



“NIIT Technologies Ltd Q1FY11 Results
Conference Call”

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MODERATORS:

**MR. RAJENDRA SINGH PAWAR – CHAIRMAN,
NIIT TECHNOLOGIES LIMITED**

**MR. ARVIND THAKUR – CEO, NIIT
TECHNOLOGIES LIMITED**

**MR. AMIT ROY – INTERIM CFO, NIIT
TECHNOLOGIES LIMITED**

**MR. VIKAS JADHAV – HEAD, INVESTOR
RELATIONS**

Moderator

Ladies and gentlemen, good afternoon and welcome to the NIIT Technologies Q1FY2011 Earnings Conference Call for the quarter ended 30th June 2010. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone 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-NIIT Technologies. Thank you. And over to you, sir.

Arvind Thakur

Thank you and good afternoon, everybody. And welcome to the earnings call for the first quarter results for the financial year 2010-11. I have with me Mr. Pawar, the Chairman. I like to introduce to you Amit Roy, who is the Interim CFO, having taken over from Mr. K.T.S. Anand who left us a few months ago, and Vikas Jadhav who is our Investor Relations Head.

Like to just talk a little bit about the environment before getting into the results for your company. I believe the Indian IT industry is back stronger after the slump with the outlook for IT spend shaping up reasonably well as a result of the considerable pent-up demand that has been built up due to a lot of expenditure having been deferred for the past 18 months. We are seeing software spending in the U.S. recovering faster than Europe. While there is some concern about the impact of the crises hit countries in southern Europe, the industry exposure to the region is negligible and our exposure is zero. Emerging markets of Asia, particularly, the domestic market is showing biggest promise of growth.

Just to focus a little bit on the industry segments where we do most of our business. We are seeing that banking industry appears to have recovered somewhat whereas insurance are somewhat more wary of generating more revenues over the coming year, primarily I believe on account of the cautious attitude which insurance organizations have inherently.

Financial services companies are concentrating on managing risks more effectively and improving their companies' reputation. Most banks plan to focus on penetrating their existing markets. In the next 12 months having gone through I would say vigorous periods of cost cutting over the last year. Insurers have escaped the finger of blame for the crisis and have suffered less than the (Inaudible) but companies are more cautious about the immediate outlook than the peers and other sectors. I have seen a report which has been published by PWC in May 2010 where only 28% of those who have surveyed believe that the industry has started recovering compared to 72% which was the overall average.

The other industry segment we focus on is the travels and transport segment. And here what we are seeing is that global traffic for the industry is back to its pre-recession levels for the air transport industry. The industry which had a loss of US\$10 billion in 2009 is now predicting a profit of US\$2.5 billion for 2010. Interestingly, APAC region or rather Asia as a region as a whole is powering the upturn which is actually now the single largest market with 1/3 of all

aviation, business expecting to happen from this market. North American carriers too will move to the black but the European region may remain in the red being hit by new challenges from the Iceland volcanic ash which significantly impacted their bottom-line and the uncertainty arising from the European debt crisis.

Manufacturing and distribution is the third segment we focus on which as you are aware, has been always living under intense margin pressure for years. Cost efficiency in this segment is a fact of life and they will continue to drive these efficiencies as they now start addressing the dynamic change in consumer behavior and start investing for the future.

For us, we have seen the government segment, particularly, the domestic government segment bring in significant business and we have sharpened and improved our focus on this segment.

So with this background, let me take you through the numbers for the first quarter. We saw revenues improved sharply by over 33% year-on-year and 22% quarter-on-quarter. On the back of a strong order book that we had created in the last quarter of last year to Rs. 2,914 million, our first quarter revenues is Rs. 2,914 million. We saw strong growth in the U.S. sequentially.

While business in Europe declined marginally mainly on account of weakening currency, there was volume growth in Europe but because the currency weakened as much as 7% over this period, that we saw the realization from this market come down. But the maximum growth in revenues came from the domestic market, particularly, as a result of the execution of our engagement with the Border Security Force which was the major contract that we had secured in the last quarter. This as I have shared with you before is a turnkey project called "Intranet Prahari" its execution has started in the quarter. It involves creating the infrastructure developing the software, rolling out the software, training the people and implementing these solutions across over 200 locations for the force. The engagement has been a game changer for the company by positioning it amongst the largest players in the industry to bid for such significant program. Such projects require creating infrastructure and that involves an element of bought-outs which have to be delivered as part of the engagement. For the purpose of revenue analysis I will exclude these bought-outs so that we can compare how have we performed in different regions and verticals.

