



“NIIT Technologies Limited Conference Call”

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Moderator:

Ladies and gentlemen good evening and welcome to the Q2 FY10 Conference Call of NIIT Technologies Limited. As a reminder 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Arvind Thakur of NIIT Technologies Limited, thank you and over to you Mr. Thakur.

Arvind Thakur

Thank you very much and good evening, everybody. At the onset we wish all of you a very Happy Diwali. I trust you had an excellent weekend, over the last weekend. Along with me I have Mr. Pawar – Chairman, KTS Anand – CFO and Vikas Jadhav, who is responsible for Investor Relations. So I am here to discuss the second quarter results for the financial year '09-'10. And just to comment a little bit on the environment we believe that the environment continues to exhibit volatility which is evident in the movement of currencies, stock indices, commodity prices.

We see the domestic market here in India behaving in a more positive manner in line with most emerging markets as compared to the developed world which continues to be plagued with issues like increased job losses. The general sense is that perhaps the worst is behind us at least in the industry. With this backdrop I like to analyze our quarterly results. Revenues have improved 4% quarter-on-quarter, Rs. 2,263 million. This includes the revenue loss of Rs. 154 million due to crystallization of effective hedges. We saw all round sequential revenue growth in every geography with maximum traction in the APAC region, which increased its revenue mix by a percentage point. U.S. contributed to 33% of total revenues. Europe, Middle East, Africa to 46% while the rest of the world is at 21% in the revenue mix.

Among the industry segments that we service we saw growth both in the BFSI and travel and transport segments that we consolidated our position, particularly a strong has been our showing in the insurance and the travel space. In the travel industry survey which was carried out by Datamonitor and published in the Black Book of Outsourcing, NIIT Technologies once again secured top honors by being ranked No. 1 amongst all global outsourcers in the world. The travel business now contributes to 30% of our overall revenues while BFSI contributes to 44%. Retail and manufacturing contributes to 12%.

Amongst the top clients our top five clients contributed to 33% of revenues and our top ten clients contributed to 45% of our revenues. In line with providing value proposition to our customers where we have been giving them more for less through the offshoring initiative we have seen our offshore revenues also improved during the quarter to 43%. Higher revenues from offshore combined with improved utilization and the cost optimization measures which we have been taking for the last many quarters ensured that operating margins improved by over 2%, in fact, they changed by over 2% both sequentially and year-on-year and they now stand at 20%. Operating profits improved 16% sequentially to Rs. 458 million and these were at the same levels as last year despite low revenues.

I believe the one thing that the company has been able to achieve with good success during the entire period of the downturn is creating highly efficient operations. In fact, if I look at operating margins excluding the impact of hedging losses they stand at over 25%. Net profits improved 82% sequentially to Rs. 321 million. Sequential improvement has been on account of better operating profits but also as you are aware in the previous quarter we had incurred extraordinary loss in other income on account of re-designation of hedges. Our current exposure on hedges in terms of effective contracts is US\$138 million at an average rate of Rs. 42.18 to a dollar apart from non-effective hedges of US\$9.5 million. We had a fresh order intake of US\$51 million during the quarter, leading to an executable order book of US\$105 million over the next 12 months.

We added three new customers during the quarter, two of them in the travel and transport space and one in the retail space. There has been a reduction of 107 people during the quarter taking the headcount to 3,917. 24% of our direct resources are engaged in onsite activities and 76% in offshore. Attrition during the quarter has been 13.7%. Our view now is that our headcount is at its optimum level and going forward we do not foresee any further reduction. Cash and bank balance at the end of the quarter stood at Rs. 1,415 million. We had a burn during the quarter of cash primarily on account of dividend payout and some loan repayment. Bills receivables at the end of the quarter stood at 72 days of sales outstanding. We had Rs. 118 million worth of CAPEX expenditure during the quarter.

