

“NIIT Technologies Limited Conference Call”



July 29, 2009

MODERATORS:

Mr. Rajendra Pawar
Chairman, NIIT Technologies

Mr. Arvind Thakur
CEO, NIIT Technologies

Mr. KTS Anand
CFO, NIIT Technologies

Moderator

Ladies and gentlemen good evening and welcome to the NIIT Technologies Limited's Conference Call for the quarter ended 30th June 2009. As a reminder for the duration of this conference all participant 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 the conference call, please signal an operator by pressing '*' and then '0' on your touch-tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Arvind Thakur, CEO of NIIT Technologies Limited, thank you and over to you sir.

Arvind Thakur

Thank you and good evening everybody. My apologies for starting this conference a little late because we had a few technical problems in getting ourselves organize in this hotel. I appreciate all of you taking the time to log in onto this call and I am pleased to welcome you to discuss the earnings results of the first quarter for the financial year 2009-10.

Our revenues at the quarter has been Rs.2182 million which is down 4% quarter-on-quarter. I would like to just state that the first quarter of the year is traditionally and have traditionally been a smaller quarter, particularly for NIIT Technologies. Primarily, on account of reduced domestic business particularly in the government sector. Further, in continuation of what we have been experiencing in the last few quarters the industry continues to be challenged with specific industry segments cautious with their out IT spends and also increasing pricing pressures. So, this has resulted in revenue decline of 4% over the last quarter to Rs.2182 million. This also includes the revenue loss due to crystallization of effective hedges of Rs.153 million during the quarter.

Among the industry segments that we have been engaged in BFSI, which is the Banking Financial Service Insurance remains challenged, resulting in its share of revenue declining to 43% of what was 45% last quarter. The travel and transport on the other hand improved its revenue share to 29%, it was 28% last quarter and retail and distribution also improved its revenue shares to 14%, which was 13% in the last quarter. 34% of revenues are derived from the US and Europe, actually Europe, Middle East, and Africa combined contribute to 46% of the revenues, while the rest of the world contributes to 20% of the revenues in the quarter. Offshore revenues have been 41% of overall revenues. Our top five clients now contribute to 33% of revenues and our top ten clients contribute to 47% of revenues and they are encouraged by the increase in this mix of our top five and top ten client base, as well as in few key industry segments like travel and transport.

Our operating margins have improved 26 basis points to 18% with operating profits at Rs.394 million. As you are aware, we have taken hedge positions against forward contracts, which crystallized every quarter. Effective hedges at the end of the last quarter, last year were US \$187 million. Looking at the decline in revenues in the quarter and the impact on forecasted transactions, we have re-designated these forward covers, which have resulted in a portion of the effective hedges becoming ineffective. Re-designation of hedges has resulted in a loss of Rs.114 million, which has impacted other income and so you see our other income reflect a net loss of 84 million in this quarter. As a result, net profits have declined to 176 million in this

particular quarter. Our current exposure on effective forward contracts is now at \$156 million US at an average rate of Rs.41.94 to a dollar.

Apart from this, we now have ineffective or rather non-effective hedges of \$16.4 million, which is about 9.5% of the total hedge cover. Now, the loss that has been accounted for as other income as resulted in improving reduction in the loss of the hedging reserve and to that extent net worth has improved for the company. \$43 million US of fresh orders were booked during the quarter, leading to an executable order book of \$98 million US over the next 12 months.

We added four new customers during the quarter, one in insurance, one in the BFS, and two airlines in the travel and transport segment. There has been reduction of 214 people during the quarter, taking the headcount to 4024. Of the direct resources 22% are engaged in activities onsite and 78% are engaged in offshore activities. Attrition in the services business during the quarter has been 13.24%.

Cash and Bank Balance at the end of the quarter stood at Rs.1499 million. There has been a burn in the cash during the quarter, which has been primarily on account of dividend payout to our minority partner of our GIS subsidiary and dividend tax. Bills receivables stand at 72 days. As mentioned earlier the loss in net hedging reserves is reduced to Rs.869 million and this improvement of Rs.646 million during the quarter is on account of appreciation of the rupee, redesignation of hedges and crystallization of effective hedges during the quarter. The company invested about Rs.14 million in normal CAPEX on facilities, while Rs.74 million were spent to support the development activities of the new campus in Greater Noida. So, with these opening remarks, I will now open the house to exist your question.