So if I look at revenues excluding these bought-outs they would amount to Rs. 2,465 million representing a 3% sequential growth and a 13% growth Y-on-Y. And this is what we will use to compare the performance of different regions. The U.S. increased the share of revenues to 36% while the share in EMEA declined to 35%. APAC had a 13% share while India now in this quarter represents 16% of overall revenue.

This as I mentioned earlier, excludes the cost of bought-outs delivered to BSF in absolute term, if we were to include bought-outs, revenue from India would actually represent 29% of overall revenues in the quarter.

There has been all round growth in each vertical that we focus on. BFSI now represents 42% of revenues, travel and transport, 30% of revenues, and manufacturing and distribution contribute to 10% of revenues.

Since the government has begun to assume significant proportion of our business in this financial year we would now start also reporting revenue cuts from this segment. The government now represents 9% of overall revenues. Again, all these are revenues excluding BSF bought-out.

Looking at a client profile, our top five clients now contribute to 31% of revenues and top 10 clients to 49%. The slight reduction that you see in the share of revenues of our top five clients is on account of one of our large clients which is ING having restructured its business and sold off a business that we were servicing to another entity. We continue to service this one-off entity as before but obviously, those revenues no longer account for revenue from ING and that is the reason why you see a smaller share of revenues from top five accounts.

Offshore revenues are 42% of overall revenues. Focusing a bit on our margins, consolidated operating profits for the company stood at Rs. 541 million, which is an improvement of 37% year-on-year and a sequential growth of 2% quarter-on-quarter.

You will observe that in spite of a significant volume of bought-out as a result of our engagement with BSF operating margins have improved 51 basis points over the same period last year to 18.56%. Net profit more than doubled during this period, improving by 131% year-on-year to Rs. 408 million. This is essentially on account of course improved operating profit but also because the losses on account of currency have been less in this quarter as compared to the same quarter last year.

Net profits however have reduced sequentially by 1% as compared to the previous quarter. This is on account of increased taxes during the quarter. Higher taxes in the quarter are an account of higher domestic revenues and increased profit in our overseas subsidiaries. Tax as a percentage of PBT is 14.5%.

Our total outstanding hedges that are effective at the end of the quarter are US\$73 million and this is at an average rate of Rs. 43.21 to a \$1. We had \$40 million of fresh orders during the quarter which included addition of three new clients in the travel and transportation space and that takes the orders executable over the next 12 months from the order book to US\$149 million. We added 109 people during the quarter, taking the total headcount to 4,585 people. 24% of our direct work force is onsite while 76% is engaged in offshore activities.

Cash and cash equivalents increased to Rs. 2,179 million. We had an increase in bills receivables to 92 days, primarily on account of increased government businesses.

Total CapEx consumed during the quarter is Rs. 134 million. This is mainly for adding new capacity. We have 47 Crores balance land as CapEx for the year. 24 Crores of this would be

consumed in completing the campus which we plan to make operational in the fourth quarter of this year.

So with these remarks, I would like to open the discussion. So I would welcome any questions and clarifications that you would like on the results that I have just shared with you.

Moderator

Thank you. 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 touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. The first question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah

Two or three issues, first of all, can you throw some more light on the non-linear initiatives in terms of proportion of revenues and maybe some color on individual components out of that?

Arvind Thakur

Okay, happy to do that. As you know, our non-linear revenues really come from our managed services business and our IP asset-based business. For the first quarter this year, revenues from these businesses were 26% of total revenues. Does that answer your question?

Dipen Shah

Yeah, that is one part of it, maybe some more color on ROOM and how is that business panning out?

Arvind Thakur

I can give you some numbers on ROOMS. We did Rs. 250 million of business in ROOMS and in fact, we saw an improvement in its standalone margins as well. So that has been good. Now, one thing that I would like you to appreciate is that in Europe, both in the UK as well as in the continent, while we have seen growth in volumes, the numbers in rupees have been less because the realization has been less on account of depreciation of those currencies has been actually quite significant to the tune of 7%. So, ROOMS saw an improvement in volumes but because of the lower GBP, the realization has been lower.

Dipen Shah

Okay. A couple of other things. Some more color on the progress on the COSYS project as well as something more on the BSF further in terms of the profitability of the same?

Arvind Thakur

Okay. So, COSYS as you know is a very strong relationship, we have been securing business on the strength of the solution that we have created which we have been actually securing almost every quarter. This quarter also there was a client which is one of the new clients that we talked about for whom we have secured business for COSYS so, therefore the relationship is on a very, very healthy wicket .

Dipen Shah

Okay and something more on the profitability of the BSF order and a book-keeping question in the sense, can you just give us a breakup of the total cost, operational cost during the quarter that is OpEx?

Arvind Thakur

The operational cost that would be basically revenues minus...

Dipen Shah Yeah that is the overall OpEx of about 237 Crores.

