



“NIIT Technologies Earnings Conference Call”

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Moderator

Ladies and gentlemen, good evening and welcome to the NIIT Technologies results of the Quarter ending 31st December, 2009. As a reminder 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. Should you need any assistance during the conference you may signal an operator by pressing * and 0 on your touchtone telephone. I would now like to hand the conference over to Mr. Arvind Thakur. Thank you and over to you Mr. Thakur.

Arvind Thakur

Thank you very much. Good evening everybody. First of all let me wish you all a very Happy New Year. Along with me I have Mr. Pawar our Chairman, KTS Anand who is a CFO and Vikas who heads our Investor Relations.

At the onset I would just like to comment on the environment we are all aware and are also experiencing the economic indices have improved globally. I think as we discussed in this quarter the situation is dramatically different from what it was during the same period last year which was the beginning of the financial meltdown, however there is still a debate on whether the improved economic activity can be sustained with the withdrawal of the stimulus which has really been responsible for not allowing the recession to be deep and long as was anticipated.

For our industry, which is really the IT industry, however, the general sense is that the worst is behind us. Even if there is no growth in IT budgets in North America as some analysts are anticipating, I believe this will only benefit the industry as the offshoring components would increase with Corporations seeking more for less as they come out of this challenging environment. I believe emerging markets are leading the recovery and it is expected that there would be considerable traction for IT services in these markets. US appears to have stabilized. Europe normally lags the US in recovery and though the economies of Germany and France have shown resilience, I believe UK will take a little longer. So in this background I would like to share with you and discuss the results of the third quarter of this financial year which ended in December 2009. Revenues improved 2% quarter on quarter to Rs. 2,301 million in the quarter. This includes a revenue loss of Rs. 128 million on account of crystallization of effective hedges during the quarter. We saw revenues in the Asia Pacific region improve dramatically during the quarter contributing to 15% of overall revenues. North America contributed to 34% while, Europe and Middle East were 42%.

If we look at our industry segment we saw sharp growth in revenues in the travel and transport sector which now contributes to 34% of our revenues. BFSI, which saw a sharp recovery in the last quarter maintained modest growth and contributed to 44% of revenues on the quarter. Retail & distribution however declined due to ramp down and closure of an account and now contributes to 9% of revenues. Our top five clients continue to contribute 33% of business. Some of our clients scale significantly on the bulk of the new initiative resulting in our top 10 clients contributing to 50% of revenues. Offshore revenues remained at same levels as last quarter contributing to 43% of the overall revenues. We saw further improvements in margins in this quarter sequentially as well as year on year, improved utilization, increased revenues

from non-linear services and better realization from our fixed bid engagement resulted in this improvement.

Operating profits improved 11% quarter on quarter to Rs. 507 million which was a year on year improvement of 14%. Operating margins now stand at 22% which is 178 basis points improvement quarter on quarter and a 408 basis points improvement year on year. If I exclude the impact of hedging losses our operating margins stand at 26%. Net profits also improved sequentially by 10% to Rs. 353 million. A year on year net profit improvement has been more dramatic, more than doubling as compared to the same period last year at 111%. There was a loss of Rs. 101 million in other income in the same quarter last year due to the adverse movement of the pound in that period whereas loss in other income in this quarter has been only 15 million. That has contributed to the bottom line improving significantly year on year in this quarter. Our current exposure on effective contracts with respect to hedges is US. \$119 million at an average rate of 42.52 to a dollar apart from non-effective hedges of US. \$4.5 million.

Looking at new business we had fresh orders booked of US \$57 million leading to an executable order book of US. \$106 million over the next 12 months. Four new customers were added during the quarter, two in the travel space, one in BFSI and one in manufacturing. 197 people were the net additions in the quarter taking the total headcount to 4114 on 31st December, 2009. 26% of direct resources are engaged in onsite activities and 74% are engaged in offshore activities. Attrition during the quarter was 14.4%. Our cash position improved during the quarter, cash and bank balance at the end of quarter stand at Rs. 1663 million. Our bills receivable at the end of the quarter were at 76 days of sales outstanding. We spent Rs. 88 million on capital expenditure. This is inclusive of 45 million which was spent on the campus as capital work in progress and there has been significant reduction in the hedge reserve losses to the tune of Rs. 307 million on the balance sheet. Since the beginning of the downturn our focus has been on the bottom line. It was clear that the business environment would be tough and revenues would get impacted. Throughout the period of this downturn we have been focusing on improving operating efficiencies and I think as now the organization has turned onto a sequential growth trajectory we would see a far more efficient engine for growth going forward. With these remarks I would like to now open the line for any questions that I could respond to. Thank you.