Moderator

Thank you sir, ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press '*' and 1 on their touch-tone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking your question. The first question is from the line of Deepen Shah from Kotak Securities, please go ahead.

Deepen Shah

I had few queries. First of all in terms of the revenues, can you just give us a breakdown in terms of the volume growth or the realization loss and the hedging impact?

Arvind Thakur

Okay, just give me a second to take out my paper over here. So, we are looking at Q-on-Q?

Deepen Shah

Yes.

Arvind Thakur

So, there is a volume decline of 7% and there is a currency gain of 0.5%. And there is also reduce hedging loss of 2.3%.

Deepen Shah

Okay fine so that is about it and apart from that in terms of realizations, how has the experience been, has there been any further pressure or are you seeing stabilization in that or how is the experience being?

Arvind Thakur I know, I think we are experiencing a lot of pricing pressure in new contracts. In fact our assessment is that the impact of this pricing pressure going forward is tune of about 1.4%.

Deepen Shah Going forward in the sense?

Arvind Thakur In the coming quarters-

Deepen Shah Okay and this is coming largely from the new accounts which you are signing?

Arvind Thakur New accounts, and new contracts, even in existing accounts-

Deepen Shah Okay. Apart from that in terms of these ROOM Solutions, how much were the revenues and margins are in the quarter?

Arvind Thakur We have had a decline in revenue in ROOM Solutions in this quarter, ROOM Solution revenues are Rs.232 million.

Deepen Shah Okay, this is versus 254?

Arvind Thakur This is versus 254 and so as I had mentioned in the opening remarks, the whole BFSI segment is quite challenged and what we are seeing is a decline in license revenues in ROOM in this quarter to anticipate some of these things will happened in the subsequent quarters. In terms of margins, on a standalone basis it is at 15%, which is I think it is same as last quarter.

Deepen Shah Okay this is the consolidated.

Arvind Thakur The consolidated is 18%.

Deepen Shah Okay fine. And can you just throw some more light on the non-linear businesses in the revenue contribution last quarter we had about 27% coming and how has it been in this quarter has there been a scale up?

Arvind Thakur It's been at; this quarter is in fact 25% so we not really scaled up.

Deepen Shah Okay and lastly in terms of the effective hedges are becoming non-effective, can you just explain it how did happened and will there be any further impact over the next few quarters?

Arvind Thakur No, there will not be any impact on the next quarters because what we have really done is in fact the next few quarters is going to be positive because we have taken the entire impact in this particular quarter.

Deepen Shah Yeah, so that is what I was referring to so. So, these 11 crores will be the benefit over the next few quarters?

Arvind Thakur That is right.

Deepen Shah Okay and so what exactly happened during this quarter in terms of and how much of the hedges were re-designated?

Arvind Thakur So, what has really happened is that the losses that were there in the balance sheet, hedging reserves to the extent that we created ineffective hedges, they have been brought down into the P&L. So, currently if you look at our hedge 9.5% of the hedges are ineffective hedges. So, when we actually last year, when we started also the ineffective hedges were 9% and over the year we had improved the position as far as ineffective hedges are concerned. In fact in the last quarter, ineffective hedges were down to 4.7%, but now by virtue of this redesignation, they have gone back to 9.5%.

Deepen Shah Okay fair enough. So, okay in terms of these 16.4 million of non-effective hedges you will be marking to market the same and the same will come now in the P&L account rather than the balance sheet, is it?

Arvind Thakur That is right, absolutely right.

Deepen Shah Anyway, I will take this further offline, thank you very much and all the best.

Arvind Thakur Thanks Deepen.

Moderator Thank you Mr. Shah. The next question is from the line of Manik Taneja from MK Global, please go ahead.

Manik Taneja Hi sir, just surprised by the quantum of Forex losses, ones to understand further what caused you to shift hedges from effective hedges to ineffective hedges, is there any change in the visibility on your revenues and secondly, if you could also once again repeat your margins at ROOM Solutions for the quarter and how do you see the demand environment specially at the travel and transportation clients, thank you?

Arvind Thakur Okay, so let us first take up the issue of hedges. As you know these hedge positions have been taken about 12 months ago and based on those positions, we had defined hedges as effective looking at what are the forecasted revenues over the period of these hedges. But as you are aware from the second half of last year, the environment has started deteriorating dramatically and so when we look at the position in this quarter, where we saw a decline in revenues and looked at the forecasted transactions going forward, as a prudent measure, we decided to re-designate those forward covers to reflect what are likely to be the forecasted transactions. So, the ones that were not covered by those forecasted transactions therefore became ineffective and if they are ineffective then you need to treat them as a loss, which is what we have done in the other income. So, in a sense what has really happened is that losses that we would have incurred every quarter going forward have been taken as a one time in this quarter.