Given the environment that we see are stabilizing to some extent and to build value as we come out of the downturn the board has made a grant under the existing ESOP to cover over 500 managers so as to align the organization in a bid to ensure that going forward we drive growth and value for all stakeholders engaged with the company. With these opening remarks I would now open the house for any questions that you may have.

Moderator

Thank you very much, sir. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question please press '*' and then '1' on your touchtone phone. If you decide you want to withdraw your question from the questioning queue you may press '*' and '2'. Participants are requested to use only handsets while asking a question. Our first question is from the line of Manik Taneja from MK Global, please go ahead.

Manik Taneja

Hi, sir, congratulations on good execution. Just wanted your comments on a couple of things, first of all, how are you seeing demand environment in your top clients especially from the travel and transportation space? And secondly, since you already mentioned that you said we have bottomed in terms of our employee count, could you just share some sense in terms of employee additions at least five to six quarters? Thank you.

Arvind Thakur

Okay, as I mentioned earlier the economic environment continues to be volatile, the segments where we have built sound positions which is travel as well as insurance we are seeing a good upswing in terms of our positioning with respect. So current quarter, the last quarter, we have in some growth in these segments, I think the only thing that we can say at this point in time is,

yes, there would be additions, there would be net additions. I think we need to be cautious at this stage as well because the environment is volatile and we do not want to unnecessarily build up cost structures which would be difficult to address in case the situation deteriorates.

Manik Taneja One more thing if you could also share your thoughts on how you are seeing the demand from Europe given that couple of your bigger peers have talked about more delays in terms of decision making especially in Europe? That will be from my side, thank you.

Arvind Thakur Okay. Yes, Europe is the geography in which we have the largest presence and it is a market in which normally decisions do take a longer time. Well, Europe is experiencing the same challenges as the U.S, of course, in a delayed manner. And we expect them to follow the same cycle as we see in the U.S. I think where we are likely to see better demand would be in emerging markets and for us that would mean Asia Pacific as well as domestic markets

Manik Taneja Sure sir. I want you to share your views on how (Inaudible) and since you are exposed to Europe and rupee started appreciating do you see Euro in a big way now?

Arvind Thakur Are you talking about currency?

Manik Taneja Yes.

Arvind Thakur Yes. So I think we had the currency becoming stronger last quarter, but I think this quarter we are seeing the currency weakening a little bit. So the pound actually increased by, from 74 to 79, between Q1 and Q2 and is going down to 74 in the current quarter. So there is volatility as I mentioned earlier. One of the characteristics of the economic environment is this volatility and that makes things a little uncertain.

Moderator Next question is from the line of Deepak Radhakrishnan from Unifi Capital, please go ahead.

Deepak Radhakrishnan Is it in anyway possible to quantify the loss that could occur, I mean, the loss that could occur if the rupee appreciates, the profit in hedges that could occur?

Arvind Thakur Yes, certainly. As I gave you our hedge position and the average rate at which those hedges have been taken which is 42.18 as the rupee strengthens the losses that we need to take every quarter they will reduce.

Deepak Radhakrishnan Is it possible to quantify the number because it is 154 million this quarter?

Arvind Thakur 154 million this quarter, so depending upon where the rupee would be next quarter, if it is less than 48.10 where I think the average rate this quarter was 48.25, so if it is going to be less than 48.25 going forward the hedging losses will be less. Assuming for example, we take an average rate of 46.50 for Q3, then the hedge loss would be instead of 154 million would be anywhere between 130 million to 140 million.

Deepak Radhakrishnan What was the dollar rate in Q1?

Arvind Thakur Q1 was 49.22

Deepak Radhakrishnan It is 154 million in Q1 also I guess.

Arvind Thakur 153 on Q1.

Deepak Radhakrishnan Yeah, slightly higher this quarter?

Arvind Thakur It is slightly higher this quarter. Why it is slightly higher, KTS?

KTS Anand More dollars have matured during this quarter.

