. So more than half of the 75 million intake has actually come in from EMEA region and what we are seeing is that our own top clients are giving us significant business. So we have secured many multimillion-dollar engagements with our top clients in Europe and so I think from their point of view we are still having good traction.
- Vimal Gohil:** One more question if I had to ask, regarding the budgets now what idea are your clients giving you in terms of their budget spend for calendar year 2012 and in terms of fixing the budgets and also are you seeing any client deferrals in spending. I mean are the clients taking some more time to make decisions on their IT budget spending?
- Arvind Thakur:** You cannot make generic statements on budgets, because the situation is different in different geographies and in different industry segments. So if you look at the complete environment as I mentioned, the new normal seems to be turbulent, so we are beginning to see improvements in the US with signs of recovery in the economy and unemployment also improving, but there seems to be a deepening of economic problems in Europe and I think some economists are even projecting the early prospect of a recession and also the solution to its sovereign debt issues are still elusive with debt rate range of most countries in the Euro Zone having been downgraded recently, so there are more issues in Europe as in other parts of the world. Also, you know, these problems are compounded with what Arvind talked about in his discussion about some natural disasters which have happened in Asia. So mix of all these things is contributing to how people are looking at their budgets.
- Vimal Gohil:** I will come back for more questions later. Thank you.
- Moderator:** Thank you. The next question is from the line of Ganesh Shetty. Please go ahead.
- Ganesh Shetty:** Congratulations Sir for a very good set of numbers despite a tough microeconomic condition. Sir, my first question is regarding performance of Proyecta and the integration with out NIIT Technologies that is offering. Can you please throw some light on this, NIIT Tech's service offering integration with Proyecta?
- Arvind Thakur:** It is very good. Now Proyecta is completely integrated with NIIT Technologies. As we had shared with you this is an organization, which is very strongly present in the travel space and that adds to our compliment and capabilities to adjust that space. Now we are seeing a very good traction with Proyecta and its integration.

- Ganesh Shetty:** Sir, is there any possibilities of the services offering from Proyecta and then offered to some other geographies also?
- Arvind Thakur:** Absolutely and that would be the next stage, because what we are seeing are the capabilities in Proyecta compliment the capabilities that we have in the organization and this is a two-step process first we integrate that organization and then we see how do we take those capabilities to other parts of where we are engaging as an IT technology.
- Ganesh Shetty:** Sir, my next question is regarding our EuroStar deal and can you please throw some light on the progress of this particular deal?
- Arvind Thakur:** Deal is progressing well. We have started the operations and we are beginning to service the organization through a facility that we have created offshore and now we are engaging with them on some of the transformation project that we change the way that organization does business.
- Ganesh Shetty:** Thank you very much Sir. That is all from me.
- Moderator:** Thank you very much. The next question is from the line of Mr. Sanjeev Hota from Sharekhan. Please go ahead.
- Sanjeev Hota:** Thanks for taking my question and congrats for the management team for a good set of numbers. I have a couple of questions. First is what is the revenue for the ROOM solutions and margins?
- Arvind Thakur:** ROOM incidentally is now called NIIT Insurance Technologies. We stopped using the word ROOM. The revenues are Rs.426 million and it has a margin of 27%.
- Sanjeev Hota:** What is the contribution from the GIS this quarter?
- Arvind Thakur:** GIS revenues are Rs.231 million
- Sanjeev Hota:** I missed out on the margins part, if you could give us a breakup of the margins. We have improved by almost 310-basis point this quarter, so how much is from the rupee and how much is from the negatives coming from the transition cost, so if you could give us the breakup of it?
- Pratibha K. Advani:** So actually Fx. Has contributed to 183 basis points to our margins. Do you seek any other clarification?
- Sanjeev Hota:** I am talking about the 310-basis point, out of that you are talking 183 is from the Rupee and what are the other costs that are faced to that?
- Pratibha K. Advani:** Actually as I mentioned earlier in the last quarter we had an upfront one-time cost on account of some of the transformational business that we had acquired, so if we were to knock of that cost which was 119 million then our margins would have been 18% and we had done a like-to-like this quarter.

