Moderator

Ladies and gentlemen good day and welcome to the NIIT Technologies Q1 FY2014 Earnings Conference Call. As a reminder for the duration of this conference, all participants’ lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing “*” and then “0” on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations, NIIT Technologies. Thank you and over to you, sir.

Abhinandan Singh

Good afternoon and welcome to our Q1 Earnings Call. As usual, we will start the earnings call with brief remarks from our CEO Mr. Arvind Thakur and then the floor will be open for your questions and discussions. Let me quickly introduce members of our management team who are present on this call with us. As I mentioned, our CEO Mr. Arvind Thakur of course is present on this call, and also along with us is our Chairman Mr. Rajendra S Pawar. We also have President & Head of our North American operations Mr. Lalit Dhingra joining us today on this call. Our CFO Ms. Pratibha Advani is also present with us. With that, I would now like to hand over the call to Mr. Arvind Thakur, our CEO. Over to you, Arvind.

Arvind Thakur

Thank you for joining us on this call where we will be discussing the 1st Quarter results of NIIT Technologies Ltd and I would like to start by commenting on what we are seeing in the environment and then we will look at our numbers in light of what is happening in the environment. What we are observing is that there seems to be some recovery underway in the US at a somewhat moderate pace. Some economic data as well as what we are experiencing on the ground seems to be indicating that. We saw that the US economy has grown at 1.8% in the first quarter of 2013 and also we are seeing better than expected jobs data being released as recently as on July 5th, pointing to some growing confidence about a sustained upturn in the US. Europe on the other hand continues to be soft and concerns around the issues in the Eurozone seem to continue and that also is what we are seeing getting reflected in the time taken to secure business in this particular region. The Asia-Pacific, where we’ll include India and China, remains in the growth mode. Although there is weakening sentiment within the emerging markets, the longer-term prospects remain encouraging for the emerging markets. So in a sense, what we are seeing is some recovery in the US, softness in Europe and I would say robustness as far as business is concerned in the Asia region. Specifically in the segments that we focus on, which is Travel and Transport, what we are seeing is improved sentiment. Even the IATA, which is the industry body, has talked about projected increase in both passenger as well as cargo demands through 2013 and they are even upgrading the forecast for industry profits in 2013. IT spend in BFSI also seems to be growing, and we have seen specialist analysts like Celent talking about IT spends growing by 3% globally in the insurance space in 2013 and Gartner has talked about a growth of 3.9% in 2013 in the BFS space. Manufacturing, another area where we focus on, seems to be okay as far as the Asia markets are concerned where we’re seeing some expansion and most of our focus in manufacturing is in that region. Government business is stepping up, I recently also saw a report in the Hindustan Times, that
talked about Rs. 100,000 crores worth of IT projects to be executed, so there is a lot of demand likely to be in the public sector space in the domestic market.

I think with this background let me talk about the business analysis as you would have seen from what we have reported. Revenues have grown 0.9% sequentially to Rs. 5419 million which is a 15.4% growth over the same period last year. In constant currency, sequential growth has been flat. With respect to different geographies and in light of the background that I shared with you, we saw reasonable growth in the US which grew 3% and now contributes to 39% of our revenues and since I have Lalit Dhingra who is the president of our US operations here with me today I’ll ask him to elaborate a little more on what he sees in the environment and what we are doing in the US markets. So over to Lalit.

Lalit Dhingra

So let me share some highlights of the US geography. The US geography has grown 2% in dollar terms. Our travel vertical has shown good growth. Wealth management which is a focus area along with banking & finance has shown some marginal growth. Insurance has been challenging in the last 3 to 6 months. Because of the environment which we have in the US, we have a balanced portfolio of customers between P&C and Life & Annuity. The life and annuity part continues to be a challenging market for us so there is a downward trend in the L&A and there is an upward trend in the P&C segment. That has been a little down from the last quarter, but we see that this is going to be changing a bit in the future. Our order intake for the US geography this quarter under review is $44 million, and we see a much better future going forward; we have some four or five large deals in the pipeline, two from existing customers which are $20 million plus and three from new customers which are somewhere in the range of $10-$15 million. The good thing that has happened in our media business, with one of our largest customers Morris, is that we have actually converted the whole engagement model from the fixed base to a transaction-based pricing which is a new thing in the US market that we are trying to do. The business through the transaction-based pricing is a very non-linear model for growth and we are going to take this model and go to the other customers and get the deals in the new environment. We are already talking to some two customers in this media vertical in this model and we have acquired 3 to 4 new customers in that segment. Let me throw a little light on what is happening on the US environment. As Arvind mentioned, the GDP has shown annual growth of 1.8% in the first quarter. The other indicator for upward movement in the economy is the housing market. The biggest challenge has been the housing market, and almost 20% or 30% of the states are showing high growth in the housing market. Then there is the unemployment data, and at 7.4% against what people were anticipating of 7.5% to 7.6%, that is also a positive indicator. So all in all, the environment is very positive to do business in the US at this time and we are very hopeful to grow the business much better than what we have grown this past year.