Arvind Thakur That is right. Basically, the revenues minus the operating margin that would be the operating cost, right.

Dipen Shah No, no, the break up of that like how much of the salary cost, how much is SG&A, etc., etc.,?

Arvind Thakur Oh okay, I can probably give you the SG&A. SG&A is 19%, and the rest are all direct costs.

Dipen Shah Okay and how would this compare with the previous quarter?

Arvind Thakur Previous quarter it was almost the same, it was 19.2%.

Dipen Shah Okay. Fair enough. All the best. I will come back for more.

Moderator Thank you. The next question is from the line of Srinivas Sheshadri from RBS Equities. Please go ahead.

Srinivas Sheshadri Hi Arvind, congrats on a great set of results. I would just start with a few data points which I wanted from you may be I will just come back with more questions later. Firstly, just wanted to know the GIS revenues for the quarter.

Arvind Thakur GIS revenues are 173 million.

Srinivas Sheshadri Okay. So basically we have seen almost like a, if I take those numbers, it seems to be almost like 50% growth year-on-year so I just wanted to understand what is driving this kind of healthy growth and what is the outlook there?

Arvind Thakur You are talking about GIS?

Srinivas Sheshadri Yeah. GIS.

Arvind Thakur Okay, I do not know whether I had shared with you the government programs that we are working on. Of course, BSF is the one which has been grabbing the limelight but there are other programs also that we are working on and one of the most significant programs where we are involved in GIS is the APDRP Program, which is the program for the power sector. So these are huge tenders where every state is looking at using technology to improve the efficiency of the electricity boards. Large system indicators are engaged in this and we are registered as a GSP which is a GIS Solution Provider so good growth in GIS in this quarter has been a result of us engaging in some of these programs which are now gaining momentum. That is the real reason.

Srinivas Sheshadri Okay, I read the statement in the presentation that you are implementing one APDRP order, so just wanted to understand how is the pipeline there like are there other orders which you

already, you have some subcontracting relationship or generally, if you can give some sense on the pipeline.

Arvind Thakur

You know for these APDRP engagements, you have system integrators, which are the large players in the industry like TCS, HCL, Infosys, I believe even Accenture and some of the other people are bidding for the engagement. One element of the engagement is the GIS element. So we are partnering with these system integrators to provide the GIS element. So in the engagements where these system integrators win the business the GIS element gets implemented by us. So in that context we have secured business with one electricity board. There are many tenders which are in the process of opening and as and when we keep securing or let us say our system integrators keep securing business the downstream effect of that would be the GIS element will get executed by us, so there are a lot of such tenders in the pipeline which we can expect over this financial year.

Srinivas Sheshadri

Okay, so does that mean that we should be able to sustain a fairly decent volume growth year-on-year or throughout this year based on whatever pipeline visibility we have?

Arvind Thakur

I think I assume a sustained growth in GIS as a result of this.

Srinivas Sheshadri

Okay. The other thing is on the ROOM just wanted to understand what were the margins, you said there was improvement over the last quarter and related to that obviously, just wanted to understand given the fact that pound has been depreciating quite significantly, how the margins have been going up and what are the drivers for the margins?

Arvind Thakur

Well, as you know, ROOM business has an element of intellectual property. So if you increase your license sales or are able to secure business where you were able to implement licenses, it increases your revenues and therefore your margins. So that is really what contributes to margin improvement.

Srinivas Sheshadri

So despite the top-line being kind of flattish basically the share of IP revenues are going up as a that's the way to look at it

Arvind Thakur

Yes.

Srinivas Sheshadri

Okay. And the other thing is – I did not catch it -- what are the numbers in terms of the BSF pass-through revenues which you have booked and if you can give also some sense on the margins ex the BSF order that would be more helpful on understanding on a quarter-on-quarter basis what has really happened in the organic business?

Arvind Thakur

Let me just put it this way. If I exclude the bought-outs from BSF we will have a 3% sequential growth.

Srinivas Sheshadri

Okay, and similar picture in terms of how the margins would look like...

Arvind Thakur

Margins would be similar to what we delivered last quarter.