Manik Taneja So, you would rule out such a thing going forward from now?

Arvind Thakur The other thing that happened is as I have repeated earlier is the hedging loss, which is there in the balance sheet reserves that has reduced because all these things have now been taken into the P&L. So, we do not anticipate this happening going forward in this year.

Manik Taneja Okay, so apart from that if you could also share the margins and ROOM Solutions on a standalone basis during the quarter?

Arvind Thakur I said that was 15%.

Manik Taneja And if you could give some kind of comments in terms of how you are seeing the IT demand at your key travel and transportation clients?

Arvind Thakur I think travel and transport is good, we have one account, which is quite challenged, which is one of our top accounts, which is British Airways as you know that is an organization which has been severely challenged by the downturn. So, we have in fact renegotiated our contracts and consolidated our business with them last year itself, so that is now on a steady track, although at lower volumes. We have been able to acquire new customers who are scaling up very well and in fact as I mentioned earlier our revenue share from travel and transport in this quarter the mix has improved significantly.

Manik Taneja Okay, just have been very perplexed with the way your overall employee count has behaved over the last few quarter, each quarter we have seen our revenues, both our revenue reduction as well as employee reduction to build that as a continuous phenomena for at least near term quarters so how do we?

Arvind Thakur I think I have been on the bottom line. So obviously if the environment is challenged, you got to improve your cost structures and we have been pretty proactive in dealing with that. So, I do not think you should be perplexed, every quarter you would have noticed we have been reducing our headcount by about 200. But I think that is pretty much done-

Manik Taneja And it effectively means that in the next 12 quarters we will add zero employees?

Rajendra Pawar Or double.

Arvind Thakur Should also be double.

Rajendra Pawar All may be double. This is Raji Pawar here. Manik I think the important thing we would like you to look at is the operating margin because if you look at the last many quarter, we have set arise to make sure that this does not move because that is in our control. Forex is not in our control and the fuel prices and all airlines are not in our control, what is in our control is our operations capability So, I think what we have Arvind and his team have done very effectively is to make sure that we are sizing ourselves to factor in the volatility of the market, you have seen today NASSCOM also has looked at next year in a little more conservative way to be realistic, right so also I think if you look around this sector you will find that the ability to hold margins, I think in our case is quite good so see that in a positive sense, you build the

capability to go up and down on cost to suit the marketplace, so it is a plus. The environment is challenged; I think everyone is facing that situation that is not new to you. But the capability to respond to that challenge in a fashion that operating margins are in control, I think that is what is totally in our control. Similarly, on FOREX essentially what has happened is that the loss was sitting in the balance sheet that has moved from that place to this place that is really what has happened, because of the whole AS-30 regulation. So, the anticipated revenues in the future based on which hedging was done we have become realistic on that, so while those losses were sitting in the balance sheet earlier all that is happened is that to the extent that we think revenues will be impacted going by the last few quarters picture. We have just been realistic to say let us look at this year and say take an approximate number, which is going to be closer to reality. And then take it one shot this quarter for the year so that at least we do not have this kind of continuous picture going on. So, I think when both the actions, yes I think the net is down that is the reality we are confronting but on both of these fronts, what you want to look is the fact that margins are in control in fact 26 basis points up and second is that we have moved some of the hedge things on what from the balance sheet into the P&L that is the real difference. So, if you look at overall reserves would not make a difference because it is shift from one place to the other.

Manik Taneja

And once again going back to your revenues if I am just looking at even that we do cash flow hedging, our revenues the x-FOREX impact in our revenue lines over the last one year it has fallen from 250 odd crores to something like 233 odd crores. So, what has been the volume impact during the last one year?

Arvind Thakur

One second, you are talking about the last year now.

Manik Taneja

If I am just looking at revenues FOREX, losses of hedges in our revenues line and those revenues have been from 250 odd crores in Q1 '09 to 267 in Q2 '09 to 267 crores in Q3 '09 down to 249 crores in Q4 '09 and 233 odd crores? Wherein, during these five quarters we have had the benefit of US dollar INR on our revenues from US within GBP to INR we have gone through both the cycles of GBP depreciation versus the INR and now the GBP appreciation versus INR. So, just I wanted to understand what is the overall volume decline that we have seen over the last one year?