Moderator

Thank you very much. We will now begin with the question & answer session. At this time if you would like to ask a question you may press * and 1 on your touchtone telephone. Please use only handsets while asking a question. The first question comes from the line of Manik Taneja from Emkay Global, please go ahead.

Manik Taneja

Hi sir congratulations on good numbers. First of all just wanted to understand what was the contribution from ROOM both in terms of revenues as well as in EBITDA, if you could also throw some light on how you are seeing the business environment for rooms offering in particular and just wanted a sense from you in terms of what are you seeing on the insurance side and the travel and transportation side in Europe?

Arvind Thakur Okay, so the ROOM revenues in this quarter have been Rs. 283 million which actually is a quarter on quarter growth of 11% and if you have the numbers of the last quarter which was Rs. 254 million you will notice that there has been steady sequential growth in ROOM. So we have seen recovery in the insurance space, in the markets that are being addressed by ROOM and consequently we have also seen improvement in margins. So standalone margin for ROOM now stand at 14%.

Manik Taneja Okay, and just wanted to understand what are you seeing in Europe.

Arvind Thakur Now, Europe as I had mentioned earlier is an economy which lags as in US in terms of its characteristics and the lag is a little more in the UK as compared to the continent. So I think if you look at the economies of Germany, France they are much more robust than what we see in the UK. So to my mind I think what we will probably be seeing going forward is more traction in markets like the US as compared to Europe for the next one or two quarters.

Manik Taneja Basically where I was coming to was a couple of your larger peers have talked about greater thrust towards offshoring and greater decision-making on shifting work to main tech players in Europe and given that you are focused on Europe that is why I wanted to get a sense of what you are witnessing on the ground.

Arvind Thakur No, that is a reality, in fact that is both in Europe as well as in US and in fact one of the value propositions that we had offered to our customers was more for less, so, some of our large clients for example companies like British Airways they actually consolidated their business with us by pushing more work offshore. So that is definitely a trend which we see and which we will continue to see going forward because cost will remain an important criteria with these corporations.

Manik Taneja Secondly, I also wanted to check up with regards to the sales and marketing investments that you have been making if I am just looking at how your sales and SG&A cost have moved over the last few quarters we will pretty much be cutting corners over there. Can we get a sense on what kind of SG&A cost do we look at say over the next four to six quarters.

Arvind Thakur In fact if we look at SG&A what has been, what we have been cutting in G&A and not S&M. S&M actually has increased over the last couple of quarters whereas G&A has reduced. So that is been the trend and going forward we will be investing more on sales and marketing and in fact one of the important growth strategies into the next year is the significant investments in the front end which is going forward.

Manik Taneja Sure sir. Thank you. That would be it from my end.

Moderator: Thank you Mr. Taneja. The next question comes from the line of Vihang Naik from Motilal Oswal Securities, please go ahead.

Vihang Naik Could you just breakup your growth in terms of volume, pricing and currency first of all?

Arvind Thakur I guess our growth in volume is 2.1% and the impact of currency is negative -0.4%.

Vihang Naik Okay, and we do not have any negative impact on account of pricing in this quarter.

Arvind Thakur No.

Vihang Naik It has been largely flat.

Arvind Thakur Yes.

Vihang Naik We have added around 197 in our employees' headcount. But can we now since you know we are returning into a growth trajectory now have guidance on terms of hiring for the next year?

Arvind Thakur I think now we will be hiring, we have had one, two, three quarters where we have been reducing our headcount, sorry more than that, six quarters where we have been reducing our headcounts so I think now you have turned round the corner and going forward you can see us adding more people.