- Srinivas Sheshadri** Okay and the other thing is other couple of book-keeping questions, one is if you could just breakup the other income into FX and interest, income expense, other income etc.,
- Arvind Thakur** Can I ask Amit to give you these numbers? Amit, would you be able to give these numbers.
- Amit Roy Roy** The other income includes income from mutual funds is around 2 million and differences exchange is around 6 which is positive as against last Y-o-Y and which is negative 42 and other non-operating incomes are 6 million, so total is 14 million. And after that is interest income, net of interest expenses is around 12 million, the total is 26 million.
- Srinivas Sheshadri** Great. If you could also repeat the hedge position you have and how it is spread over this year and next year?
- Amit Roy** We started this quarter with 99 million of hedge forward cover, end of the quarter is 73 million, which will be written-off basically by end of the year leaving aside only 8 million would be for the Q1 and Q2 for the next year, rest will all go in this year. 27.5 and then 18.5, 17 million for the next three quarter, that is all, okay?
- Srinivas Sheshadri** Okay and all these are hedged at 43.2.
- Amit Roy** No, it will improve further, you know 43.21 and average is that. Current average is 43.21.
- Srinivas Sheshadri** Okay great, thanks, I will come back with more questions.
- Moderator** Thank you. The next question is from the line of Madhu Babu from Systematix Shares. Please go ahead.
- Madhu Babu** Sir, how much of this 228 Crore of the BSF order is going to flow in FY11? How much of revenues is going to flow in FY11?
- Arvind Thakur** FY11 is 35 million.
- Madhu Babu** Full year, sir. 228 Crore is BSF order.
- Arvind Thakur** Yeah that is about 50 million. 228 crore is about 50 million.
- Madhu Babu** For full year FY11?
- Arvind Thakur** No, for full year, US\$35 million will come in.
- Madhu Babu** US\$35 million, okay fine. Sir and the debtor days have gone to 92 days so would we still stick to the dividend payout ratio of 33% for this year?
- Arvind Thakur** I think we already declared.

Madhu Babu No for this year, FY11 next year.

Arvind Thakur For next year, well, that is for the board to decide but you would have seen our track record on dividends, they normally remain in the same range.

Madhu Babu Now that we are executing more of these government projects so the debtor days is going to go up 92 days to 100 days so will that free cash flow get impacted?

Arvind Thakur We do not anticipate that to impact dividend payout.

Madhu Babu Okay, okay sir and what is the outlook on Europe, could you throw some light on that?

Arvind Thakur Okay, so Europe as we are seeing improvements in our business in volume terms so there is no impact as far as volume is concerned, however, the concern is on the realization because of the volatility in the currency. For example, in the last quarter we had a 3% sequential growth in volume terms in Europe but we had a 7% currency loss in Europe. Net result was that our realization was 4% less as a whole. So as far as outlook is concerned I think we will continue to see volume growth but the volatility in currency is something that we need to manage.

Madhu Babu Sir, any other big ticket deals in the Indian Defense and government which are in the pipeline apart from this BSF and APDRP?

Arvind Thakur Yes, we have reasonable pipeline. Like I mentioned an area that we are focusing on and we can hope to get many more engagements in the government space going forward.

Madhu Babu Okay sir, thanks.

Moderator Thank you. The next question is from the line of Radhika Merwin from IFCI. Please go ahead.

Radhika Merwin Good afternoon sir, congrats on a very good quarter. Just a couple of things. When I am looking at India per se as a market and now we are seeing that you are venturing in to some more projects within India, so how would you say is the general scenario in the Indian market right now vis-à-vis government projects versus corporate projects. How is the scenario right now?

Arvind Thakur I think the Indian market is the most promising if I look at business globally simply because it is an economy which is on an uptick, it did not suffer the way the other economy suffered during the downturn and the government policy are very supportive of deploying technology to bring about inclusive route. I think there is also we are seeing higher adoption of technology in line with the way the economy is growing so all these are factors which are contributing to very I would say healthy position for the industry in scaling up their domestic business.

Radhika Merwin So even in the sense of government projects you see that in terms of realization and margins, everything, it is commensurate with the other projects as you would get from the Indian market, corporate projects?