Arvind Thakur

Thanks Lalit, so I think that gives you a flavor of what we are seeing in the US market. A couple of good things, I think order intake has improved significantly and if you compare it with the same quarter last year the intake in the same quarter last year was $25 million and now it is up at $44 million, so that is encouraging. We are moving Morris into a complete transaction based pricing mode, and that is the way that we are looking at output-based models
going forward. This is a very large contract to move into a transaction-based model, so with the US economy recovering we hope that our client will also do better and that will be pure non-linear revenue because we will be running it off the same platform. The situation in EMEA is not as that bright because we continue to see softness in Europe. It is taking longer for new SOWs to come through even from existing customers. I think the environment itself is such that it takes longer and more scrutiny to get new business in this segment. The EMEA region now contributes to 35% of our revenues. On the other hand if you look at the Rest of the World (RoW) which includes India, we have seen strong growth in the domestic market and that now contributes to 26% of our revenues largely driven by execution against the large government contracts which we have secured. Looking at margins, our operating profits for the quarter stand at Rs. 782 million which is up 4.1% YoY but down sequentially primarily on account of wage hikes during the quarter. There has been a 202 basis points drop in operating margins between last quarter and this quarter, so our operating margins now stand at 14.4%. Net profits have also decreased as a result of lower operating profits but more importantly there has been a very significant increase in the tax rate. The tax rate now stands at 35.2% of PBT during the quarter as a result of higher other income as well as dividend tax which we had to pay because of repatriation from our overseas subsidiary during the quarter. This, as you may be aware, is a one-time opportunity available during the quarter to offset taxes paid from dividend distribution tax payable in the financial year of 2013-14, so that basically would explain to you why our net profits are lower. What has been really good in the quarter has been the fresh new business that we have acquired. US$ 145 million of fresh business was secured during the quarter, and this includes renewals from travel and transport clients in the US worth $15 million and something which we had announced earlier which is the win to implement the airport operations control centre across 10 cities of the Airport Authority of India which is a $60 million engagement we have entered into. What is also good is that we have added five new customers during this quarter and interestingly these have all been in these travel and transport space, further supporting the traction that we have in this particular industry segment. Our order book for orders executable over the next 12 months now stands at US$263 million. We added 49 people doing this quarter, those were net additions, taking total headcount to 8,207. Utilization was at 77.3% and we continue to maintain some of the best attrition levels in the industry at 12.36%. Cash and bank balances stood at Rs. 2479 million and we had a capex spend of Rs. 300 million during the quarter and debtors at the end of the quarter were at 98 days of sales outstanding. So as you would have seen the company has been steadily growing sequentially on the back of a strong order book with steady intake every quarter despite the turbulent environment. The healthy intake in this quarter will sustain this growth going forward. Traditionally our Q1 has always been soft sequentially both in revenues as well as in margins and this is something which I had shared with you in the past as well. With this new intake, particularly the setup and execution time required for the Airport Authority engagement, we could see a strong back ended growth during the year as we build the order book through the year. I think with these opening comments I would be happy to address your questions. So moderator, if you can open the lines for questions please.

Moderator

We will now begin the question and answer session. The first question is from the line of Manik Taneja from Emkay Global. Please go ahead.
First of all, could we have the number for the hardware revenues that were booked in the current quarter and if you could split that up between different contracts. Secondly just wanted to get a sense of what is happening with our top clients and finally a question with regards to the margin outlook for the next few quarters?

The hardware revenue for the quarter is Rs. 59 crores, at this point I do not have the breakup.

But what would be the CCTNS compliment here?