Vihang Naik Okay, but in terms of a target for additions would you be able to have any target right now?

Arvind Thakur Would be around the same number.

Vihang Naik Okay quarterly.

Arvind Thakur Quarterly.

Vihang Naik And thirdly on the tax rate front we have a slightly lower tax rate on this quarter from 12% odd versus around 16% last quarter. What was the reason for this and would we be having the same for the next quarter as well?

KTS Anand Yeah, tax for the quarter has been lower primarily on account of more income in India which is STPIs and for the next quarter we see the tax to be remained within the range of 14% to 15%.

Vihang Naik Okay and as far as our FY11 tax rates are concerned?

KTS Anand We should be in the same range since STPI is going to be there for another year, we expect the tax rate to be in the range of 14% to 15%.

Vihang Naik Right, what about the OCI losses that you have in your balance sheet?

KTS Anand As the reserve losses in the range of 572 which has reduced from 879 million.

- Vihang Naik** Okay, in terms of margins we have had a decent margin improvement in this quarter predominantly lead by utilization improvement, what are the levers that you see going forward and can such high levels of margins be expected to remain in the near future?
- Arvind Thakur** I think these margins are sustainable at least in the next quarter but may be the next year they may come under pressure as we look at the hiring pattern in the industry going forward.
- Vihang Naik** Right, so utilizations you would say have peaked out at around 84%.
- Arvind Thakur** Yes, in fact they are at the optimum level, in fact the same quarter last year we had a utilization of 85% but you know that's about it. Levers and margin are essentially, number one, as you know we have been focusing a lot on non-linear growth. This quarter in fact non-linear revenues are 27% of our overall revenues. You know they generate higher margins and as I mentioned earlier we expect more offshoring that generates higher margins. And also you know pricing pressure is now not the same as what it was, in fact we can expect more realization from our contracts as well.
- Vihang Naik** Okay, and you would expect the increase in realizations that you just spoke about in the newer contracts or for existing contracts as well?
- Arvind Thakur** No, we are talking about newer contracts.
- Vihang Naik** Okay. And that is expected to happen in you know say another couple of quarters or....
- Arvind Thakur** Yes, over the next year and even in our existing contract what we are seeing is that a fixed bid contract you are able to generate better realization. So as we increase the proportion of fixed bid in our mix we may be able to get better margins.
- Vihang Naik** Right, and lastly what was your SG&A expenses figure this quarter?
- Arvind Thakur** It is 20% if I am not mistaken but let me just check, 20% yeah that is right.
- Vihang Naik** Okay thanks. That is it from me. Thanks a lot.
- Arvind Thakur** Thank you.
- Moderator** Thank you Mr. Naik. The next question comes from the line of Dipen Shah from Kotak Securities, please go ahead.
- Dipen Shah** I had a couple of questions. First of all I understand non-linear revenues have grown from about 25% last quarter to 27% in this quarter. You can correct me if I am wrong and also could you just throw some more light on the non-linear light? Which segments within these non-linear revenues are growing and how do you see them panning over the next one year or so?

- Arvind Thakur** Okay, so 25% was last year Dipen. Last I think so it was 26%. This quarter it is 27% and as you know our non-linear revenues are derived from essentially two kinds of businesses currently. So one is revenues around our IP assets you know which is the intellectual property that we have and those are essentially in the travel and the insurance industries and the second is around our managed services business, is the infrastructure management business where we do some works in this and insurance industries but it is predominantly in the manufacturing industry. So these are the areas of focus for our non-linear business lines. With this we are adding a third which is that cloud services which will gain traction only in the next year and we have as you may be aware just recently partnered with Hitachi Information Systems where we will be using their infrastructure and be managing you know their infrastructure to operate the cloud and offer those services. So that is of course completely non-linear because you know there we are talking about offering services on demand. So these would be the business lines around which we offer our non-linear services.
- Dipen Shah** And which one of these would be the ones which are showing growth and if you could just also let me know if possible the license revenue during the quarter?
- Arvind Thakur** We do not separately disclose license revenues. What we do is talk about the revenues which gets generated as a result of implementing those licenses which are converting in revenues.
- Dipen Shah** And which one of these are doing well with these services as in managed services or IP assets?
- Arvind Thakur** Actually both but in the last quarter it was IP assets because we saw a spurt in revenues from the IP around ROOM so that is what actually grew definitely in the last quarter. So both, I think IP assets, managed services are contributing to growth and we expect cloud services start contributing from next year but the real growth I think will come year after next.
- Dipen Shah** And is it possible to tell us how many employees are employed in these non-linear services? Is it possible to break it up?
- Arvind Thakur** Not immediately but we will just take that as data point to share with you.
- Dipen Shah** The other thing was you spoke about a scale down in the client in the retail manufacture and I understand that has completely closed down the revenues from that so what was the growth rate without considering this client, so may we like to like growth rate from continuing the accounts.
- Arvind Thakur** Okay, we might just take as a data point as well but I think the important thing is now that is fully factored into our sequential growth so that would not be a factor going forward.
- Dipen Shah** Yeah I understand that but I mean we just wanted to know that how much was the sequential growth without considering this ramp down so obviously it would have been higher than the growth rate which has been reported.