- Arvind Thakur** If you look at the government projects they are typically projects where you have to provide end-to-end solutions. When I look at those end-to-end solutions you know the services component of those solutions are comparable as far as margins are concerned. Its the bought-out element margins are absolutely negligible and therefore they impact the overall margins of the engagement.
- Radhika Merwin** Okay, that is very helpful, presently other thing I wanted an update on your joint venture with Hitachi Systems on the Cloud Computing, is there any deal that has been struck so far with the JV?
- Arvind Thakur** To begin with it is not a JV, it is a partnership and where we are leveraging Hitachi's infrastructure so they own the cloud and we manage the cloud so we use our managed services capabilities to operate the cloud. It was to have been launched earlier in the quarter but because of the unrest that was there in Thailand the (Inaudible) got launched only towards the end of the quarter in Bangkok, however, I think we are building up a good pipeline hopefully, we should be close in some business very soon and once we see the type of business that we are getting closed we will be able to comment on how this business will grow and how this relationship will go forward.
- Radhika Merwin** So does this actually concentrate in a particular vertical or I mean in terms of industrial segments with more towards the BFSI segment that you are looking at this kind of opportunity or it is your travel and logistics that you would be looking at this opportunity?
- Arvind Thakur** This is actually the terms that we are providing is infrastructures as a service. It is not dependant on any industry segment. What we are addressing initially actually is a very focused set of clientele which are Japanese customers who are wanting to globalize their operation because that is a relationship which Hitachi has and that seems to be the most promising area for us to address and instead of them investing in infrastructure when they globalize we would like them to use our services of the cloud and that is what we are trying to do address at this point of time.
- Radhika Merwin** Great, just one final question. On your SEZ what is the position right now, how much percentage is the revenue that is coming out of SEZ?
- Arvind Thakur** We have not yet moved to our SEZ, it is still in the process of construction but we hope to move in, in the last quarter of this year so revenues from them will only happen next year.
- Radhika Merwin** Then how many people would that entail approximately?
- Arvind Thakur** The facility that we have created has the capacity to hold 3500 people.
- Radhika Merwin** Okay sir, thanks a lot. That is very helpful.
- Moderator** Thank you. The next question is from the line of Atul Bhole from Tata Mutual Fund. Please go ahead.

Atul Bhole Congrats sir. Sir I just wanted to know the figure of gross addition in this quarter.

Arvind Thakur Gross additions is not what we give but I can tell you net addition, it is 109 people.

Atul Bhole Okay sir, in that case can you share the attrition number, I mean the attrition percentage annualized for the quarter?

Arvind Thakur Our attrition is 18%.

Atul Bhole Okay, then sir if I calculate from the onshore, offshore people resources mix I get the figure of 115 addition onsite. Is that a correct calculation? Onsite resources has increased by 115 people.

Arvind Thakur If you have calculated, I think 24%.

Atul Bhole Last quarter it was 22% and this quarter is 24% and there are some people additions also.

Arvind Thakur No, when we give you the onsite offshore ratio we only give it of direct headcount. We do not take the ratio of the total headcount.

Atul Bhole But is there any addition in onsite sir?

Arvind Thakur Yes, there is addition onsite.

Atul Bhole Okay, thank you sir.

Moderator Thank you, the next question is from the line of Shraddha Aggarwal from B & K Securities. Please go ahead.

Shraddha Aggarwal Hi sir, congrats on a good quarter. First of all, would it be possible for you to give the breakup of revenue in terms of volume and pricing?

Arvind Thakur Difficult.

Shraddha Aggarwal But general sense on pricing, how is it pricing environment, have you seen any significant pricing pressure from client, any particular client asking for a major pricing cut. General sense on pricing?

Arvind Thakur Actually, our growth has volume growth. There has been no pricing pressure and the only pressure we have had is currency pressure which is in Europe.

Shraddha Aggarwal Right, sir and what was the quantum of FOREX loss which was booked in the revenue line this quarter?

Arvind Thakur 79 million.

Shraddha Aggarwal Rs 79 million is loss and secondly, you did give a salary hike to employees in this quarter so would it be possible for you to share the extent of salary hike both onsite and offshore and was it affected for the entire employee base or did you have a staggered effect into 2Q as well?

Arvind Thakur Our salary increases has been staggered over three quarters. We are looking at an average 9% increase offshore, it is getting staggered across two quarters and if I am not mistaken it is about 3% onsite.

Shraddha Aggarwal And that too was staggered or was it given in this quarter?

Arvind Thakur That will happen in Q2, this quarter.

Shraddha Aggarwal So only some portion of offshore salary hike came in, in this quarter?

Arvind Thakur That is right.

Shraddha Aggarwal And what was the percentage of employee base who took this salary hike in this quarter?

Arvind Thakur It would be the entire offshore.

Shraddha Aggarwal But you said offshore is staggered in two quarters.

Arvind Thakur Yeah, staggered means we've given half the increase in the first quarter and the other half we will give in the next quarter.

Shraddha Aggarwal Okay, and why was the quantum of hike so low, as in if I compare with what your peers have given, they have spoken about some 13-15% kind of a hike given to offshore employees. So just wanted to get a sense on why was NIIT Tech's quantum low. Were you already above industry average in terms of salary level?

Arvind Thakur You know the range varies from 5-14%. Now the way we have done it is we have shared our salary structure with an independent organization which is Hewitt and you know we have compared it with the basket of others in the industry and we have just aligned our compensation to the median in that basket. So we have gone about it in that way and we are constantly monitoring what the compensation levels are in the industry and basically our policy is to align it completely with what is it in the industry.

Shraddha Aggarwal So you do not rule out possibility of another wage hike kicking in, in say, second half of this year?

Arvind Thakur If it happens for the industry, I also have to do it.