Arvind Thakur

Okay I do not have a number right now, I am sure you can calculate that but I think we are making it quite abundantly clear that the environment is challenged. And what we are also making clear is that it is one segment, which is more challenged than the others, which is the BSFI segment and what we are also saying is that there are other segments in which we are operating, which will help us, deal with the challenges that we are experiencing in one particular segment. I think that is the only comment I can make at this point and time because getting to those detailed calculations we can probably deal with offline.

Manik Taneja

Sure sir and just wanted to understand what could be our CAPEX for the year?

Arvind Thakur CAPEX in the quarter have been 14 million for normal CAPEX expenses and 74 million for Greater Noida Project.

Manik Taneja And for the full year Sir, any outlook for the full year?

Arvind Thakur How much it is? 800 million.

Manik Taneja Okay, 800 so most of the CAPEX will get incurred in subsequent three quarter?

Arvind Thakur Yeah.

Manik Taneja Okay sure, thank you sir.

Moderator Thank you Mr. Taneja. The next question is from the line of Srinivas Seshadri of RBS, please go ahead.

Srinivas Seshadri Sir, just I mean couple of questions in terms of the revenue visibility basically I mean if we look at the current quarter at least the top line companies have broadly entered into a kind of revenue stability in the short-term and maybe a pickup during the second half of the year and then revenues growing at a faster rate in FY11 basically. So, I just wanted to check, I mean are we along the same curve in terms of the revenue growth or are we behind these top tier companies and also basically, I mean what are the differentiating factors between us in terms of revenue growth and some of these larger companies?

Arvind Thakur Well, Srinivas if you look at the top companies, I mean the data is there with you, Infosys is negative, I think 4% this quarter, Wipro is negative also this quarter. TCS are the only people who have been flat, we do not have HCL results, but my guess is they have an acquisition so they will show something positive in this quarter. So, I am not able to understand where are you getting your data points, stability and other things because-?

Srinivas Seshadri Arvind actually I am referring more in terms of the outlook not really the current quarter numbers, I mean I am just trying to appreciate, I mean understand what and we are looking at going forward from that perspective basically, but if you look at Infosys and Wipro guidance for example they have guided it for some kind of stability in terms of revenues. And post that probably some kind of the revenue momentum basically returning in the second half, so I am coming from that perspective as to where we stand.

Arvind Thakur Okay so I think I had mentioned earlier as well, we are pretty sensitive to how our top clients move and we are seeing now, some stabilities in those accounts, so that is what is encouraging us at this point and time and on the strength of that stability, we can see our business is growing going forward. I anticipate the revival really to happen towards the end of the year or beginning of next year.

- Srinivas Seshadri** Okay so for this year basically, I mean should we be basically building and say a quarter-on-quarter declines like what we have seen in terms of volumes at least in the past couple of quarter for and how does the near term outlook look for us?
- Arvind Thakur** To my mind, Srinivas it is very uncertain, environment is extremely uncertain at this point of time, but I think you can assume that it is not going to decline quarter-on-quarter.
- Srinivas Seshadri** Okay going forward?
- Arvind Thakur** Yeah.
- Srinivas Seshadri** Okay, so basically all the, I mean in terms of the ramp downs and pricing negotiations you are seeing largely behind us and we should be looking at a stable business going forward?
- Arvind Thakur** And I would tend to agree with that.
- Srinivas Seshadri** Okay and I just wanted to check I mean in terms of where we got hit on the revenues, in addition to say I mean some pressure from your top clients. Was there also a change in terms of the competition profile in terms of competing for deals like for example are some of the larger companies now looking at deals of smaller ticket sizes where you tend to compete, so I just wanted to understand your perspective of whether they are getting more aggressive in your deal space?
- Arvind Thakur** I think there is competition intensity has definitely increased and at least the businesses the big accounts in which we are in we see a little more aggression from the larger players, so I think that is definitely on the cards and we just have to address overall competition head-on through our superior performance.
- Srinivas Seshadri** Okay and just wanted to get your views on the BFSI segment in particular and maybe if you could just split it up into say the insurance segment and with respect to that the ROOM Solutions bucket and also the non-insurance piece, basically how that looks as of now and how do you think those buckets will shape up for you in the next few quarters?
- Arvind Thakur** I think the BFS part is stressed and will continue to be stressed, it is the insurance part which we expect to pick up and really the reason why we are seeing ROOM, showing lesser revenues is because ROOM is IP based and in an environment uncertainty particularly when you have a new product in the market place, people are little more cautious before making those investments.
- Srinivas Seshadri** Okay, so when do you expect that particular thing to revive, I mean any sense from the clients as to whether their outlook has improved in terms of say going for these kind of discretionary spends or do you think that would be probably a postpone to the next calendar year basically?
- Arvind Thakur** It would be in the next calendar year, I would say, I will give in another quarter.