- KTS Anand** Yeah if you see the volume I think we can find that number.
- Dipen Shah** Okay no issues and the last thing is in terms of the gross block addition how is the schedule of capitalization which you expect because the depreciation charge has been lower can we expect a spike in the depreciation in the next couple of quarters?
- Arvind Thakur** I do not think so but KTS will answer that
- KTS Anand** as far as CAPEX is concerned we are expecting around 6 crores in the assets and in around 9 crores in SEZ, 15 crores would be the CAPEX in the next quarter and depreciation charge would not significantly increase at all.
- Dipen Shah** Sure enough and that's about it. Thank you very much.
- Arvind Thakur** Alright. Thank you/
- Moderator** Thank you Mr. Shah. The next question is from the line of Ganesh Shetty who is an individual investor, please go ahead.
- Ganesh Shetty** Yeah, my first question is regarding our currency hedging strategy. We had a very tough year not only because of very difficult macroeconomic condition but also due to currency hedging so going forward as our currency hedging position will last for only one more year how are we going to plan a strategy for currency hedging sir? I mean are we going to hedge a relatively smaller amount of position here on your, can you please throw some light on this sir?
- Arvind Thakur** Yes, I think you are right Ganesh. Our hedging strategy would be for lesser duration period going forward, although at this point in time since we are already hedged we are not looking at any considerations around that. The good news is that we have been able to sustain high margins in spite of the fact that we have these huge hedging losses that we account for every quarter and with the rupee appreciating the losses are only going to decline going forward. So I think it is going to help us in the coming quarters from our current position.
- Ganesh Shetty** Sir, my second question is regarding our India Business Strategy sir as large multinational as well as big IT companies are trying to get a slice of India business what special efforts we are taking to grab this opportunity like spending more on India marketing and sales expenses or tapping SME sector which will drive growth in domestic market in future. Can you please throw some light on this sir?
- Arvind Thakur** Yes, India is a very-very strong focus for us as a company and in fact we have some large engagements that we are executing in the domestic market as you know NIIT has a very strong brand presence in the country and we are also leveraging on that grand presence. India, we are looking at it from two segments, one is the corporate segment and the other is a government because both need a different treatment with respect to engaging and engagements. Government business is you know a tender based business where you need to put together the

right solution and be the lowest provider. The corporate business is not as much a tender business as much as a value business. So we have reorganized ourselves to focus on these two segments and our current focus is to basically address large corporate and large government opportunities, so the big opportunities in government you know include things like APDRP, you know the huge investments that are going to take place in the power sector. We are going to have an important play in that space or you know investments in defense, investments in security, and paramilitary forces around technology. In the corporate side we are focused on the industry segment that we focus on globally which is BFSI, travel & manufacturing and I think we have good traction in that space as well. The SME would be an area that would be of interest and we would address once we have our clouds offerings in place because that would be the right solution to take to the SME market so at the moment we do not have that focus but once our cloud services start maturing we will start looking at the SME market.

Ganesh Shetty

Thank you very much sir. That is all from me. Best of luck.