Arvind Thakur More dollars have matured; contracts have matured in this quarter.

Deepak Radhakrishnan What is the position in the balance sheet? It was 856 million. Can you just give me that number?

KTS Anand Yeah, during this quarter we have closed at 880 million. 880 million net of DTA yeah. It has primarily increased because during the Finance Bill if you remember that this sunset period has been extended; therefore we have reversed the deferred tax assets against these hedging losses.

Deepak Radhakrishnan Regarding offshoring, it is 76% for this quarter, right?

Arvind Thakur No. 43%.

Deepak Radhakrishnan Offshoring?

Arvind Thakur 43%. The revenues from offshore are 43%. The headcount offshore is 76%.

Deepak Radhakrishnan Okay, okay. Thank you.

Moderator Thank you, Mr. Radhakrishnan. Our next question is from the line of Mr. Srinivas Seshadri from RBS. Please go ahead.

Srinivas Seshadri Yeah, thank you for taking my questions. Firstly, just wanted to understand for the current quarter, how do you break-up the revenue growth into pricing, volume as well as the currency effects?

Arvind Thakur Okay, volume growth is at 1.3% and currency impact is 2.4%.

Srinivas Seshadri And any pricing impact or is this including the pricing?

Arvind Thakur It includes everything.

Srinivas Seshadri Okay, did we have any negative pricing pressure during this quarter?

Arvind Thakur Yes, in fact, I think in the last call I had said we will have about 1.4%.

Srinivas Seshadri Okay. All right. So that was what had come through in this quarter?

Arvind Thakur Yes.

Srinivas Seshadri Okay. Secondly, just wanted to understand the standalone revenues and margins for ROOM, and what is the sense in terms of whether any improvement has taken place in the business environment for that segment?

Arvind Thakur In fact, if you look at ROOM revenues they are at 254 million as compared to 232 million in the last quarter. And margins are at 12%.

Srinivas Seshadri Okay. Is this revenue growth which we are seeing on a INR basis more function of the pound and appreciating versus the rupee or has there been any underlying growth in the?

Arvind Thakur I think it is an impact of both.

Srinivas Seshadri Okay. And what is the sense on I mean, revenues going forward in that segment, particularly with respect to new licenses?

Arvind Thakur I think we are a little more positive on ROOM now, because last quarter we saw some license sales, which is an indication that perhaps going forward there would be better traction.

Srinivas Seshadri Okay. But is there any expectation of a fairly good revenue growth happening immediately or is this more two to three quarters down the line?

Arvind Thakur I think you should see something happening pretty soon, yes. I think we are seeing a very positive environment as far as ROOM is concerned.

Srinivas Seshadri Okay. I mean any numbers to quantify that in terms of say the new license sales or something of that sort which would be more an indicator of the momentum picking up there?

Arvind Thakur Difficult to say at this point in time, Srinivas.

Srinivas Seshadri Okay, all right.

Arvind Thakur Positive is definitely there.

Srinivas Seshadri Okay, secondly on the GIS segment, just wanted to understand how much did we clock in terms of revenues and again what is the outlook over there?

Arvind Thakur GIS has been also very good. We saw revenues of 139 million as compared to 116 million in the last quarter. And as you know GIS is very sharply focused on the government sector, which is spending quite a bit. And as a company, as an organization also, we have brought in very sharp focus now on the government so in addition to our existing verticals we have organizationally created a government vertical. So I think we will see good traction in this business.

Srinivas Seshadri Right. And then just also wanted to understand I mean in terms of the whole headcount angle, one is you mentioned that you are still a little cautious in terms of the hiring, that seems to suggest that you are still not too sure about the near-term revenue growth prospects of the company, is that so or is it like more because I mean you want to be cautious and more conservative in terms of more macro economic factors impacting you potentially somewhere down the line?

Arvind Thakur I think we should increase the headcount to beyond 4,000.

Srinivas Seshadri Okay, within the next quarter, is it?