Srinivas Seshadri Okay, so or does that mean that we are already seeing some kind of soft discussions and interest from the client base for this product now?

Arvind Thakur Yes, in fact there are number of discussions and interest is very much there. And in fact towards the end of the quarter we actually had a customer meet of ROOM in London and they all participated and we got tremendous response in that meet. Not only that, we also actually outlined the roadmap of the new functionality that we will be introducing into the framework and I think they are all kind of aligned themselves to that direction that we have defined for the product. So, to my mind it is very positive, it is just that the environment is uncertain and so you know the business decisions take their own time.

Srinivas Seshadri Okay and secondly coming to the margin discussion basically I mean if we just trip off the Forex part from your top line, basically what I calculated is that we had about some dip in the margins and I guess that would be probably because our top line is not growing while the cost at least on the SG&A front have been kind of flattish. So, I just wanted to check, I mean how should we look at margins going forward considering that at least the revenue visibility in the near term is not too much on the positive side, so would we be able to protect margins and what is our game plan to do?

Arvind Thakur In fact if you look at margins, I think that is one thing that we have managed extremely well, so frankly if you eliminate the hedging losses, as I mentioned it was 15.3.

Srinivas Seshadri Right, I think we are at margin of about 23.5% or so.

Arvind Thakur Yeah, so that is about 23%, which is to my mind that is very good. So, I think that is something we have a pretty good grip on and I do not think we are losing our grip on that, we have to get more aggressive with our customer base as well as in the marketplace and start getting the revenues back into the business.

Srinivas Seshadri Okay, so assuming that the revenues do not grow or maybe slightly, probably decline from here on, do you think it would be feasible to hold on to the margins at the current level?

Arvind Thakur Yes in fact that is a very strong focus in the company.

Srinivas Seshadri Okay and just wanted to check, I mean have we changed the salary structure in anyway either say reducing the fixed pay or say a restructuring pay to more of a variable oriented pay or any other steps in that direction to manage the wage cost in this kind of environment?

Arvind Thakur We have done exactly that. We have reduced the fixed element and created a greater variable element in our compensation structures and that will help us to deal with the cost structure associated with salaries. So, if you really do not make the numbers that you are planning for and accordingly that much cost will be less out of this.

Srinivas Seshadri Okay fine and just I had few data points to ask. One is, I just wanted to check what our BPO manpower was at the end of the quarter?

Arvind Thakur Srinivas, we are not tracking BPO anymore.

Srinivas Seshadri Okay, secondly on the exchange rate basically what was the effective exchange rate in terms of the dollar for us in the quarter or I think we gave a number of 50.08 last quarter, so I just want the corresponding number?

Arvind Thakur 49.23.

Srinivas Seshadri Okay and wanted a break up of the net other income whatever a negative number of Rs.84 million into the Forex loss, interest and other income and interest expense if that could be-?

Arvind Thakur Okay, let me pull that out for you. You wanted the breakup?

Srinivas Seshadri Yes.

Arvind Thakur Okay, income from mutual funds is 1 million, interest income is 16 million, some other non-operating income is 10 million and difference in exchange is 108 million loss.

Srinivas Seshadri Okay and any interest expense outgo for this quarter?

Arvind Thakur 3 million is the interest expense outgo.

Srinivas Seshadri Okay, so 60 million is net off 3 million?

Arvind Thakur 30 million, 30 million will be net off interest expense-

Srinivas Seshadri Oh I see, okay fine. And basically I also wanted to understand we had given this loan to the trust, does that still continue about 20 crore or so?

Arvind Thakur Yeah the loan continues.

Srinivas Seshadri Okay and how much did we pay out for the GIS subsidiary this quarter, in terms of dividend you mentioned that there was some payout?

Arvind Thakur Yes, didn't I just tell you how much it was? I will just take out the numbers.

Srinivas Seshadri Okay.