Moderator

Thank you Mr. Shetty. The next question comes from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah

Hi. I just wanted to know when would you start showing the growth number in terms of year-on-year we have seen a sequential improvement wanted to get a sense on how next 12 months for you would like starting from say April quarter?

Arvind Thakur

Okay. If you look at our year-on-year numbers, you will notice that the year-on-year decline is reducing with every quarter and as I explained the decline in revenues started in the third quarter of last year, so from October onwards was then the decline started and it went into the first quarter of this year, but it is from the last second quarter of this year that we have turned and so therefore what we are now looking at is sequentially we are able to keep the pace going forward. So, you are coming now of a smaller base, next quarter we hope to show year-on-year revenue growth and thereafter as well.

Grishma Shah

What other thing that I wanted to know you mentioned that you would focus on the government business, which is APDRP. Have you started bidding forward or it is just an area that you identify sir?

Arvind Thakur

No, no we are actively bidding, but we are bidding in the area of our specialization and our area of specialization is Geographical Information System and each one of those tenders have significant component of GIS and we are empanelled as GIS solution provider in those tenders, so that is the area play for us in that game.

Grishma Shah

And what could be the size that you are looking at orders?

Arvind Thakur

Well, those are commercial details which we cannot obviously discuss openly like this but they are obviously multi-crore engagement.

- Grishma Shah** And the other thing that I wanted to know is your order book is around 106 million dollars as when I look at it would be just sufficing at current run rate two quarters, so is it that every quarter you will keep on adding more orders or is it part of the business that is getting reflected in the order book.
- Arvind Thakur** No, the order book is much more. What we talk about is how much of that order book is executable over the next 12 months and that is 106 million.
- Grishma Shah** Okay, thanks.
- Moderator** Thank you Ms. Shah. The next question comes from the line of Srinivas Shishadri from RBS. Please go ahead.
- Srinivas Shishadri** To start with I just wanted to understand what was the realized exchange rate in dollar terms for this current quarter?
- Arvind Thakur** Let me see if we can get and give you that, but I think I mentioned that we had a loss of 0.4%. Currency loss is 0.4%...
- KTS Anand** Average realized rate for the dollar was 47.10.
- Srinivas Shishadri** Okay. Secondly, I wanted to understand what has happened in the GIS business in this quarter in terms of revenues and what is the outlook for that particular segment apart from the APDRP, I mean more of a regular business outlook.
- Arvind Thakur** GIS business revenues are 131 million in this quarter.
- Srinivas Shishadri** Okay. This seems to be a marginal sequential dip over the last quarter, I believe last quarter number was 139 or so.
- Arvind Thakur** 139, yes.
- Srinivas Shishadri** Yes, so I just wanted to understand this reflection of seasonality or what it something else as I believe usually second half is when you booked more of the revenues in this particular.
- Arvind Thakur** No, there is complete seasonality. You will typically find Q1 to be the lowest, Q2 to be better than Q1, Q3 is typically less than Q2, and the biggest quarter is Q4.
- Srinivas Shishadri** So in terms of Q4, what has been typically seen in the past in terms of how much of the revenues on an annual basis usually gets booked in Q4, I mean some rough some sense on that.
- Arvind Thakur** Okay and I will compute that for you.
- Srinivas Shishadri** Yes, perhaps I can.

Arvind Thakur Just to tell you that Q4 is typically the biggest quarter for GIS for this year.

Srinivas Shishadri Okay, may be I will take that data points specifically offline. Thirdly, in terms of the other income which has been negative 15 million which is what was reported, can I have a breakup of the interest and the basically other income on the instruments which you have in terms of mutual funds etc and interest expense and then the translation losses which have been booked; all these three components separately?

KTS Anand Yes, Sriniji the translation what we call it difference in exchange, there was a loss of around 27 million and mutual fund income is around a million rupees and the net interest income is around 3 million and there are other miscellaneous around 8 million.

Srinivas Shishadri Other miscellaneous income is it?

KTS Anand Yes.

Srinivas Shishadri And what was the interest expense within this net interest income?

KTS Anand It was 1.6 million.

