



TRANSCRIPT: NIIT Technologies Ltd Q2FY2015 Results Conference Call

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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator

Ladies and gentlemen, good day and welcome to the NIIT Technologies' Q2 FY2015 earnings conference call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations, NIIT Technologies. Thank you and over to you sir.

Abhinandan Singh

Thank you everyone for joining us on this earnings call today. Today might be an officially off day for many of you, so we really appreciate your taking the time out to join us on this call today. Joining me on today's call are our Chairman Mr Rajendra S. Pawar, our CEO Mr Arvind Thakur, our Chief Operating Officer Mr Sudhir Chaturvedi and our CFO Ms Pratibha Advani.

We will begin the forum today with some opening remarks from our leadership team and then the floor will be open for your questions. With that, I would now like to hand over the floor to Mr. Arvind Thakur, our CEO.

Arvind Thakur

Thanks Abhinandan and good evening everybody, welcome to this call to discuss our Q2 results. You would have seen the results by now.

Our revenues have grown 1.9% sequentially to Rs.5,883 million and that represents 0.2% growth over the same period last year. As you will all recollect, we have been wanting to increase our international business and reduce our dependence on the government business and so we have seen international revenues grow 5.6% during the quarter whereas there has been a decline in the PFR revenue in this quarter which has resulted in an overall growth of only 1.9%. So, in short, we have actually seen growth in our services revenues, in constant currency services revenues have grown at 2.1%.

Americas has a revenue share of 44%, it remained relatively flat in constant currency although sequentially it has grown 3.4%. Whereas EMEA has grown 5.6% contributing to 38% of revenues. Asia Pacific and India now contribute to 18% of revenues. We saw a sharp decline in our domestic business during this quarter, it reduced by 20.7% during the quarter as a result of a lower purchase for resale (PFR) revenues in the quarter.

We experienced some softness in the Insurance business in the US which has resulted in reduction in our BFSI revenues; so BFSI is now at 33% of revenues but we saw growth across all our accounts and all our geographies in the Travel & Transport space which has grown 9.5% sequentially and now represents 42% of our overall revenues. The manufacturing segment contributed to 7% of revenues and as a result of reduced PFR revenues the government business is now only 3% of our revenues in this quarter. Onsite revenues were 65% of our total revenues.

Looking at margins – our operating profit for the quarter now stand at Rs.822 million which has grown 6.1% sequentially. Operating margins improved by 56 basis points and stand at 14%, these had been on account of improvement in productivity as well as a result of the currency benefit that we had during the quarter. Net profits have declined 7.2% sequentially and this is due to increased depreciation that we have seen in this quarter. So net profits are at Rs.401 million. If you look at Y-on-Y decline in net profit which is 35.7% over the same quarter last year this has really been on account of the gain in ‘other income’ which we had in the same quarter last year which was to the tune of Rs.182 million as a result of revaluation of foreign currency assets and liabilities whereas in this quarter we have had ‘other income’ loss of Rs.4 million. Tax rate for the quarter stood at 27.2% of PBT during the quarter.

We had a fresh intake of US\$103 million of new business secured during the quarter. Now, to give you a flavour of the intake and the pipeline and our marketing efforts I would invite Sudhir Chaturvedi who is joining us from London on this call to give you some flavour.

Sudhir Chaturvedi

Thank you Arvind and good evening to you all. As Arvind said, we had \$103 million of order intake this quarter, the US was the largest contributor to the order intake with \$46 million followed by EMEA with \$21 million and Asia Pacific was at \$36 million. In this order intake we had one large deal which is above \$20 million. In terms of new logo acquisitions, we have five new logos this quarter, four in the US and of which three are in TTL one in BFSI and one in government. If you remember in the previous quarters I had talked to you about our focus on the US in terms of effort related to new logo opening and we are seeing some of the results this quarter in that light. In terms of the overall pipeline, that continues to be healthy, the focus is on conversion and large deals and our large deal pipeline continues to be good and we are on track for converting one large deal per quarter going forward.

In terms of marketing efforts – we also had a major milestone in our products business where we launched our Advantage suite which is an integrated platform for policy administration, exposure management, and analytics. So this has brought all our Insurance products under a single platform and this will drive underwriting productivity and profitability for our clients going forward. The key difference is that this has moved from being a “system of record”, a system which really kicked in once an underwriting decision was in its last stages, to being a “system of decision-making” where the clients will use this whilst they are making underwriting decisions and they have all the required information in one suite. The second part of it is that we have launched some new functionality in this Advantage suite which enables clients to write new products, enter new lines of business, and essentially write new lines of business and Insurance. Second is the workflow which enables these complex large commercial Insurance quotes and the rest of the policy flows to be much more seamless than is at present in the market. And last but not the least, almost all our clients have multiple policy admin systems as they have grown through acquisitions and we have created an enterprise service bus-based architecture which helps integrate with multiple policy admin systems, so clients can use this in over and above their existing systems and integrate seamlessly. So this will give us access to a large market going forward and also as I said bring all our product suites under one; so we will

be going forward in the market with the Advantage suite as our offering. This was launched on October 1st in London and we had an excellent attendance, we had 66 clients and prospects attending this launch.