- Sanjeev Hota:** How this 310-basis point add up this quarter, 183 basis point from currency, what is rest that is my question?
- Pratibha K. Advani:** That is exactly what I have answered. That if you were to add back the 119 million that was a one-time expense that we incurred last quarter our margins would have been 18%. It is a like-to-like comparison so from FX we had a margin gain of 183 basis points.
- Sanjeev Hota:** What is the outlook on the margins going into FY'13?
- Pratibha K. Advani:** We do not give a formal guidance, but our endeavor would be to not only retain these margins, but try to improve them as well.
- Sanjeev Hota:** How much is the hardware revenue that is going to be booked in the Q4?
- Pratibha K. Advani:** As I mentioned we do not give formal guidance, so we do not share the specifics of the quantum of hardware that we would book.
- Sanjeev Hota:** The breakup of other income?
- Pratibha K. Advani:** Our total other income was 174.89 million, income from mutual funds is 3.48 million and gain from FX is 164.43 million. Our other non-operating income is 8.94 million. This is the broad breakup of nos.
- Sanjeev Hota:** What is the reason for fall in the non-linear revenue this quarter other than the ROOM?
- Arvind Thakur:** Actually the reason is quite simple. The knowledge transformation deal that we have acquired, which is Morris is currently in its transition phase where it has been treated as a fixed contract and not a non-linear contract. But as we move into year two and we start delivering services on a transaction and SLA basis it will then start becoming non-linear.
- Sanjeev Hota:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Neerav Dalal from Sharekhan. Please go ahead.
- Neerav Dalal:** Thank you Sir, all my questions have been answered.
- Moderator:** Thank you. The next question is from Amar Maurya from India Nivesh. Please go ahead.
- Amar Maurya:** Thanks a lot for the opportunity. Congratulations for a good set of number. First thing, what is the attrition rate in this quarter?
- Arvind Thakur:** 12.5%.
- Amar Maurya:** What was in the last quarter?

- Pratibha K. Advani:** 13.4%.
- Amar Maurya:** Secondly what is the current contribution of government revenue, like I believe it is mentioned in your presentation it is 5%, but this was round about 10% of the total revenue?
- Arvind Thakur:** It was when we were executing the BSF contract, but now that has been commissioned so the revenues have now come down to 5%, we have the CCTNS program and as we start executing that the proportion will grow up in the coming year.
- Amar Maurya:** But on a quarter-on-quarter basis the government revenue has increased by 44%?
- Arvind Thakur:** Yes, because we have started execution of the CCTNS program and so revenues have kicked in.
- Amar Maurya:** Secondly, Sir, like now as we had spoken that we are bullish on transportation and travel segment, now apart from that like you know BFSI is a major contributor to your revenue, which is looking bleak so what is going to drive the growth if you can give some color on how the vertical or which vertical is going to drive the good apart from transportation?
- Arvind Thakur:** So I think if you look at BFSI this is a segment, which is getting impacted the most out of the uncertainties in the environment. So we would expect to see slowdown and the closures in this segment as we go forward. Also there is we talked about the natural calamities that we have been experiencing in Asia and lot of commercial insurance companies and the insurer are getting impacted as a result of this and settlement for those calamities as a result of which we expect to see our business in the short-term from our Insurance business line to decline over the next quarter. So this is definitely an impact that we see in the short-term in the BFSI space. Growth is going to come as I mentioned earlier from the travel space, from the manufacturing space and scaling up of business in the government space.
- Amar Maurya:** Secondly, now the rupee is depreciating and as we are having a large order book that is primarily a turnkey kind of project from government, so are we going to delay it or are we going to have some delay because this will I believe, will include a lot of hardware components into this and which will be kind of import driven, right?
- Arvind Thakur:** I think, yes. So I will let Arvind answer that, but for the existing engagements we have looked at those commercial terms but Arvind, you would want to answer that.
- Arvind Mehrotra:** So there is an import cost increase but based on our experience with BFSI there we significantly increase our capability to handle a large procurement and large logistics and we know where to acquire assets, at what price, we have benchmark rates, we have been able to negotiate fair terms from our vendors for the CCTNS deals and those prices have been locked in.
- Amar Maurya:** So not much impact going forward Sir?
- Arvind Mehrotra:** We do not see significant impact.

Amar Maurya: One last question about this Morris. Morris currently is contributing 5.6% of the total revenue, right in this quarter?

Arvind Thakur: 243 million.

Amar Maurya: That is round about 5.6%.