Srinivas Shishadri Okay and secondly, your client Matrix had been a bit volatile in this quarter like for example, the top ten has shown of fairly good growth while the non top ten seemed to have declined a bit in this quarter. So, I just wanted to understand why did numbers look like this? Is this pertaining largely to that account ramp down which you spoke about earlier or is there something more to it in terms of buying when trying to kind of move out of certain non-profitable contracts etc.?

Arvind Thakur No, in fact our top twenty also grown.

Srinivas Shishadri Okay. Outside the top twenty at least there seems to be a dip in terms of revenues?

Arvind Thakur Outside top 20 because they will be very small. So, they still have to scale. I think some of those ones have scaled pretty significantly. This is the reason why are seeing the top ten and top twenty becoming a larger proportion.

Srinivas Shishadri Okay, but there is no kind of what you call churn management or something which you are doing with the clients.

Arvind Thakur No, there is one client obviously scaled down, other than that, no.

Srinivas Shishadri And the other thing in terms of the hiring pattern, you mentioned that you hired around 200 and you are looking to do so a similar number next quarter also. Is this hiring more like the GIT kind of hiring or are you recruiting among the significant number of freshers who will go through certain training cycle?

Arvind Thakur It is a mix of both. We have started hiring freshers as well.

Srinivas Shishadri So, in this quarter what was the breakup in terms of roughly in terms of freshers and laterals?

Arvind Thakur To my mind, the freshers will come in the next quarter.

Srinivas Shishadri Okay, so this quarter was primarily laterals only.

Arvind Thakur Yes.

Srinivas Shishadri Okay, next quarter I mean is there 200 or so over primarily fresher hiring for you?

Arvind Thakur Probably, half of that may be.

Srinivas Shishadri So, basically I mean just to extrapolate, I mean in terms of revenue visibility for the near term, basically should that track kind of your lateral recruitment at the stage in terms of what you are doing versus what you can see in terms of revenue growth which is fairly visible at this stage.

Arvind Thakur I did not understand your question.

Srinivas Shishadri What I meant was, should the revenue visibility which you have for the next quarter and may be the quarter after that, is that probably in line with whatever lateral hiring you are doing at the current stage or is it like you are trying to probably build a bench at this stage for more of future kind of growth opportunities?

Arvind Thakur No, no, I do not think we are building a bench. We are continuing with policy where we look at our pipeline and then look at what kind of people which we got into place.

Srinivas Shishadri So, your headcount addition should largely track whatever revenue growth which you see at this stage.

Arvind Thakur It should.

Srinivas Shishadri And the other thing is Infosys recently announced hardly a big wage hike for its employees. So, what is your take on that in terms of basically creating some pressure around the industry in terms of trying to give more compensation to the employees? So, when do you think that you will be giving out anything of generalized or across the board wage hike, will it happen next quarter or may be first quarter of next year? And what is the sense you have at this stage?

Arvind Thakur It will be in next year.

Srinivas Shishadri Okay and will that be also like in a similar range of about 8 to 10 % which you see at this stage?

- Arvind Thakur** Actually right now, we are just evaluating the industry data. Obviously, whatever I actually give would have to be in line with what the industries doing.
- Srinivas Shishadri** Okay and on the Hitachi JV, what is your sense in terms of what can happen may be over the next three to four quarters, I mean in terms of are there any kind of very low hanging fruits from the JV which you see per-se in terms of Hitachi's current engagements or current plans actually moving to this kind of model immediately after the JV is operationalized or is this primarily a kind of new model which will take the new plans basically?
- Arvind Thakur** So, first of all it is not a JV. It is not JV. It is a partnership. So, we have an MOU and an agreement in place where we are providing these services out of our data center in Thailand and the services out of data centre in Thailand would be exclusive for this partnership and the idea is to address the Hitachi's customer as well as secure new clients. So, obviously the first target base would be to talk to your existing client base and get them out of this new model. So, I think the response that we get from the customer base will determine how quickly scale up the business.
- Srinivas Shishadri** And when do you see the first revenues flowing in? I am not asking for guidance in terms of the quantum, but when do you think will be probably looking to sign on the first deal from this relationship?
- Arvind Thakur** We are going to be launching these services in the first quarter of next year. Right now, we are in the phase in which we are setting up the infrastructure to create that. At the moment, our plan is to launch these services in April and then I think immediately after that, we should start getting in some revenues.
- Srinivas Shishadri** Okay and does this address primarily the Japanese market in terms of Hitachi's own client base or is this I mean more of a global kind of looking it other developed markets and Asia also?
- Arvind Thakur** Well, currently it addresses the Asian market. The whole idea is what we are trying to create is the hub-and-spoke kind of an arrangement since the whole subject is very new and everybody is putting together different models. They said they will start with the Asia market because the Asia market would be more receptive to this kind of a service and based on the success, we will then look at hubs in other parts of the world, but at the moment, they discuss the arrangement is for the Asia market.
- Srinivas Shishadri** Okay and lastly, just wanted your understanding on some of the things we have been reading in the media about British Airways wanting to do some kind of large contract award, so firstly, is whether to your understanding this news is correct and secondly, is this in any way affect your current relationship with BA?
- Arvind Thakur** This is pure speculation. Absolutely no comment we can give on such speculation.
- Srinivas Shishadri** Okay, that is all from my end. Thanks.