A large component would be CCTNS but it also includes MPIGRS and AP Finance.

So your second part of the question was?

This was with regards to our margin outlook as well as what you are seeing within your top clients?

Let me just take the margin discussion first. Margins, as I explained earlier, have declined because of the wage hikes that we have provided and this typically happens in every year in the first quarter. We have provided for an average wage hike of 8% off shore and 3% onsite, so that is the main contributor for the decline that we have seen in the margins in this particular quarter. Now going forward, I think there are many levers which are available to us which is something that we use every year. First, it is very important for us to understand that in all our new contracts whichever have been renewed, there have been no price decreases; in fact in many situations there have been average 4% to 8% price increases. So that itself is a margin driver. Second, you would have noticed that our utilization has fallen a little bit in this quarter to 77.3%, so that is another thing we’re focusing on as we go forward. Third, the new large contracts that we have secured, particularly the domestic contracts where AP Finance is a large one, the Airport Authority one which we just got this quarter and is another large one, these are going to contribute significantly to our revenues in this year and they will be executed at very good margins. These are not run of the mill contracts they are very specialized contracts in fact the Airport Authority contract involves foreign partners as participants, so you could actually treat it like an international contract. The AP Finance contract is an implementation which is very unique around SAP which is public budget, and it is the first time that is going to be implemented in the country so I think it is another project which has good margins. If you compare with last year, you will find that our domestic projects are generating better margins than last year. I think that is another thing that you must understand. Last but not least, you have heard Lalit talk about transaction-based projects. The good thing about transaction-based projects is that they are completely non-linear and as the business grows you can expect margins to improve significantly. So, these are the many levers that we have.

The reason why I asked this question was our margins performance has been pretty disappointing through most of the recent quarters. I understand that this quarter’s margin fall was attributed more to wage hikes, but do we see a case for our margins to going back to 17%-

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18% on a sustainable basis or is this a new normalized level that one should look or work with in case of NIIT Tech?

**Arvind Thakur**

I think we have discussed a lot on what we has been happening with our margins. Sometime in FY12 is where we changed our business model and started securing large transformational engagements. And one of the things that we have been discussing through this period is that all transformational engagements come with upfront costs and that is what has been driving our margins down. Now we are beginning to see the fruits of that, particularly some of those that have been transformed into output-based models. Going forward you can expect to see improvement in margins.

**Manik Taneja**

And if you can just talk about the demand environment within your top clients and second with regards to the commentary on large deals, would this include both renewal as well as new business or these are all new deals? And which verticals are you seeing increased action in, in terms of deal activity?

**Arvind Thakur**

Okay, let me just take the second part first it is a mix of both I think Lalit did share some data in the US looking at 4 to 5 large deals of which two are with existing clients and three what he mentioned was engagements that he’s working on, you will find a mix across all geographies because large deals you secure both.

**Manik Taneja**

These 4-5 are all from the US?

**Arvind Thakur**

These are from the US and likewise there are others in other geographies as well.

**Manik Taneja**

And when do you expect to see decision-making or closures on this deals?

**Lalit Dhirgra**

In the next 3 to 9 months.

**Manik Taneja**

And this would be the total TCV of the deals would be on an average would be around $20 million plus, is that what you mention?

**Arvind Thakur**

I would say $10 million plus.

**Lalit Dhingra**

New ones $10 million.

**Arvind Thakur**

I think the new ones are $10 million plus, existing ones will be $20 million plus or so.

**Manik Taneja**

And what proportion of these deals would-be renewals and what proportion of them would be on rough cut basis because for us we include renewal business as will as part of our order book?

**Arvind Thakur**

What happens is if in renewal you add a large component of something new that becomes a new deal, and some of these are transformational in nature so it would mean taking up an existing piece of work and doing it in a different way, so I would not call that renewal.
Manik Taneja
If you could talk about what you’re seeing within your top clients across the key verticals?

Arvind Thakur
As I explained it is not across verticals, it is actually across geographies - and we are seeing good traction in the US; we are seeing I would say slowness in Europe, and very good traction in Asia.