Shraddha Aggarwal Right. You said 18% was the attrition for this quarter. What was the comparison number for the last quarter?

Arvind Thakur 16%.

Shraddha Aggarwal And that is on an LTM basis?

Arvind Thakur That is right.

Shraddha Aggarwal Right and lastly, I mean your order intake goes strong. I sense some kind of slow down as compared on a year and year basis also. I mean last quarter's numbers were inflated due to BSF deal win but even on a year-on-year basis, the order intake seems to be a bit on the muted side. So any direction there?

Arvind Thakur If you look at our last quarter intake, it was.....

Shraddha Aggarwal 123, out of which 50 was from BSF.

Arvind Thakur 124 million.

Shraddha Aggarwal Right.

Arvind Thakur Right. This included 50 million of BSF. In spite of that there was very significant intake. This was about 70 million from other sources. So we had a very good intake in the last quarter of last year. If you look at our first quarter of every year, it is in the range of 40-45 million and so I think that has what has happened in this quarter as well.

Shraddha Aggarwal But otherwise on the demand pipeline you sound quite positive?

Arvind Thakur Yes and in fact we are expected to grow in the subsequent quarter.

Shraddha Aggarwal Sure sir and sir last question what was the average realized rupee-dollar rate for this quarter?

Arvind Thakur 45.39.

Shraddha Aggarwal Okay thanks a lot, that is it from my side.

Moderator Thank you. The next question is from the line of Srinivas Sheshadri from RBS Equities. Please go ahead.

Srinivas Sheshadri I was doing some calculations around whatever metrics you have disclosed and if you look at the US geography as such, it seems to have grown in double digits quarter-on-quarter. Actually just wanted to check whether the calculation itself is not off the mark or?

Arvind Thakur You are absolutely correct.

Srinivas Sheshadri So yeah, that is fairly impressive actually. So just wanted to understand how did we have a sudden spurt in the growth there and some color there, would be very helpful?

- Arvind Thakur** As I just explained to you, there has been all-round growth in each one of our industry segments. All are key clients as I mentioned that in the beginning, all the pent up expenses which were held back, I think are now coming back.
- Srinivas Sheshadri** But do you see some kind of normalization taking place next quarter or do you think like a fairly good revenue growth even on this basis is sustainable?
- Arvind Thakur** I think we are seeing a good momentum building up Mr. Sheshadri.
- Srinivas Sheshadri** Okay, alright. The other thing is the headcount addition was actually a bit, I think you have been guiding about 200 or so per quarter kind of additions and in this quarter we are close to about 100. So just wanted to understand, was it the attrition which was more than expected which is why the headcount addition was a little lower or?
- Arvind Thakur** It is just that last quarter we had taken more than 300. So you know there is enough slack.
- Srinivas Sheshadri** Right, and any sense in terms of how much you are looking to add for the rest of the year?
- Arvind Thakur** Like I said you know that is the rate in which you want to add.
- Srinivas Sheshadri** About 200 per quarter. Great and I was just looking at your depreciation. It seems to be falling quarter-on-quarter for almost like the past six quarters. Why is that happening and what is the outlook there?
- Arvind Thakur** Amit, do you want to answer that?
- Amit Roy** Yes. Srinivas the thing is you know there are some assets which are done with their useful life, you know. So therefore those assets are going out of the system. So therefore the depreciation is coming down.
- Arvind Thakur** But I think when the SEZ gets operational, you know you will see a lot of capital work in progress coming back to depreciation.
- Srinivas Sheshadri** But for the rest of the year, I mean this 8 Crores kind of figure would that hold good for the rest of the year on a quarterly basis or will it probably even slip further down from here.
- Arvind Thakur** No, it will probably increase.
- Srinivas Sheshadri** Increase from here.
- Arvind Thakur** Yeah.
- Srinivas Sheshadri** Okay and then just wanted to understand. You said you did a partial wage hike and then the residual will be done next quarter. So how much additional impact is that likely to have on the next quarter's margins?