Arvind Thakur The dividend payout is 37 million and 58 million is dividend tax.

Srinivas Seshadri Okay that is on the entire dividend, okay.

Arvind Thakur That is on the entire amount.

Srinivas Seshadri Right and finally Arvind just wanted to double-check the OCI loss, which stands in your balance sheet on the effective hedges that's at Rs.869 million right?

Arvind Thakur That is right.

Srinivas Seshadri Okay and this is net of tax, is it?

Arvind Thakur That is right.

Srinivas Seshadri Okay great, okay thank you so much for replying to my questions.

Moderator Thank you Mr. Seshadri. The next question is from the line of Ritesh Rathore from UTI Mutual Fund, please go ahead.

Ritesh Rathore Sir, you said volume decline of 7% quarter-on-quarter whereas your revenue decline was 3.5%, can you reconcile that difference?

Arvind Thakur 0.5% is currency gain and we have had hedging losses last quarter more than this quarter, so 2.3% is reduced hedging loss.

Ritesh Rathore Okay sir second question on your FY010 outlook, qualitatively has it improved compared to last quarter, has it deteriorated or has it remain, as uncertain as it was?

Arvind Thakur Right now we are keeping it uncertain.

Ritesh Rathore So, in comparison to last quarter right or has it improved a bit because I believe the budgets would have fixed up, your top clients budget you would be aware of what they would be spending in the coming months or coming quarters. So, compared to last quarter how things have moved?

Arvind Thakur I do not think budgets have been fixed as yet, so I think the situation remains still uncertain but like I said, we are seeing stability happening in our key accounts. So, now it is the question of seeing how do we address the opportunities that exist in the marketplace to scale up our business?

Ritesh Rathore And sir, you mentioned of a lot of pricing pressure so has it pricing pressure been seen in the financials or we will see in coming quarters too?

Arvind Thakur We have absorbed some of the pressures in this quarter and like I said going forward we did an analysis of the impact of pricing and it is to the tune of 1.4%.

Ritesh Rathore Okay so that would be the additional pressure we will see in coming quarter?

Arvind Thakur Yes.

Ritesh Rathore And so you said you are mark-to-market and these losses, which have been designated and re-designated to non-cash flow hedges, sir at what rate you mark-to-market this \$16.4 million hedges?

Arvind Thakur Are you talking about the ineffective hedges?

Ritesh Rathore Yeah.

Arvind Thakur So, actually in that 16.4 million how much is that 48.8.

Ritesh Rathore Yeah and it is the 31st quarter ending rate you are taking or you are taking?

Arvind Thakur We are taking the quarter ending rate.

Ritesh Rathore Okay and that is it from my side.

Moderator Thank you Mr. Rathore. The next question is from the line of Madhu Babu from Systematix Shares & Stocks, please go ahead.

Madhu Babu Yes sir, sir considering the slowdown in the developed markets could we increase the thrust on emerging markets and chase more new client from emerging markets?

Arvind Thakur Yes, you are absolutely right. In fact we have a very strong focus now on the domestic market. We have just reorganized ourselves in the domestic market and in addition to the three industry segments that we traditionally focus on, we have now created an industry segment exclusively for government. We expect a lot of spending to happen and large contract in the domestic market coming out of the government and we want to very actively and proactively address those opportunities.

Madhu Babu And sir, you have mentioned in the call from next quarter you would see arrest in the decline in revenues on a quarter-on-quarter basis, am I right?

Arvind Thakur That is our expectation.

Madhu Babu So, we are expecting the growth to start at least be flat and from there recover toward the latter part of this year?

Arvind Thakur That is our expectation.

Madhu Babu Okay sir and what are the tax rates for FY10 and 11, effective tax rates?

Arvind Thakur For FY10-11?

Madhu Babu And FY11, continuing the extension STPI?

Arvind Thakur We will go at about 16% to 17%?

Madhu Babu Both the years?

Arvind Thakur I think so, yes.

Madhu Babu And sir of the 156 million of outstanding Forex contracts I mean how much of that will expire in FY10 and what is beyond FY10?

Arvind Thakur Okay, now you are asking some detailed questions, give me a second. At the end of 31st March '10, we will have only 99 million left.

Madhu Babu Okay, thank you sir.

Moderator Thank you. The next question is from the line of Amish Kanani of JM Financial, please go ahead.

Amish Kanani Sir, I just wanted couple of quick comparing questions that I would want to check with you. You said loss in reserve is 869 crores and improvement in reserve is at Rs.646 million right?