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

Dipen Shah
First of all as far as the current quarter revenues are concerned we said we have about flat revenues in constant currency terms but if I exclude the hardware revenue then we actually have a 2% degrowth and if I were to look at the last three or four quarters then consistently the revenue growth in terms of volumes excluding the hardware has kind of slowed down as compared to what we had in FY12 and earlier. So if you can just may be give your thoughts on what is actually happening despite travel and transportation being a very strong vertical all across. Where do you actually think that this slowness is coming from and when can we expect the pure-pure services business to start reporting a decent growth?

Arvind Thakur
First let me tell you that we are not in the pure-pure services business; a lot of our business is managed services, a lot of our business is IP-based. In fact, the pure-pure services business is business of the past because that is commoditized; the value proposition there is just cost arbitrage. Customer expectations are changing dramatically and while they are interested in good costs, they are also looking at business value. So when you have to do that then necessarily you have to integrate other elements into your solutions. For example even if you look at our transformational engagement with Morris, we had to take over the hardware and infrastructure of the client and not just provide pure services. So I would not want to just look at pure-pure services because that model is changing significantly going forward. At the same time, when you integrate hardware into your offerings you are assuming a different level of risk that requires a different level of talent and people in your services business to execute that. What I think you need to appreciate is that we are creating a portfolio of services of different kinds and one would like to make sure that that portfolio grows at better margins year-on-year, that is the approach that we are taking.

Dipen Shah
So if that be the case then maybe you are saying that we should not segregate the hardware revenues?

Arvind Thakur
Definitely you should not.

Dipen Shah
And then if we have to take the consolidated business, then obviously the hardware comes at a very low margin…considering only the hardware part though…if we consider it separately?

Arvind Thakur
Not necessarily.

Dipen Shah
Apart from that just wanted to understand the increase in the DSOs in this quarter, it has gone up to more than 90 days?
Arvind Thakur  If you look at our Q4, in fact if you look at the increase in hardware that has started from Q4, so most of the billing has happened towards the end of Q4, so it will take its own time in recovering the collectables if the billing has happened only in the end of Q4. But I think Pratibha tracks this a little more closely, so maybe she can respond to you in a little more detail.

Pratibha Advani  Another impact has been because of foreign exchange, so currency has also increased DSO days by 6 to 7 days. The other reason that Arvind just explained has impacted the DSO days by eight or nine days. Add that and the currency-led impact, and that has actually led to the spike in our DSO days.

Dipen Shah  And would this be correlated to the reduction in the cash balance which we had maybe about Rs. 70 crores to Rs. 80 crores?

Pratibha Advani  Absolutely, direct correlation.

Dipen Shah  So you’re saying that the cash balance reduced largely because of the high debtor days?

Pratibha Advani  That is right.

Moderator  The next question is from the line of Srinivas Seshadiri from CIMB. Please go ahead.

Srinivas Seshadiri  Just wanted to get your view quickly on the immigration reform which is happening in the US in terms of in the worst case scenario, what could be the impact on the business and how you are preparing towards it? And secondly just a follow up on the DSO, if I remember correctly earlier you were saying that we were going to mitigate the impact of the DSO by doing a short cycle billing and so on, so I was a little surprised to see the DSO increased by so much…so if you could give more color as to whether this high level of DSO is likely to persist given the high proportion of billing attributable to domestic revenues going forward?

Pratibha Advani  I will pick up the second question first and then Arvind can answer the one on US immigration. Now in the DSO days if you recall in one of our earlier calls I had explained that any hardware that we supply we only account for the revenue after we get a confirmation so they have to sign off a receipt and it is not easy to push the government department so generally it tends to happen towards the end of the quarter and that is why the spike. And obviously our effort is on to collect our money as it becomes due. So this money as of now has not become due, the moment it becomes due we will be able to collect it.

Srinivas Seshadiri  Should we see it going down next quarter?

Pratibha Advani  Yes.

Arvind Thakur  On the Immigration bill I do not know if you probably would have seen a news flash about the bill may have been shot down in the House of Representatives. It is a complex bill and I think it will undergo a lot of debate and discussion and currently it was a comprehensive bill, in all
probabilities the bill is going to be split up into its components and our component is a small portion of, our means the business immigration is part small proportion of a part of that comprehensive bill, so there are lot of people eager to give their views on this subject.