Arvind Thakur Yeah.

Srinivas Seshadri Okay. And are we planning any kind of incentives in terms of either say off-cycle increases in salary or promotion for some other measure apart from the ESOPs which you just highlighted on an overall basis for the company?

Arvind Thakur Yes, we have done two things; one is as you know we had a complete salary freeze. So now from 1st October, we would be giving compensation increases for all employees who are promoted and who had role changes. In a selective manner you will see those increases because promotion and other things have to be compensated first. The other as we just announced is that we have now given further grants in our ESOP scheme which would now cover a larger population that we extended to levels right up to project managers. The whole idea over here is we have brought in optimal efficiencies into the organization and now going forward this is the team which has to drive growth. So let us get them all aligned to creating value for all stakeholders and also participate in that. So over 500 such managers will now be covered under the ESOP scheme.

Srinivas Seshadri Okay and I mean what is the potential issue of options for this whole exercise?

Arvind Thakur This is approximately 24 lakh option, which is a little over 4% of the equity-based.

Srinivas Seshadri Okay, and are these going to be issued in one chunk or is this like spread over two, three years, how is that scheme work?

Arvind Thakur This would be spread over two years. 50% would be vested on completion of one year from the date of grant, and the balance at the end of two years.

- Srinivas Seshadri** Okay. And when you talked about promotion related hikes what is the financial impact of this thing, either monetarily in terms of absolute rupees or maybe a margin impact?
- Arvind Thakur** I think as far as margins are concerned these would be well absorbed.
- Srinivas Seshadri** Okay. All right. I will come back with further questions some time down the line. Thanks.
- Arvind Thakur** Okay.
- Moderator** Thank you, Mr. Seshadri. Our next question is from the line of an individual investor, Mr. Ganesh Shetty, please go ahead.
- Ganesh Shetty** I just want to have one question, recently you have added government vertical as a focus area, as government sector is more focused on large project, are we in a position to bid for those big projects, are we considering any JV for making us competent for such big projects, can you please give us some explanation, sir?
- Arvind Thakur** We are well-equipped to address large projects. And in fact, we have also shared in the past some of the very large projects that we have executed for the government, example, for the Central Reserve Police Force, we have implemented all this operating applications, networking, got the complete system integration across 50-odd locations, these are very, very big government projects which we have executed. We are very sharply focused in the government on few segments: Defence, paramilitary, internal security. These are dominant focus areas. Of course we have the GIS technology which is used extensively in the government. There again we are building specialist capability around power, utilities, urban, municipal corporation and so on and so forth. So I think in a very selective manner where we have existing strengths, strong relationships, we see a lot of traction and we are participating in all the large bids and tenders which are coming out in these areas.
- Ganesh Shetty** So what is the revenue percentage for this quarter, sir, as far as government is concerned?
- Arvind Thakur** I think now it is becoming quite substantial, almost 5% of our revenues are now coming from the government segment.
- Ganesh Shetty** What is the percentage revenues from nonlinear business, sir, as last year it was around 25% I think, this year has it increased? And some managed services business has looked up during this quarter; can you please throw some light on this, sir?
- Arvind Thakur** Yes, it has improved, it is now 26%, the 26% of revenues in the quarter coming from this nonlinear businesses. 13% from managed services and 13% from our other assets and platform.

Ganesh Shetty Sir, please throw some light on airline industry as it was going through very tough phase, as we are having lot of revenues from this sector, can you please explain us environment over there and the business going forward, sir?

Arvind Thakur As I mentioned earlier we have grown well sequentially in this segment. And in fact, our revenue shares also have improved. Now 30% of our revenues are coming from the travel space. The airline industry has, you are absolutely right; it is extremely challenged at this point in time. And the good thing is that almost every organization is looking at dramatically improving its cost structure. And when that is the situation then company such as ourselves who specialize in airline solutions, who have a strong offshore capability, can provide that value. And that is what you are seeing, getting translated into a business as well as you would notice that our offshore revenues are also increasing, that is happening because more and more of our work is getting executed from offshore.