- Arvind Thakur** You know Sheshadri, margins are getting managed by various levers. So to my mind wage hike is business as usual. It's only in the last year, you know that we didn't have wage hikes, but prior to that every year, we have been doing wage hikes and managing our margins. So we will continue to do that. It's just that we didn't want to bring in a spike and so when we rolled out our wage hikes this year, we actually gave letters to our employees saying you'll get this hike but it will happen- inaudible
- Srinivas Sheshadri** Okay. One last question. I was just looking at your client metrics. There seems to be fairly good growth happening in the top 20 clients, but if I look further down then the non-top 20 kind of seems to be losing share as such. I think it was about 42% about five quarters back, now it's at around 36% and obviously it's declined this quarter also. I mean what should we read out of this that perhaps all the smaller clients, is it more a question of client rationalization or is it like there is a challenge in terms of scaling up these smaller clients into large accounts?
- Arvind Thakur** Let me put up this way, when you acquire new clients, they will take a while to scale up and I think that's the phenomena that you are seeing. Most of the short-term revenues at least come from your existing large clients. So I will also have to evaluate and examine and analyze the way you are analyzing but my sense is that some of the smaller clients maybe are not scaling up as much as our larger clients are.
- Srinivas Sheshadri** I see. Okay, alright. Thanks. That's all from my side.
- Moderator** The next question is from the line of Vikas Jain from Motilal Oswal Securities. Please go ahead.
- Vikas Jain** One question is that what would be the overall cost as the percentage of sales annually, you mentioned 19% SG&A expenses for this quarter, I believe it is 16% from the PPT which I have mentioned. So overall what could be the percentage apart from the employee cost and the operating expenses?
- Arvind Thakur** When I'm doing an analysis, just to do like-to-like analysis, I am excluding the bought out costs of equipment that we are using in the BSF contract. So if you eliminate the bought out cost, then the SG&A is 19%. Include the bought out cost, it will probably be less, 16%.
- Vikas Jain** Okay so what would be the overall for the annually say approximate?
- Arvind Thakur** If you exclude the bought out, it will be in the range of 19-20% is what we maintain our SG&A at.
- Vikas Jain** Okay and what is the bought-out cost?
- Arvind Thakur** Bought-out cost, you will just have to calculate. Because I just shared with you what the revenues were. Just to give you an approximate, it is about 45 Crores.
- Vikas Jain** Okay. Thank you sir.

Moderator Thank you. The next question is from the line of Deepak Radhakrishnan from Unifi Capital. Please go ahead.

Deepak Radhakrishnan Most of my questions have been answered. Some bookkeeping numbers, what is the net loss on the balance sheet now?

Amit Roy 27 Crores actually.

Deepak Radhakrishnan 27 Crores right? Would you split that up into effective and ineffective hedge?

Amit Roy No these are all effective.

Deepak Radhakrishnan There is no ineffective hedge?

Amit Roy Yeah 75 million effective.

Deepak Radhakrishnan This is fully hedged against the dollar?

Amit Roy Yeah.

Deepak Radhakrishnan What would be the component in the Euro and the Rupee?

Amit Roy Which is very little. We have some options which we are.....

Deepak Radhakrishnan You are planning to increase the hedge portions in...

Amit Roy Not immediately. We are looking at the market because it varies. So therefore the options are we have taken some options at 1.465 and 1.265, which is GBP-USD and EURO-USD and which are for the next three months 100%.

Deepak Radhakrishnan And some of the contracts would expire in the following quarter?

Amit Roy Yeah these will probably be expiring on July and some in August end.

Deepak Radhakrishnan By next quarter what will be the position like?

Amit Roy Position like? By next quarter, it will be less 27, it would come to 105 less 275, 170 million will be the end of the next quarter which is 17 Crores.

Deepak Radhakrishnan Okay, thank you. All the best.

Moderator Thank you. The next question is from the line of Sangam Iyer from Alpha Accurate Advisors. Please go ahead.

- Sangam Iyer** Yeah, good afternoon sir. Sorry if I am repeating the question. Of the total component of \$50 million order from BSF, what percentage did you share as the bought-out component and what percentage is the services component here?
- Arvind Thakur** There is about 55%, is bought out.
- Sangam Iyer** 55% is bought out? Okay and this quarter was completely the bought out part of it right? The coming quarters would see the services component kicking in.
- Arvind Thakur** Not completely. But yes large portion was bought our from this quarter.
- Sangam Iyer** Okay, okay and sir on the CapEx part, we have done around 13.4 Crores of CapEx in the first quarter right? How much did we share as CapEx for the remaining part of the year?
- Arvind Thakur** I think I mentioned 47 Crores.
- Sangam Iyer** 47 Crores? Okay sir. Thanks a lot sir.
- Moderator** Thank you. The next question is from the line of Rajiv Ghosh from Wealth Management. Please go ahead.
- Rajiv Ghosh** Sir can you share on what kind of growth can we expect in terms of EBITDA for the year going forward because last three years have been not much growth and why is no the growth happened and what are the reasons?
- Arvind Thakur** I think on EBITDA, we have always been showing good growth. Where is the concern?
- Rajiv Ghosh** The concern is that on the year-on-year basis, the company has not shown as much growth as many of its peers. So?
- Arvind Thakur** In fact our margins are perhaps one of the best in the industry.
- Rajiv Ghosh** Sir, growth I am asking, not the margins sir.
- Arvind Thakur** Okay, growth is related to revenues. So if revenues grow, profits will also grow. So in the last year as you would have seen, the growth in the industry was very depressed and that is the reason why profit growth also was depressed. This year as you are seeing, we have started off on a very strong note and I think that should result in good profits at the end of the year as well.
- Rajiv Ghosh** Can we expect this 54 Crores of EBITDA going up further in this year? Can you share something on that?
- Arvind Thakur** There is no reason why it should not grow.