Rajendra S Pawar

I think one is that they had disaggregated the issues, that was the thing that which was actually bothering us earlier because the illegal immigrant issue was a very emotive issue and a big issue but since they were wanting to make a change they had added everything in it and our worry was that our small part of the big thing was not getting attention. So considering that now the House has said we will disaggregate and take it piece by piece, this is ideal because now we can do a reasonable discussion and so as it appears now there will be an opportunity to engage with specific people on specific issues which is exactly what we were looking for. So in a sense it gives us not just some time space now but also an opportunity for the industry to work on issues one at a time and it is significantly better positioned than it was till this decision came out of the House.

Arvind Thakur

The other point which I would like to add is, of course this is an industry issue and there are many provisions in the Bill like outplacement and things like that which the industry is taking up quite vigorously and given what has happened in the House today, we believe that some of those very stringent clauses are not likely to find their way into law ultimately. Having said that, specifically for the company I think you probably need to know that when we look at the profile of our staff in the US, 34% are actually US citizens, another 6% are green card, so in the sense 40% are already US citizens or permanent residents and the Bill talks about imposing restrictions on people who have more than 50% of H1Bs so I think we are already close to that threshold, doesn’t require too much effort for us to cross that threshold so even if that Bill was supposed to become a law as far as the company is concerned we don't have that much of an exposure.

Moderator

The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta

Can you provide us the revenue and margins about GIS, Morris, and ROOM businesses?

Arvind Thakur

We do not call it ROOM anymore, it is NITL (NIIT Insurance Technologies Limited). So revenues there are Rs.350 million, GIS is Rs.219 million, and on Morris JV, it is not called Morris, it is called NIIT Media Technologies that is Rs.314 million.

Dipesh Mehta

And margin for this entity?

Pratibha Advani

For Morris the margin is 11%.

Dipesh Mehta

For NITL?

Arvind Thakur

11% Morris, 17% NITL and 14% GIS.
Dipesh Mehta  Just wanted to understand about because our travel and transport and Europe is showing some kind of weakness so what would be the revenue coming from Proyecta, if you can give some color about Proyecta?

Arvind Thakur  Proyecta is Rs.170 million.

Dipesh Mehta  Can you throw YoY kind of numbers?

Pratibha Advani  YoY the revenue was Rs.142 million last year, so against 142 we have done Rs.170 million this quarter and last quarter the revenue was Rs.151 million.

Dipesh Mehta  And just to more about margins side again, if I see your last year Q1 numbers and this year, if we exclude hedge related gain numbers our margins have declined by around 400 basis points despite rupee has depreciated like close to 3% so just want to understand what factors have contributed to this kind of decline?

Pratibha Advani  Actually our average rate of revenue recognition is not substantially different from last quarter, so last quarter was 54.17 and this quarter it was 55.17.

Dipesh Mehta  I'm asking of YoY, I'm not asking quarter-on-quarter so if you refer Q1 of last year?

Arvind Thakur  As far as YoY is concerned, I explained that there has been onsite upfront expenses as a result of the transformational deals.

Dipesh Mehta  So do you expect those expenses are already in the flow and we expect benefit to reflect it from next quarter onwards?

Arvind Thakur  Next Quarter onwards, yes.

Dipesh Mehta  Any specific reason for absolute decline in depreciation?

Pratibha Advani  Yes, we actually had a one-time asset impairment that we took last quarter and we also accelerated depreciation for the media technology business. We aligned the policy with NTL’s (NIIT Tech’s) policy. Those are the two hit that we got last quarter which are not there this quarter.

Dipesh Mehta  So Q1 number is representative of the current run rate?

Pratibha Advani  That is right.

Dipesh Mehta  Can you provide us the DSO including unbilled this quarter and last quarter?

Pratibha Advani  DSO including unbilled we don’t calculate.
Moderator: The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar: Just wanted data point in terms of India business, if you can just break down the Rest of the World in terms of India and the rest?

Arvind Thakur: India is 19%.

Abhishek Kumar: The another question I have in terms of the capex plan, we said last quarter that for the full year it will be Rs. 200 crores, we have done Rs. 30 crores for this quarter so are we on track to do Rs. 200 crores of capex for the full year?

Pratibha Advani: Well, we will be doing around Rs. 200 crores, we are on track, may be a couple of crores here and there.

Abhishek Kumar: So we will start capitalizing the capex as we incur the expenses or will it be back ended?

Pratibha Advani: Actually what will happen is almost Rs. 100 odd crores that is for the SEZ that capitalization will not happen this year but sometime next year once it is operational, the balance we will capitalize as and when we operationalize the assets.