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

Moderator Thank you very much, Mr. Shetty. Our next question is from the line of Mr. Srivatsa Venkat from UTI Mutual Funds, please go ahead.

Srivatsa Venkat Yeah, sir, with your top ten clients, like is there any chance of consolidation within the top ten where you could potentially lose out some business, if you could just highlight or what is the state of affairs in your top five, top ten clients which form a large percentage of your revenue, sir?

Arvind Thakur Yes, I think consolidation is an issue, which is prevalent in the environment. What we are seeing is that in the industry segment where we are strong, travel, insurance, we have been able to secure and consolidate our position in those segments, but I think competition is fierce, and there is always a possibility in some segments, for example, retail, where we are not as strong, where there could be business which is. In fact, there is some business which is ramping down in the retail space.

Srivatsa Venkat And sir, what is the status of affairs NIIT Adecco JV, sir, in terms of progress, have you made any progress there or if you can just update us on this thing?

Arvind Thakur No, the JV is currently, as I had mentioned earlier right now in the backburner, if you follow the Adecco result and you will get to know the reason why. It is the downturn, the staffing business has been impacted significantly and Adecco has lost a lot of revenue shares in the marketplace, so there is a tremendous amount of restructuring that is happening in that organization and JV is not their focus. So we are also leaving it on the backburner at this point in time.

Srivatsa Venkat What is the share of revenue from the JV, sir?

Arvind Thakur Absolutely insignificant.

- Srivatsa Venkat** And sir, on the GIS business, we understand it is largely domestic no, sir, as far as the NIIT GIS is concerned?
- Arvind Thakur** Quite a bit is international. We do a lot of GIS business in the U.S., we do in Asia-Pac, so there is a lot of international business as well.
- Srivatsa Venkat** Okay, and sir, like regarding your dolling out ESOP to your employees will it be in the current market rates or are you doing at a certain discounted, sir?
- Arvind Thakur** No, it is at the current market rate.
- Srivatsa Venkat** Okay, you will be expensing out the option values over the period of next two years, I mean what will be the likely financial impact of this ESOP issue?
- Arvind Thakur** KTS?
- KTS Anand** Yeah, it is like that, that SEBI prescribe to evaluate it on the basis of intrinsic value. So since we are giving it at market price so there will not be any impact in March 31st 2010.
- Srivatsa Venkat** Okay, fine, thank you.
- Moderator** Thank you, Mr. Venkat. We have a follow-up question from the line of Mr. Srinivas Seshadri from RBS, please go ahead.
- Srinivas Seshadri** Yeah, thank you. Wanted to understand there was a sizable movement offshore in terms of revenues, what drove this? And secondly, what you see in terms of this going forward?
- Arvind Thakur** Yeah, Srinivas, you know, if you notice about two quarters ago, we had huge intake, so when the downturn started, our first aim was to secure business from our existing clients, and we were able to do that over a long-term engagement, and the essential value proposition was to do more for less. So we have been able to secure our long-term contract by giving them better value through offshoring. And I think that is the reason why we have been seeing initially revenue decline because obviously offshore revenues come at a lower price than onsite, but now, I think that position has stabilized. So if you look at the last couple of quarters every quarter, our offshore revenue has been increasing by about 2% points.
- Srinivas Seshadri** Right. Okay. So what you are saying is going forward when this mix is more or less what it looks like there is no sizable shift which could happen immediately?
- Arvind Thakur** Yes.
- Srinivas Seshadri** Okay. Secondly, wanted to get the number on SG&A costs for this quarter.
- Arvind Thakur** SG&A is 22%, but there are few extraordinary items over here. The most significant is a loss on sale of assets because of consolidation of premises. So we consolidated our premises in

Kolkata, we consolidated our premises in Delhi, and so there is loss of sale of those assets over there.