Arvind Thakur That is right.

Amish Kanani And you said this is due to and that reduction is due to appreciation, re-designation, and crystallizations and if I remove crystallization at 153 million and re-designation at 114 million is that actual due to appreciation you are lowering the reserves by Rs379 or Rs.389 million odd right sir?

Arvind Thakur Correct.

Amish Kanani So, sir just I wanted to check what rates are we kind of taking on this one, how has that come from?

Arvind Thakur I will better ask CFO KTS Anand to explain that.

KTS Anand Hi, can you repeat your question again?

Amish Kanani See, basically the improvement in results during the quarter has happened to be Rs.646 million-

KTS Anand That is nett of DTA, Deferred Tax Assets..I will just give you the reconciliation, the opening balance of this hedge reserve loss was 1515 million, you see that the end of the quarter is 869 there is a net decline in the loss of 646 million.

Amish Kanani Correct and that is of which you are saying, see basically I wanted to understand at what rate basically you are valuing this quarter, vis-à-vis last quarter and but basically can it be explained as the savings?

KTS Anand As you rightly pointed out there are three parts one is the contract which are maturing during the quarter, second will be re-designation and third is the dollars being depreciated, but valuation, fair value of the contract has reduced from almost 51.8% to 48.8% so there is an advantage there.

Amish Kanani Okay that portion I wanted to confirm, okay so you have given me the number. And just one thing here my observation here with annual, if you analyze a quarterly run rate now which is at \$44 or \$45 million annually it is about \$177 million, whereas you know keeping your effective hedges at \$156 million, which is actually less than 12 months revenue from the current analyze rates, so what is the criteria for saying that these are the effective and these are ineffective?

KTS Anand As per hedge accounting policy which is based on the recognition and measurement principles from AS30, whereas all the contracts in hand or all the contracts of the customers underlying needs to be designated. Whatever is the visibility, very clear visibility we can assign to them and that can be put into the effective hedges, so during this quarter we took that call and as a prudent measure we revised them and then reduced it to the extent we have a visibility today and it will definitely not be the limiting factor, it will improve and will grow with that report.

Amish Kanani Fair enough, so say the 16.5 million visibility in revenue is just kind of decline over this quarter, is it-?

KTS Anand It is the closing balance, it is not during this quarter. Earlier on as it was around 9% to 10% we were keeping, we were keeping 9% as non-effective hedges, where the confirmation is not there, but it is there in the discussion and all that. So, those are forecasted transactions as you know, based on that it is again at the same level from 9% when we started and even at today it is 9.5%.

Amish Kanani Okay so that does not mean that there is a less visibility in the revenue to the extent of 60 million that much that pattern as well?

KTS Anand It is based on forecasted transactions on some assumptions.

Amish Kanani It is more of accounting than the businesses as what I would then take at, it is a mix of both but not exclusively, right.

KTS Anand Not in isolation.

Amish Kanani And one more thing on the headcount reduction 214 employees on a base of 4000, there is a reduction of 5% so, I just wanted to understand why has it happened and what is the trend like you know something like that?

- Arvind Thakur** I think as we have explained earlier there is a very sharp focus on insuring that we maintain our margins, so these are steps, which are taken proactively and it was something that was started early last year, where we have done a complete hiring fees. So, I think through a process of natural attrition, we have been seeing some people leaving and we have been improving our utilization productivity during this period.
- Amish Kanani** Okay thanks a lot.
- Moderator** Thank you Mr. Kanani. The next question is from the line of Ganesh Shetty an individual investor, please go ahead.
- Ganesh Shetty** This has been a very challenging quarter for our company and I just want to know, what initiatives you have taken in our non-linear part of business that SaaS part of business, whether it is really working or whether we are garnering any customer from this particular SaaS part, will you please explain sir?
- Arvind Thakur** In fact Ganesh if you read some analyst reports you will find that most of them are saying that the economic slowdown is going to be a big trigger being facilitated SaaS because the Software as a Service and they now point a new word called Cloud Computing. These are two services which the industry can provide as an on-demand service, which means you pay as you use. So, going forward this is likely to become the more acceptable and dominant model for doing business in this industry. So, to that extent I think we are onto a good I would say initiatives. We have about half a dozen customers with whom we are not doing business in this mode, but obviously at this point too small to make any difference in terms of actually revenues generated from this model. But each one of these customers would become full fledged contracts and once we have those contracts in place you will have people who will look at this model more seriously. So, at this point in time SaaS is still in this infancy and I think we have taken some very good pioneering steps in positioning ourselves in this space, which you will see helping as we go forward.
- Ganesh Shetty** Sir my last question is regarding our airline sector, which we have focused on and there has been a very tough time for airline industry and sir, are we facing any payment crisis or de-force like that in this particular sector of our focus? That is my question sir that is all sir, thank you.
- Arvind Thakur** Okay Ganesh now I think this sector is a sector which is in need of services that we can provide. You are absolutely right this is an industry segment that is extremely challenged and a segment where they are looking at services more value for less and that is what we have been providing to this industry. Also we have some point solutions which are extremely relevant in the current context, which we are positioning aggressively, which has to do with revenue accounting. As we know airlines and the issue tickets, they will issue on ticket, but then they account for each one sector subsequently and that activity is called Revenue Accounting. Currently, this is a mix of paper as well as online activity, but the industry body IATA has defined a roadmap whereby the end of 2010, all these have to become paperless and we have the solution that is going to address this opportunity, which to my mind is a great discontinuity