- Moderator** Thank you. The next question comes from the line of Madhu Babu from Systematix share and stock brokers. Please go ahead.
- Madhu Babu** Yes sir, what has driven the strong growth in the APAC region?
- Arvind Thakur** Basically, business in the travel and transport space.
- Madhu Babu** Okay, so these are Asian clients, I mean clients based out of APAC.
- Arvind Thakur** Scale up has been with Asian clients but the new business has come from Europe as well and there has also been the new business in the US.
- Madhu Babu** Okay and sir, BFSI you see the competitors have been doing very well considering that lot of projects flows are happening, so how do we see the BFSI spanning out for us over the next couple of quarters?
- Arvind Thakur** It is spanning out well for us as well particularly in the insurance space we have seen good traction and that is the place where we have the strength. so, I think it is going to work out well.
- Madhu Babu** Can we model it retail and manufacturing will continue to be weak for us or is it going to again regain traction considering that there will be 23% decline this quarter.
- Arvind Thakur** What we are doing in that segment is incubating our future growth engines, which are managed services and also we are going to targeting our cloud services to a lot of clients in that segment. So, what we are really looking at is our new business lines in that segment. So, till those really mature, you will continue to see that segment to be somewhat weaker.
- Madhu Babu** Okay sir, thanks.
- Moderator** Thank you. The next question comes from the line of Ritesh Rathod from UTI. Please go ahead.
- Ritesh Rathod** Hello sir. Can you just put more light on how deal pipeline is moved on from month-on-month like from December month to November month, can you just give more light on this?
- Arvind Thakur** I can only qualitatively talk about that and also not month-on-month, quarter -on-quarter. So, if you look at the order intake, you will see that steadily improved from quarter 1 which was at 43 million US dollars to quarter 2 which was 51 million dollars to quarter 3 now which is 57 million dollars. So, we are seeing obviously that is the result of the improved deal pipeline and the situation in the marketplace
- Ritesh Rathod** And has there many drastic improvement in last couple of months?

- Arvind Thakur** Last couple of months is 57 million, so that is 8 million more, but let me try to understand your question. In December-November, yes, December was a good month for us.
- Ritesh Rathod** And was this hiring all at the end of the last month of the quarter it was widely spread across during the quarter.
- Arvind Thakur** I think on the mid November onwards.
- Ritesh Rathod** In terms of IT budget, how do you see like in there closure and the next year growth rate in CY10 and IT budget specifically in your top 10 clients?
- Arvind Thakur** They are still finalizing the budgets, I do not think you are going to see increase in budgets and frankly that will work well for us. In fact even if there is a 5% decline it will work well for us because businesses have to run and you know if they want more value they will need to engage with us to deliver that value because of our offshoring capability. If only if the budget gets cut by more than 10% concerned because then programs will gets stopped like I think flat IT budget would be good for the industry and good for us.
- Ritesh Rathod** How about the BFSI specific vertical how they are seen in traction in last couple of months is that improving when it has to be compared to other vertical?
- Arvind Thakur** For us the travel is giving us the best traction followed by insurance. So, I think it is in good traction in these two segments.
- Ritesh Rathod** Even the deal pipeline you are using more traction in insurance?
- Arvind Thakur** Yes, yes we are in good traction in insurance.
- Ritesh Rathod** Compared to other verticals, right?
- Arvind Thakur** Compared to the others at least where we are engaged.
- Ritesh Rathod** Okay, thanks, that is all from my side.
- Arvind Thakur** Thank you.
- Moderator** Thank you. The next question comes from the line of Deepak Radhakrishnan from Unifi Capital. Please go ahead.
- Arvind Thakur** Yes, Deepak.
- Deepak Radhakrishnan** I do not know whether someone was asked this before, but if I want to understand the traction in the ROOM revenues and the margins?