Abhishek Kumar: So that will be evenly spread out?

Pratibha Advani: Yes.

Moderator: The next question is from the line of Vimal Gohil from Sharekhan. Please go ahead.

Vimal Gohil: Just one data point, your margins in Proyecta, please?

Pratibha Advani: 6%.

Vimal Gohil: What has been the volume growth in US and Europe?

Pratibha Advani: 2% in US. Europe has declined, if I recall that is by 5% odd.

Vimal Gohil: If I recollect the Morris JV margins in the last quarter was about 13% if I'm not wrong?

Pratibha Advani: Yes, there is a seasonality now we move to transaction based model and that is dependent on volumes. In Q4 the volumes soften, stabilize in Q1 and then they start rising.

Vimal Gohil: So you expect the entire impact to be transaction-based pricing to get better going forward into the year?

Pratibha Advani: That is right.
Moderator: The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: One question on the DSO that two of the main domestic contract is going to start and the AP one has already kick in and AAI is going to start, so what kind of DSO days can you see going forward, is there going to be pressure on DSO?

Arvind Thakur: I think typically we maintained our DSO days at about 80 days so that is what we should expect going forward.

Sanjeev Hota: So these two specific contracts do not have much higher DSO days?

Arvind Thakur: Basically the same as our other contracts, they are typically government contracts.

Sanjeev Hota: And last year's the full-year hardware revenue was close to Rs. 72-73 crores and this quarter we have already booked Rs. 59 crores?

Pratibha Advani: Right.

Sanjeev Hota: So what is it going forward, so what will be the run rate going forward, it could be close to Rs. 50-60 crores every quarter?

Pratibha Advani: No, it should be actually less, we should be doing in the range of about Rs. 40 odd crores.

Sanjeev Hota: Rs. 40 odd crores for the next 2-3 quarters or how many quarters you are saying?

Pratibha Advani: Next quarter we should do about Rs. 40 crores and then it should scale down to about Rs. 20-25 crores.

Sanjeev Hota: And last question on the GIS margins, margins are still way below what we used to get in the GIS business is still around 14%, so when can we see the margins coming back in the GIS business?

Arvind Thakur: I think it is improving. Last quarter it was 9% before that it was almost 0, now it is 14%. So I think we are moving in the right track.

Sanjeev Hota: So it is still 2-3 quarters away from where we see the margins coming back to…

Arvind Thakur: We are going to see the improvement in the GIS margins.

Moderator: The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Travel vertical has been weak this quarter as well at last quarter so when are we expecting pickup in this vertical?
Arvind Thakur  As I explained the softness in Europe is basically the reduction that we are seeing, so we have got a very large travel business in Europe, we have large customers, we have new customers pipeline, so I think once the softness kind of bottoms out is when we will start seeing recovery in the travel space.

Madhu Babu  So this year overall, how are we looking at growth? I mean, earlier we said we will be in line with NASSCOM. But any change in commentary, because the start has been weaker than expected?

Arvind Thakur  No, the start has not been weaker than expected. We have always maintained that our first quarter is going to be soft, which is what has come out.

Madhu Babu  But are we retaining that? That we are in line with the NASSCOM this year?

Arvind Thakur  Our endeavour is to be ahead of that in fact.

Madhu Babu  And AP Finance, how much of revenues have flown in this quarter, in the AP Finance deal?

Pratibha Advani  We generally don’t share the breakup of revenue. It has just started.

Madhu Babu  And just lastly on the head count attrition that has been a bit muted this quarter, what is the outlook on that, on hiring outlook?

Arvind Thakur  Traditionally we hire 200 people per quarter, I think that is the rate at which we should be looking at.

Moderator  The next question is from the line of Ashish Agarwal from Tata Securities. Please go ahead.

Ashish Agarwal  First of all, if I look at the number of people onsite, that has declined very sharply, the reason for the same given that the onsite revenues seem to have increased and my second question is regarding your employee cost, especially cost of revenue. Now given the fact that our hardware revenues have increased substantially around Rs. 16-17 crores QoQ but our cost of revenues have increased around only Rs. 14-15 crores, despite giving a salary hike, just wanted to find out the reason for that?