that the company can exploit. So, we are looking forward to building and scaling as well as positioning ourselves strongly in this industry segment.

Ganesh Shetty Thank you very much sir, all the best.

Moderator Thank you Mr. Shetty. The next follow up question is from the line of Amish Kanani of JM Financial, please go ahead.

Amish Kanani Sir you were saying that outstanding hedges as of 31st March end of this year or 10, could be 99 million right?

Arvind Thakur That is right.

Amish Kanani And right now the effective hedges is 156 million, are we seeing that this year the balance maturing hedges will be only 57 million left?

Arvind Thakur KTS will explain.

KTS Anand Hi, this is KTS. It is primarily be effective hedges, right now we have 156 as an effective hedges and there are non-effectives around 16 million, so we will be left with 99 in next three quarters, which we are talking about.

Amish Kanani Yeah so my simple question was that see, the two quarter back the number that I had on terms of outstanding hedges was 211 if I remember correctly, if I remember the number correctly, which is now at 156 effective and 172 total, but the point is, my very simple question is are we having a lesser number of contracts, which are not maturing in say second half of the this year vis-à-vis and more in the next year is that assessment correct or it will be effective?

KTS Anand No. Let me explain it to you that these hedges contract are not representative of the total revenue coming in the US territory or US Dollar. It is not the representative of the revenue, definitely it is assigned to the US revenue and revenue is going to be more than what we have designated to be different concept to individual contract based in the US development. So, I said this is not a representative of revenue

Amish Kanani Yeah sir my question was the intensity of maturing of this contract in next two quarters, seeing next three quarters, seeing you it will be lesser than what it was say last year that was, is my observation correct?

KTS Anand Yeah you are right on that because the booking was done like that.

Amish Kanani Okay fine thanks sir.

Moderator Thank you Mr. Kanani. The next follow up question is from the line of Deepen Shah of Kotak Securities, please go ahead.

- Deepen Shah** Yeah Anand I had just one thing, just continuing on the previous question if the currency rate remains at around current levels, how much of loss can we expect on the Forex front in the next quarter?
- KTS Anand** As far as non-effective hedges are concerned it will not have any impact because it will remain there. As far as effective hedges are concerned it will move from the rate difference of but we have a hedging average rate of around 42 to be precise 41.94 versus whatever rate is at the end of that-
- Deepen Shah** Okay and if the rupee kind of appreciates then you will obviously have some gains because your mark to market is the same at 48.80?
- KTS Anand** Absolutely.
- Deepen Shah** And this is on the \$16 million, which you have as non-effective?
- KTS Anand** Absolutely right.
- Deepen Shah** Okay thanks very much.
- Moderator** Thank you Mr. Shah. As there are no further questions, so I would like to hand the floor back to Mr. Thakur for closing comments, please go ahead sir.
- Arvind Thakur** Okay thank you very much everybody for participating in this call. I do understand that this was a new subject that we discussed, which is re-designation of effective hedges, I do hope we have been able to clarify all your queries in this respect but if there still remains some issues that needs to be discussed, please do get in touch with our CFO, KTS Anand, then he will be happy to share with you more details, thank you very much.
- Moderator** Thank you Mr. Thakur and the gentlemen of the management. Ladies and gentlemen on behalf of NIIT Technologies Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.