Srinivas Seshadri What is the quantum of these losses?

Arvind Thakur This is about 12 million.

Srinivas Seshadri Okay. Then also wanted to understand your depreciation has been actually going down recently, quarter-on-quarter, at least for the last three quarters or so, so just you obviously also investing in or some new campus facilities, so just wanted to understand one is when is this thing going to be capitalized and what do you see in terms of depreciation picking up or probably even going down further from this level in the near-term?

KTS Anand Srinivas, you are right that depreciation has been within the band of 4, 4.5%, it is less than 4% because all the old assets are retiring, and new assets are coming up which are slow in terms of because there is lesser manpower being recruited. As far as big ticket is concerned, SEZ is a big ticket which we will be completing by the end of this fiscal year, by March 2010. And we will consolidate all our new businesses which are coming up. So it is only in the next year there will be some change when we are going to capitalize these assets.

Srinivas Seshadri So will the bulk of the CWIP which is there on the balance sheet and move to the fixed asset block and that type?

KTS Anand That is very right. Most of it is building; we will have a lower rate of depreciation in any case.

Srinivas seshadri Okay, so we do not foresee a very big jump in depreciation, I mean, starting FY11?

KTS Anand That is very right.

Srinivas Seshadri Okay. Secondly, just wanted to get your perspective both on the CAPEX again I mean in terms of guidance for this year and possibly next year?

KTS Anand We have done till now around 20 crores, 200 million and we expect to be around 400 million in next two quarters for that matter.

Srinivas Seshadri Okay, and the year after that any guidance in terms of what you are spending on the Campus?

KTS Anand We have not gone into those details at the moment, definitely, in the last quarter we will work out our final budgets and maybe we will talk to you on that.

Srinivas Seshadri Sure, and also the outlook on the tax rates for this year and maybe next year?

KTS Anand Tax rate, at the moment is in the range of 16% of PBT, I assume it will remain more or less in the same band 16% to 18% kind of a thing during this year, next year should remain the same the way things are, because sunset period has been extended.

Srinivas Seshadri Okay and we do not have any facilities moving out of...

KTS Anand Not really much. We are very much in the tax holidays in next one year as well.

Srinivas Seshadri Okay, and can I get also the split of the other income into interest, expenses, income and FX, any amounts in terms of translation over there?

KTS Anand Yeah, sure. We have income from mutual fund and all that around 3 million, difference in exchange is (-2) million and net interest income is around 6 million and non-operatings are around 8 million.

Srinivas Seshadri Non-operating that is income, is it?

KTS Anand That is right.

Srinivas Seshadri Okay, and net interest income if you can also give me a split in terms of the expense

KTS Anand It is around 8 million, expense is around 2 million.

Srinivas Seshadri 2 million expenses?

KTS Anand That is right.

Srinivas Seshadri Okay, and what is the amount of FOREX loss, the notional amount which is sitting under the current liabilities?

KTS Anand M-to-M to the current liabilities?

Srinivas Seshadri Yeah, that is right.

KTS Anand It is in the range of 987 million.

Srinivas Seshadri Okay, and also your corporate manpower for the end of this quarter?

KTS Anand I really do not have that figure readily with me.

Srinivas Seshadri Okay, all right, thank you. That is all from my side.

Moderator Thank you, Mr. Seshadri. There are no further questions from the participants at this time Mr. Thakur. Would you like to add a few closing comments?

Arvind Thakur Yeah, thank you. Thank you, everybody for joining us on this call. I understand it is the holiday in some locations. I really appreciate you taking the time off on your holiday to participate in this discussion. As always these discussions would help us in understanding what



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you need and help us in defining the way we should be conducting our business going forward.
Thank you very much once again.

Moderator

Thank you, Mr. Thakur. Thank you, gentlemen of the management. On behalf of NIIT Technologies Limited., that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.