So with this I will hand you back to Arvind.

Arvind Thakur

Thanks Sudhir. Let me just touch a little bit on people. We added eight people net during the quarter so our headcount remains more or less the same at 8,288 people. Utilization has improved slightly to 78.6% but we have seen an increase in attrition which now stands at 15.83%. At this point I will also like to communicate an important leadership change, during the quarter Sunil Surya who headed our Europe's business has moved on, we have since inducted Satya Samal who now is looking after the Europe business; he has joined and is currently undergoing induction. So to give a little background on Satya may I ask Sudhir if you can just share a little background on Satya.

Sudhir Chaturvedi

Sure Arvind, thank you. Satya comes to us with strong consulting, sales, delivery, and product expertise having worked with Hexaware, Infosys, McKinsey and SAP in the past. He also has extensive European experience and he was based in Germany for a few years handling the continental European market. He was also instrumental in growing Infosys's market in the continental European region and we are very pleased to have inducted him recently into the company.

Arvind Thakur

Another very important announcement is the appointment of Dr. Holly Morris as an additional non-executive board member and I will request our Chairman Rajendra Pawar to introduce Holly to you.

Rajendra S. Pawar

Thanks Arvind and once again a very warm welcome to all of you on the call. I did want to mention that we are delighted to inform you that we have added a new member to our board, to the NIIT Technologies' board, and that is Ms. Holly Morris based in the US in Minneapolis. Holly has a very excellent track record, for the last 25 years she has been working on corporate boards in Fortune 500 global financial service organizations. She was a senior VP of Technology at American Express Global Financial Services, also served as a CIO and in CTO position at ING and in her last corporate role she was a CIO at Thrivent Financials, a Fortune 500 Financial Services Organization. Now this decision to add her on to the board is quite in line with our strategy where we have been saying that we want to strengthen operations in the US and accelerate the growth. Also that while we have a very good handle on the TTL vertical Travel Transportation, we did want to strengthen the organizational knowledge on Insurance and Holly brings terrific expertise as well as an understanding of the business as well as many relationships. So all of us are very happy, in fact in the board today we took the decision so we are happy to get her to join the board and to help Arvind and Sudhir in the implementation of the strategy which involves accelerating growth in the US and also strengthening our BFSI vertical, specifically Insurance. Arvind, back to you.

Arvind Thakur

Thanks Raji. Just to touch upon the balance sheet, we have cash & bank balances at Rs.2,638 million, we had a capex spend of Rs.478 million of which Rs.76 million was spent on campus phase-II program and a major portion went into the Infrastructure that we are creating for Airports Authority of India (AAI) amounting to Rs.234 million. We also had improvement in our debtors at the end of the quarter which now stand at 90 days as sales outstanding, it was 95 days last quarter and in fact 100 days in the same period last year.

So just to wrap up, I would just say that we spoke last quarter about the unexpected headwinds with specific clients in the US and we saw a decline in revenues in the first quarter and we also discussed that there were large government contracts which have completed their build phase and are going into the O&M phase, and with our focus moving on to international markets this would create a gap as a result of the reduced hardware component of the business in the second quarter; I think we have adequately covered that gap in this quarter. We did experience some softness in the US which limited our growth in the quarter but going forward I think we expect to continue a quarter-on-quarter growth in the reported numbers for the remaining part of the year and also see improvement in our margins.

So with these opening remarks I would now like to open the session for Q&A.

Moderator

Thank you very much sir. Ladies and Gentlemen we will now begin the question-and-answer session. The first question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran Just wanted to get your comments in terms of the growth aspect for the second half. The first half has been relatively muted on the services business, so just wanted to know how you look at the second-half and some of the initiatives that we have been taking in expanding large deal win rates or even penetrating existing clients on Infrastructure Management side, how are things shaping up? Is it possible to expect a better second-half than what we had in first-half in revenue terms?

Arvind Thakur

Yes, I think that is the expectation into the second-half and I would say that the fourth quarter is where we will expect to see more improvement than in the third quarter.

Srivathsan Ramachandran And any commentaries in terms of on the deal pipeline and how has it shaped-up in the last 6-9 months?

Arvind Thakur

Sudhir would you want to answer that?

Sudhir Chaturvedi

Sure. So in terms of the deal pipeline as I said we are on track for one large deal per quarter. In terms of overall this quarter you have seen growth in the US, growth in TTL and growth also in our Infrastructure Management Services business, as a percentage of revenue it is now 18% of our business. So these are the three areas that we said we will focus on strategically as part of our corporate agenda for the year and we are progressing well on that. Now Arvind talked

about softness in Insurance which is primarily in the US, so we will see some impact of that but overall as Arvind said Q4 we should expect to see or we had talked about having growth further in Q3 and Q4; in Q4 we should see some of that growth pick up going forward as revenues from large deals as well as revenues from new accounts kick in.