Arvind Thakur: Yes.

Amar Maurya: Sir, like if I see is this going to be a revenue runrate going forward or it is going to?

Arvind Thakur: Yes.

Amar Maurya: Thank you Sir.

Moderator: Thank you. The next question is from Srinivas S from RBS Equities. Please go ahead.

Srinivas S: Congrats to the management on the numbers. I have a few questions. Firstly just wanted to check if the Morris contract did we how much contractors did we takeover and were we able to do any bit of offshoring during the current quarter and what is our plan for that going forward?

Arvind Thakur: We have taken over we have a number 200-odd. We are 108 on our rolls and another 100 on Morris' rolls whose services we are taking at cost during transition.

Srinivas S: What is a plan in terms of contractor replacement with own staff possibly offshore over a period of time?

Arvind Thakur: Yes, that will happen from Q1.

Srinivas S: Okay, and how long would that process be?

Arvind Thakur: In one quarter we should be transitioning moving towards offshore.

Srinivas S: Entirely to whatever extent was in this.

Arvind Thakur: Yes.

Srinivas S: The second question is on the domestic business have you seen any kind of impact on the ground as a result of either slow decision-making or say where you got an order but it is not going into execution mode anything of that part which you witnessed?

Arvind Thakur: Let me ask Arvind to respond to that.

Arvind Mehrotra: I think from the domestic business let me break it into two parts; the government business we are in the government business in the CCTNS program shortlisted an L1 for three more contracts but

we are negotiating for better commercial terms with the state government and NCRB because our learnings from BFSI are getting applied. Second we are also looking at the project rather than being a bit bang project being faced given phases which are distinct phases which have a clear acceptance criteria so yes as far as the government contracts are concerned we are not acquiring them in a hurry but we are negotiating for better commercial and acceptance terms. With respect to the corporate business we are not seeing any major slowdown but we are seeing the cycle time for the projects getting reduced. They want faster execution cycle time rather than elongated projects but we see a strong pipeline there.

Srinivas S: Okay, if and this followup on the deals and negotiation just wanted to check if you see them would the commercial terms be a potential deal breaker or is it more the question of time and fine-tuning of the commercial terms in your opinion?

Arvind Mehrotra: So in the government contracts there are certain things where if we do not get clarity it can be a deal breaker but I think because these programs are not governed by state government and there is a common governance modal applied by NCRB and MHA what we are seeing are positive resolutions and there is we get an opportunity to meet MHA and NCRB along with the state government on a quarterly basis along with other dependent partners so we see that there is opportunity for resolution.

Srinivas S: What would be the timeframe you would assign to kind of come to a decision either way on these particular contracts?

Arvind Mehrotra: So, on each of this once we are selected there is a well-defined process by which a decision has been made that is defined by MHA and NCRB that is visible on their website you can seek guidance from there.

Srinivas S: The second question was on the GIS business I believe after a long time we have seen on a year-on-year basis the numbers being flattish so just wondering if there is any change in the business environment there?

Arvind Thakur: No. There is no change. As Arvind just explained as the commercial terms are not right then we rather let those programs move into the next quarter than pick up those orders. That is the only thing.

Srinivas S: The other question was you mentioned that you are definitely going to see a kind of a negative number on the ROOM solutions next quarter because of the kind of catastrophic losses, which had happened would that be a medium-term issue for you in terms of the outlook or how do you view that business going forward?

Arvind Thakur: In this industry what happens is when insurers experience losses they obviously are not growing the business and if they are not growing the business you know we do not get more license revenues so that will happen till such time there is capital infusion and that normally happens you know over a six month period and maintenance capital infusion then these insurers will start

picking up business again and we start growing. So we see this, as may be a two or three quarter's phenomenon.

Srinivas S: Secondly, any numbers you can share in terms of head count addition targets for the next quarter?

Arvind Thakur: Shrini, we will operate at the same levels.

Srinivas S: In terms of similar additions to the current quarter?

Arvind Thakur: Yes.

Srinivas S: Just also if you can give some outlook on the tax rate for the current year as well as the next year?

Pratibha K. Advani: Shrini, of course tax rate will be dependent on the component of our domestic business but we can safely assume a tax rate of between 25% and 26%.

Srinivas S: For this the next quarter as well as the next year?

Pratibha K. Advani: That is right . That will be the likely average rate.