Pratibha Advani  Actually as you pointed out that there has been a decline in our headcount onsite so what happens is as we get into these large transformational programs, we do not have all the skills and we have to go and hire consultants and these are pretty expensive skills that we buy and we had to let go of these people as those programs have come to an end, successfully closed out that is why you’re not seeing too much of a change in our direct cost.

Ashish Agarwal  But what is the reason then if decline in onsite manpower but the revenue seems to have increased?
Pratibha Advani  Most of these people are actually onsite, so that is why you are seeing a decline in the headcount.

Moderator  The next question is from the line of Deepan Kapadia from B&K Securities. Please go ahead.

Deepan Kapadia  The question was related to the employees only, so can we assume that these were the subcontractors which are no longer required?

Pratibha Advani  That is right.

Moderator  The next question is from the line of Amar Mourya from India Nivesh. Please go ahead.

Amar Mourya  My first question is primarily on the Europe front like the contribution of Europe has come down to 35%. Is there a further scope from here to go down for it is likely to stabilize at this level?

Arvind Thakur  It could probably go down because there is softness in that market.

Amar Mourya  I just wanted to know if this is a client specific issue in Europe or the overall environment is….

Arvind Thakur  No, I would say it is an environment issue.

Amar Mourya  On the fresh order intake, the fresh order intake of the last quarter as well as this quarter has significantly increased. But if I see the last four years trend I’ll just trying to draw some correlation with the fresh order intake as well as the revenue growth that has not been in the historical trends, so I am just trying to understand what would lead to the growth over a period of time like if I see FY11 and the fresh order intake was down 3% whereas the revenue growth was 35% and in the next years in the FY12 the fresh order intake was up 71% whereas the revenue growth was 28%, so if you can help me just understand?

Arvind Thakur  I think what you should look at is not fresh order intake, what you should look at is orders executable over the next 12 months, so from the order book what is executable over the next 12 month is a better indicator.

Amar Mourya  But if in that case we are looking, so orders executable over the next 12 months, year-over-year is like only 4% increase if I am looking at FY13 end of your numbers….

Arvind Thakur  It was 252.

Amar Mourya  Yes it was 252mn, it is only a 4% increase, if I’m not wrong, it is year-over-year?

Pratibha Advani  But the way to run the actually look at it and if you do at empirical working we have typically done anywhere between 1.5 to 1.7 times of revenue so if you actually use that multiplier you would have a better assessment.
Arvind Thakur: If you’re doing a four-year analysis what you should do is look at the orders executable over the next 12 months and then look at what has been the revenue in the subsequent years, you will find that there is a multiple of 1.5 to 1.8, whatever, as Pratibha is saying. That will be a better measure for you.

Amar Mourya: So this should be forward looking 1.7x?

Pratibha Advani: And also if you look at it YoY then our executable order book has actually grown by 9%.

Moderator: The next question is from the line of Pawan Kumar from Capital Markets. Please go ahead.

Pawan Kumar: My question pertains to BFSI verticals, if we look at the performance of most of the big clients they were doing very well. I think for BFSI vertical the worst is over from here on going forward we can see the traction for BFSI vertical as industry as a whole? And would you throw some color on discretionary spending as well, is there any material change in the discretionary spending patterns?

Lalit Dhingra: Just to clarify we are seeing some uptick in the discretionary projects in both banking finance and insurance, which was not the case in last year. So the only thing is that the decision-making in insurance is taking a little more time than in the banking segment. The more discretionary projects are in the risk and the compliance area, so we have modified our offerings to take care of risk and compliance kind of projects now, so you will see some uptick in these segments.

Moderator: The next question is from the line of Abdul Karim from Narnolia Securities Ltd. Please go ahead.

Abdul Karim: Was there any merger and acquisition related thing that you are looking at in any of the segment that you are focused on?

Arvind Thakur: That is something which we are constantly looking at and you would have seen that we do these transaction at regular intervals as well. The last such transaction we did was to acquire the Manila development facility of one of our clients. So this is something which is an ongoing exercise but something which we can talk about only when a transaction is done.

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

Dipen Shah: You just said that on the onsite terms the number of consultants have actually come down during this quarter because of which the direct cost has actually not gone up in line with revenues, so the if the onsite consultants have come down the actual onsite revenues have increased by about 3% to 3.5%?