- Arvind Thakur** I think that is being answered, but let me just take out the data again for you. Revenues are 283 million rupees and standalone margin is 14%.
- Deepak Radhakrishnan** Thanks a lot. I just wanted to check on this.
- Moderator** Thank you. The next question comes from the line of Shradha Agarwal from B&K Securities. Please go ahead.
- Shradha Agarwal** Hi sir, congrats on decent quarter. Sir, the question is here BSFI revenue contribution has been stable at 44% insurance has grown as above the companies average growth rate so there has been a ramp down in BFSI. Was that because if a particular client or some softness in the entire BFSI space you are witnessing?
- Arvind Thakur** I do not think there is a ramp down there is only a ramp up in insurance from what I understand. Insurance is at 28% and so I think the proportion is the same. BFS and insurance are the same. I do not think there is a ramp down in BFS.
- Shradha Agarwal** So you mean to say both BFS and insurance both has grown this quarter because if we talk about ROOM you said it has grown by 11% quarter on quarter, so I think insurance would have grown.
- Arvind Thakur** Yes, insurance would have grown slightly better than BFS.
- Shradha Agarwal** And BSF too have grown.
- Arvind Thakur** Yes.
- Shradha Ararwal** Okay and secondly your OCI loss is spread over how many quarters now?
- Arvind Thakur** 6 quarters.
- Shrada Agarwal** 6 quarters and thirdly, if you've still not decided on the general wage hike which will be given to your employees next year, so has there been any change in the variable compensation structure in this quarter versus say last two or three quarters?
- Arvind Thakur** We have been making little changes, but not across the board. So, I think basically what we are trying to do is do a survey and understand which direction is the industry moving to. We will take a call on what will be the wage hike for the next year.
- Shradha Agarwal** Sure, that is helpful. I am done. Thank you.
- Arvind Thakur** Okay Shradha, thanks bye.
- Moderator** Thank you Ms. Agarwal. The next question comes from the line of Sangam Iyer from Alfa Advisors. Please go ahead.

- Sangam Iyer** Sir, I had a couple of questions. One being the operating margin is 22% we have seen a 200 basis point improvement this quarter. Could you just actually help me in terms of what led to the 200 basis point expansion?
- Arvind Thakur** Well, if you look at the utilization that is improved from 81 to 84%. That is an important factor, then our nonlinear revenues which are revenues that are based on our IP assets that are improved from 26 to 27.
- Sangam Iyer** do you think this kind of level of 22% at the operating level would be sustainable if going forward as well?
- Arvind Thakur** You can see that for the next quarter, but for the next year will depend upon what kind of compensation changes are brought about.
- Sangam Iyer** Okay and on the OCI component, what is the current balance in the OCI losses?
- KTS Anand** It is 572 million which is reduced from 879 million in the last quarter.
- Sangam Iyer** Okay, thanks a lot.
- Moderator** Thank you Mr. Iyer. Participants who wish to ask the question, may press * and 1 on the handset. Ladies and gentleman, if you have any questions, you may press * and 1 now.
- Arvind Thakur** I think they are all done with the question, so let me just thank everybody who is being on the call and thank you for participating this call and wish you all the best. Thank you very much.
- Moderator** Thank you on behalf of NIIT. That concludes this conference. Thank you for joining us and you may now disconnect your lines.

Safe Harbor

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