Srinivas S: I would say couple of large companies has pointed to lower year-on-year potential wage increase in FY'13 just wanted to check what could be your view at this stage on that particular subject?

Arvind Thakur: Yes, I think we have also tend to feel that way.

Moderator: Thank you. The next question is from the line of Srivatsa Venkat from UTI Mutual Funds. Please go ahead.

Srivatsa Venkat: Hi, congratulations for a good set of numbers. I just wanted your outlook on your banking clients in Europe. You have a couple of marquee clients there given the current situation in Europe do you see any cause of concern with your leading banking clients there?

Arvind Thakur: I think I will not say specifically in Europe but I think as I mentioned earlier the whole BFSI space is a space where we will see slower growth as compared to the other segments.

Srivatsa Venkat: But specifically on the BFSI side this growth would be on account of lower spend by the client or would it be more of client rationalization of the vendors?

Arvind Thakur: For example one of our largest clients is ING and they are going through a very serious rationalization process where they are actually looking at separating insurance from bank and

going in for an IPO so when an organization undertakes such a major restructuring exercise then decision-making slows down considerably. I think that is what we are experiencing.

- Srivatsa Venkat:** Just some clarity on the SEZ, has it already started operational or when is it likely to start?
- Arvind Thakur:** Yes, indeed SEZ has been operationalized. We have a software block, which has a capacity of 3000 people, so that actually was operationalized in the first quarter of this year. In fact early next year we would be investing in the second phase, which will have a capacity of 4500 people.
- Srivatsa Venkat:** So, will there be some kind of reduction in the OpEx because we would be moving out of renting to our own premises over the next one year?
- Arvind Thakur:** Unlikely because the new block that we will start constructing will probably be ready early 2014 and we will need to capacity because of the growth that we are experiencing to be maintained till the new facility is created.
- Srivatsa Venkat:** Just on transportation side, you have a significant exposure in Europe as well so do you see any cause of concern in your transportation clients both in aviation and non-aviation side?
- Arvind Thakur:** We are unlikely to experience this concern in this area because we are quite deeply entrenched in our existing clients and as I just mentioned we have secured significant business from them in the current quarter, which will help us as we go forward.
- Srivatsa Venkat:** Just one clarification on the Morris is there been any extraordinary cost booked in the current quarter?
- Arvind Thakur:** Nothing extraordinary booked in the current quarter is just that during transition you are incurring higher cost and that is the reason why we have no margins from that engagement.
- Srivatsa Venkat:** When do you expect the margins to improve in this particular deal or will the overall margins be similar to the company level margins for this deal?
- Arvind Thakur:** Yes, as is explaining to the earlier participant Shrinivas offshoring post the transition will start happening in the first quarter of next year that is when we will see a margin start improving.
- Srivatsa Venkat:** That offshoring will be done by NIIT Tech or will it be done through a subsidiary of the joint venture?
- Arvind Thakur:** It will be done by NIIT Tech.
- Srivatsa Venkat:** So the entire benefit of offshoring will flow into NIIT Tech?
- Arvind Thakur:** Absolutely correct.
- Srivatsa Venkat:** Thanks a lot.

- Moderator:** Thank you. The next question is from Radhika Merwin from PUG Securities. Kindly go ahead.
- Radhika Merwin:** Good evening. Sorry it got disconnected in between. I think most of my questions have been answered just wanted to get back on one the environment that you have been talking about is definitely uncertain and there are lot of head wins that we see at the macro level but as you mentioned in the beginning of the call that your order book is really giving you lot of comfort as far as growth is concerned so how many more quarters can we see this comfort provided that you know things kind of turn off for the worse from here on?
- Arvind Thakur:** We have an executable order of \$245 million and typically that accounts for six months of revenues so I think that is a very comfortable position to be in.
- Radhika Merwin:** So specifically on the BFSI space you been mentioning some sort of pressure that we can see going forward so will you be able to give some guidance as to how can we look at the revenue growth for the next say two to three quarters while this pain persists?
- Arvind Thakur:** As I just mentioned what we have been able to do and I think we have done it very prudently is to build up a significant order book to deal with such uncertainties. So if you have an order book you have business we are generating revenue of an order book and I think that you been able to do very successfully. If I look at cumulatively the increase in order in take this quarter...
- Pratibha K. Advani:** It has been 140%, if you look at the same period year-to-date between the two quarters and even if you look at this quarter there has been a 50% increase vis-à-vis even the same quarter last year. Order intake was 50 million same quarter last year and it is 75 million this quarter.
- Radhika Merwin:** Just final word on Morris, currently we are employing about 106 on NIIT Tech's front and how many subcontractors there?
- Arvind Thakur:** Another 100.
- Radhika Merwin:** Another 100 so we are on track of bringing it offshore which we had guided for the first quarter from the first quarter of next year?
- Arvind Thakur:** That is right.
- Radhika Merwin:** All right. Great. Thanks a lot sir and all the best.
- Moderator:** Thank you. The next question is from Sangam Iyer from Alfa Accurate Advisors. Please go ahead.
- Sangam Iyer:** Sir my first question would be regarding your order book could you give us a breakup in terms of the geographical breakup of the order book?
- Arvind Thakur:** Yes, US is \$17 million.