Pratibha Advani: If you recall Arvind had mentioned that we are doing this transformational programs, which are fixed priced contract, these are not T&M so there is no direct linkage to the consultants.
Arvind Thakur: Deepan, you have to get out of the old mindset of T&M?

Dipen Shah: No, not really T&M Arvind, because what I’m seeing is that the overall direct costs have gone up by 5%, Rs. 350 crores to Rs. 367 crores which is about 4%. We have given salary hike of 3% and 8% to employees, on top of that we have got a higher hardware revenue which is about Rs. 18 crores and the overall cost has gone up by just about Rs. 14 crores, so that is something which I just wanted to understand as to how this has actually come up also it is not about a hardware or a non-hardware part…

Pratibha Advani: Now these contracts when we hire these consultants are actually fixed-price contracts, they are not T&M, so that links to our billing milestone which when concluded we bill all that revenue.

Moderator: The next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri: This is pertaining to the non-India revenues, if I see the data of the past 5 quarters, one has seen a very sharp deceleration with revenue growth outside India and this quarter I believe if you look at even on a year-on-year basis the revenue is flattish, so one is I understand you mentioned there are problems in Europe and some programs came to an end but do you believe there is scope for improvement here and what are the learning in terms of the sharp slowdown and volatility in the growth? And secondly, though this year the visibility appears to be high because of some of the large deals that we have won, does this place a risk in terms of growth looking beyond FY14?

Arvind Thakur: So very clearly in the last couple of years we have seen a lot of turbulence and volatility in the western markets, non-India as you call it. So earlier it was US which was going down and Europe which was coming up, now it is appearing that US is going to go up and Europe is going to come down and the stabilizing factor has been the domestic business. So I would say it is a prudent and consistent strategy that we have been following. We want to keep our revenues balanced because it precisely helps you deal with these kinds of volatility that you see in different markets. So you have a platform which mitigates those risks and you continue to show growth going forward.

Srinivas Seshadri: But Arvind I understand the portfolio perspective but just on the overseas bid is this a worry in terms of the way the trajectory is heading over the last 3 to 4 quarters and what we are doing about it?

Arvind Thakur: No, nothing to worry about because as Lalit just pointed out we are seeing good traction in the US. I think even Europe we will see things turning around but it is taking time. And as I mentioned, particularly in some segments like travel, we have added five new customers. There is great traction happening in that particular space.

Srinivas Seshadri: So from a full year perspective you should expect the export revenue should also grow reasonably?

Arvind Thakur: Correct.
Moderator  The next question is from the line of Vimal Gohil from Sharekhan. Please go ahead.

Vimal Gohil  Just a follow-up, I just wanted to know what has led to the sudden spike in the manufacturing vertical just about 18% sequentially.

Arvind Thakur  That in fact is very interesting because some of our existing clients have scaled up and in particular there is one customer where we have a transaction-based engagement just like what Lalit described earlier for Morris, which is the Tobacco Board. There the revenues that we earn is based on the volume of auctions which are done, and that has seen a very significant growth and in fact it has resulted in big margins also from that account.

Vimal Gohil  And one more question what has been the hedge gain which has been taken in the topline as our revenues in this quarter?

Pratibha Advani  Rs 18 million.

Moderator  The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar  Just a small clarification, when we disclosed that the people number, do we also include subcontractors in our billable personnel that we disclose?

Pratibha Advani  Yes that is right.

Abhishek Kumar  Can we get the number for the subcontractors right now which are there?

Pratibha Advani  No we actually do not share the split.

Moderator  The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu  Just on the margin lever, SG&A has been a bit static like Rs. 95-96 crores, so going forward would SG&A be a big marginally lever for us? And secondly on how the utilization is going to span up because most of the companies are boosting utilization to higher levels?

Arvind Thakur  Yes I think both are definitely margin levers. In fact if you look at our history we have also had utilization levels of 82%, so clearly there is a 5% improvement possible out of utilization.

Madhu Babu  And just one more question has there been any reclassification of the Sabre BPO headcount from onsite to offshore or something like that?

Arvind Thakur  Nothing of that sort.

Moderator  As there are no further questions I would now like to hand the floor back to Mr. Arvind Thakur for closing comments, over to you sir.
Arvind Thakur  
Thank you very much for participating in this call. I really appreciate your questions and your comments and I would like to thank Lalit also for joining in this call as the rest of my colleagues. Thank you and good luck.

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

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