Rajiv Ghosh Okay sir, thank you.

Moderator The next question is a follow up from the line of Madhu Babu from Systematix Shares. Please go ahead.

Madhu Babu Sir what is the tax rates we should models for FY11 and FY12?

Arvind Thakur For FY11 I would recommend 14-15%.

Madhu Babu And FY12?

Arvind Thakur 2012, we still have to work out because we have to see the impact of the SEZ.

Madhu Babu A rough cut numbers?

Arvind Thakur You want rough cut, you may want to add a few percentage points, maybe two percentage points more.

Madhu Babu Okay.

Arvind Thakur It will be more than that actually maybe it will be in the 20s.

Madhu Babu 22% okay.

Amit Roy STPI will still on.

Madhu Babu And sir we have talked of launching the healthcare vertical practice, so where are we on that?

Arvind Thakur I think it will take a good part of this year to mature that practice. So at this point in time, we are putting a team together. Hopefully, we will get practice head on boards pretty soon and once the individual is on board, we will have the right approach to address this market.

Madhu Babu And within our focus vertical, which of the vertical we are expecting it to do well in FY11, travel and BFSI or manufacturing?

Arvind Thakur I think as I shared with you earlier, we have seen all-round growth in all our industry segments. What is likely in terms of growth would probably be the government segment because of the huge order backlog that we have to execute in this financial year.

Madhu Babu Okay sir, thanks.

Moderator Thank you. The next question is from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty Sir, my query is regarding our BFSI offerings, sir we are very strong at our insurance offering and looking at recession and post-recession scenario, there is a huge opportunity for banking reforms in Europe as well as in Asia and how can we address that particular scenario? Sir if you can please throw some light on this.

Arvind Thakur Yes you are absolutely right Ganesh. In fact there is going to be more emphasis on risk and regulation in the financial services world and that is going to throw up a lot of opportunities. Some of the things that we are focusing on is on the whole area of governance, risk, compliance, and operation security risks in this area. So it is a service that we are currently doing in the operational risk area, which we hope to expect will embrace this whole area within risk and compliance. So we see that as an opportunity as well.

Ganesh Shetty Sir my second question is regarding our NIIT GIS offerings. Sir over the years, we have very good quality revenues coming out from NIIT GIS, but as a matter of fact, our volumes are not as strong as our other verticals. Can we be in a position to have more participation fromInaudible.... and more volume growth and more funding towards our GIS business, so as to make it more volume growth oriented sir? Can you please throw some light on this particular query sir?

Arvind Thakur That is a very good question Ganesh.

Ganesh Shetty Thank you sir.

Arvind Thakur As I mentioned to you we have now brought in very sharp focus on the government segment and good example is the APDRP program where we are very sharply focused with GIS solutions and that has helped us grow our revenues very significantly in this. So we will hope to focus and in all this we have the support of ESRI to facilitate the positioning of this business significantly in the domestic market.

Ganesh Shetty Thank you very much sir. Have a nice day.

Moderator Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah Yeah I just want a clarification. The amount of loss which you told which has been recognized in the revenue is about 8 Crores. Is that right?

Amit Roy Yes, 75 million.

Dipen Shah And how much was it in the previous quarter?

Amit Roy 125.

Dipen Shah Okay, thank you.

Moderator Thank you. The next question is a follow up from the line of Shraddha Aggarwal from B&K Securities. Please go ahead.

Shraddha Aggarwal Sir just one quick question. Earlier you had said some \$30 million of revenue would flow in from BSF in FY 11, does that still hold good or do you see some uptake of revenue flowing in this year?

Arvind Thakur We are expecting about 35 million to flow in this year.

Shraddha Aggarwal And the remaining would be staggered over how many quarters?

Arvind Thakur Remaining will be over the next five years.

Shraddha Aggarwal And that would mainly be services?

Arvind Thakur That would mainly be support services, yeah.

Shraddha Aggarwal Okay thank you.

Arvind Thakur You are welcome. I think we can just take one more last question.

Moderator Thank you. Sir, we have no further questions.

Arvind Thakur Okay. Thank you very much everybody for participating in this discussion and for all your good wishes. We look forward to your support and guidance in dealing with the market and the environment in the future. Thank you very much for participating in this.

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