- Sangam Iyer:** You are giving of the \$75 million fresh order intake?
- Arvind Thakur:** Yes that is what we give.
- Sangam Iyer:** I just actually wanted to get some clarity in terms of when one of the previous participant's asked regarding Europe and you had expressed that Europe yes there is some economical issues and there are some slowdown that is visible. I just wanted to get a sense on whether the orders that we have received from Europe there is any risk in terms of delays in ramp ups or etc., that one would be pressing to get some more clarity on that sense from you?
- Arvind Thakur:** Yes, in fact I have clarified on that saying that we had very strong order intake this quarter from Europe. In fact, more than half of the \$75 millions of intake have actually happened from Europe. So I think we had a strong wicket over there. We do not see any issue.
- Sangam Iyer:** Sir in terms of the Morris deal I mean you have indicated you have around 208 employees as of now and who are in the transition place and first quarter next year you would see the offshoring benefits coming in so would there be any one-time costs that would be involved in with regards to 108 employees who were on the payroll of NIIT Tech?
- Arvind Thakur:** The people who are going to be and the work that going to be offshored would be the contractors which is actually on Morris' roles so the cost associated with their redeployment or severance or whatever else may be there would not be on our account.
- Sangam Iyer:** From the mining perspective for the next quarter we have indicated that the currency benefit actually offset the incremental cost of transition this quarter; however, assuming status quo in terms of the currency next quarter there should be some margin pressure for us right?
- Arvind Thakur:** I think the margins will be the same as what we are experiencing now that situation has not changed, because the pressure from Morris will continue into the next quarter.
- Sangam Iyer:** This CCTNS wherein you have an 86 Crore approximately worth of hardware sale that would begin from which quarter onwards?
- Arvind Thakur:** That will start from next quarter.
- Sangam Iyer:** So even that would have an additional pressure coming in on the margin front right?
- Arvind Thakur:** So, let Arvind answer that question.
- Arvind Mehrotra:** On the CCTNS we have already commenced this quarter and Pratibha had mentioned Rs.89 million for PFR (purchased for resale) and it included CCTNS component. CCTNS hardware will be staggered across eight quarters and we have said and as had mentioned that this is the phased base program rather than one big bang. So every phase will be completed and it will be deemed commissioned and it will go into operate and maintenance phase, every phase and there are typically four phases. So we believe it will be evenly spread.

- Sangam Iyer:** Great Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja:** Hi sir, lot of my questions have already been answered. Just wanted to get a sense on since I logged in little late what is the contribution from the Spanish acquisition as well as the hardware component of revenues that we have booked in the revenues in this quarter. That is number one and also wanted to get sense on why there is a 50 Crore increase in our current liabilities in the quarter?
- Arvind Thakur:** Let me just answer your first part and Pratibha will answer the second part. Proyecta is 151 million and hardware is 89 million.
- Pratibha K. Advani:** So the increase in our current liabilities is primarily on account to MTM liability also on account of sundry creditors ., there has been an FX impact, these two have largely contributed to the increase in current liability.
- Manik Taneja:** In terms of though the implementation on the CCTNS contract our interactions had indicated that we are trying to model this part of business in such a way that somebody else the hardware service provider finances the hardware so any progress in that front?
- Arvind Thakur:** Could you answer this Pratibha?
- Pratibha K. Advani:** If you recall our conversation those were some of the opportunities that we were exploring. Obviously financing does not come cheap and comes with the cost and given our ability now to negotiate hard with the vendors, having already worked in the large BSF program we have actually decided to go ahead and fund it through internal accruals; however, should the requirement enhance we can always look at financing as an option.
- Manik Taneja:** What part of the payment from BSF is still pending?
- Pratibha K. Advani:** It is about Rs.36-odd Crores that is pending we received Rs.80 lakhs last quarter and within this current quarter we have received about 2.6 Crores.
- Manik Taneja:** Still 36 minus 2.8 is left.
- Pratibha K. Advani:** We are pretty confident that we will receive the balance also within this quarter since the Intranet Prahari project has already been launched.
- Manik Taneja:** So quickly as of now the total outstanding from BSF is 36 minus 2.8 is that correct?
- Pratibha K. Advani:** No. It is 36 crs.
- Manik Taneja:** 36 Crores is still pending. Thank you.

- Moderator:** Thank you. The next question is from Mr. Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** Understanding the revenue breakup and the margin thing we had the Morris revenues of about 5% of overall revenues we had the hardware component which is about 2% and also may be EuroStar which could be at lower margin so would it be fair to understand that about 9% to 10% of the revenues currently are yielding almost no margins and maybe once when they start yielding margins, margins can go up from the first quarter of next year?
- Pratibha K. Advani:** Yes your understanding of Morris and the hardware is right we do not give customer specific details so I would not be able to comment on EuroStar.
- Dipen Shah:** Fair enough and the other thing is in terms of the license revenues what could be the total license revenues during the quarter?
- Pratibha K. Advani:** So we actually do not give the breakup of the license revenues but Arvind have also had already given the ROOM revenue share, which is 426 million.
- Dipen Shah:** Any updates on the ROOM's foray into the US markets and what is the status on that anything on that?
- Arvind Thakur:** Right now ROOM is focusing on moving into the European market. As you know the regulatory environment is different in different markets so the product is yet to be enhanced for US markets. The policy admin. products is yet to be enhanced in the US markets; however, we have another product, which is at risk aggregation product, which is already been launched.
- Dipen Shah:** Lastly once again, we understand that excluding the one-time impact of the last quarters margins were at 18% now on this basis 180 basis point came in from the currency so what compensated for these 180 basis points in the quarter?
- Pratibha Advani:** It was primarily Morris and of course the hardware component.
- Dipen Shah:** Fair enough thank you very much and all the best.
- Moderator:** Thank you. The last question is from Mr. Ravindra Agarwal from Capital Markets. Please go ahead.
- Ravindra Agarwal:** Yes sir my questions has been answered. Thank you.
- Rajendra S. Pawar:** Once again, on behalf of myself and the other colleagues thanks so much for being on the call. Just thought I will take about a minute to give some of my comments. I think you already have the data on order intake, which has been among the most important drivers for sustainable growth in our case. In the first three quarters of this year, total order intake has been \$361 million versus \$150 million during the first three quarters last year, up 140% and this is a very strong foundation for growth going forward. You would also have been tracking the order executable over 12 months for the last few quarters -- it was around \$170mn, then \$200mn then \$232mn, and now

\$245mn at the end of Q3 FY12, so that is also another kind of foundation that is giving us confidence for growth. Some of you did express some concerns about Europe and I think it is fair to be concerned about Europe, but I do want to make this very specific point that of the order intake we have, much of it came in from longstanding customers so it is solid. We see no delay in that. I would suggest that the concerns about Europe are genuine at a macro level, but we have a set of customers that are in a stable position. So we are putting our energies on this particular engine for customer acquisition in a significant way going forward and the fact that we have had growth in all geographies in all verticals, I think points to this. Strengthening this area is something we have been discussing, we did discuss a year or so ago. So the strategy of being very focused and the strategy of strengthening our sales and marketing operations starting about two years ago, I think is playing out quite well and we intend to continue to strength this capability particularly in these uncertain times -- that is truly the foundation for sustained growth. Thank you very much. Arvind, anything you want to say to close?

Arvind Thakur: Once again, appreciate your participation and thanks for being on the call. Have a good evening. Good-bye.

Moderator: Thank you. On behalf of NIIT Technologies that concludes this conference. Thank you for joining us you may now disconnect your lines.

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