Srivathsan Ramachandran Sure. And we have seen decline in minority interest both Q-o-Q and Y-o-Y, just wanted to understand is there any specific subsidiaries that is taking a bit of challenge or is it just more one off?

Pratibha Advani The minority interest has come down because of lower margins in Morris. We won an Infrastructure deal and this was the initial investment in that deal along with the transition cost.

Srivathsan Ramachandran Okay. Pratibha couple of more book keeping question, one is on the working capital loan that we have taken, is it a domestic and overseas loan and what could be the interest cost on the same?

Pratibha Advani So actually this is for one of our overseas subsidiaries, we have substituted this loan through a working capital line that we took during the quarter and the reason was that presently we were actually funding the subsidiary through inter-subsidiary loan but it made better sense to pick up loan outside since we got the benefit of interest arbitrage.

Srivathsan Ramachandran Okay. And on the depreciation there has been an increase because of the capitalization of a project, just wanted to know is this the run rate we should look at it for maybe the next few quarters or is it further some one-off element into this?

Pratibha Advani So let me explain last quarter Chennai airport had gone live so it was really depreciation for part of the quarter that we had booked. This quarter we have got the full impact of Chennai plus the partial impact of Kolkata which has gone live. This run rate will go up, currently we envisage two or three more airports operationalizing next quarter. The full blown run rate for AAI would be to the tune of Rs 8.5 crores per quarter. And of course, as I mentioned earlier about the infra deal, you would have noticed that our managed services business has grown by 2% so there is also the investment in infra there which has contributed to increase in depreciation.

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

Dipen Shah Just had one question, so I was just asking on the revenue front like we have had subpar growth over the last two to three quarters largely on some client specific issues, so basically the issue which is coming out is that on the execution front or probably on the sales front, things are not working out as what we were expecting with the new management in. So just wanted to understand when do you think actually that we should be looking at some sustainable consistent growth rate coming ahead largely because we a leadership position in Travel & Transportation

so there we should have some benefit and now we are focusing very significantly on BFSI. So we are very strong in these two verticals but somehow it seems that we are continuing to be hit by some of the client issues or maybe some other execution issues. So if you can just throw some more light on what exactly is impacting us and when can we expect some sustainable consistent growth at least along industrial going ahead?

Arvind Thakur

Okay Dipen, so just to roll back a little bit, I think when we talked about the corporate agenda there were basically three areas of focus, one was to reduce our dependence on government contracts and increase our international revenues most specifically the US. The second was to focus on the service line which is currently something which has got a lot of traction which is Infrastructure Managed Services. And the third was to try and scale Travel because we have a good critical mass and strong brand equity for that. So what has been happening and so just to answer your question, this year is really a year of transition because you will see that we are replacing all the government hardware PFR revenues with services revenues. If you look at same quarter last year we had Rs.47 crores of PFR and now it is only Rs.5.7 crores, so that gap is getting covered by the services business. I think to that extent we are working as per plan. We would like US to deliver much more than what it is, unfortunately in Q1 as we shared with you last time we had client specific issues and we continue to see softness in the Insurance space, so that is one area that we need to address and see how do we recover. Whereas on the other two we have seen very strong growth in Travel, we have grown 9.5% quarter-on-quarter in this quarter, we have seen very good growth in Infrastructure Managed Services, we have grown I think 11% quarter-on-quarter in Infrastructure Management. I think if we are able to scale up our business in the US which is the focus of the organization I think now we have covered the gap which was created by government business, we should now see consistent growth going forward. So I would like you to treat this year FY15 as a year of transition and really start looking at steady state growth from FY16.

Dipen Shah

Coming specifically to Insurance, just wanted to understand what the issue is in the overall sector, because this business has continued to be impacted for the last two years. There were obviously reinsurance companies which were in trouble in the last year but just wanted to get some sense on when do we see the sector recovering and specifically within that how should we see growth for NIIT Technologies?

Arvind Thakur

I think there are two elements of recovery but if you ask me the recovery is going to happen in FY16 because we are seeing softness in US which will take us two quarters to address. We have just launched a new product and we are getting good traction but I think the deals will come in FY16. So we should factor-in recovery in Insurance in FY16.

Dipen Shah

And just wanted to enquire with Pratibha like we had this sharp increase in depreciation of about Rs 6 crore - 6.5 crore and 8 crore is the run rate so on an annual basis we have about 30 crore - 32 crore of depreciation which we will be adding; so just wanted to get a sense of what kind of capitalization we have made as far as the AAI contract is concerned because it looks like to be in excess of Rs 100 to 125 crore?

- Pratibha Advani** So what has happened is earlier when we had shared with you, we had only looked at capitalization of hardware but we are now also capitalizing the software. Till now we have capitalized over 100 crores for the AAI project and we envisage that there will be another addition of 20 odd crores for the balance airport.
- Moderator** Thank you. The next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.
- Srinivas Seshadri** My first question pertains to the Travel business; you have seen very strong growth in the last couple of quarters, can you talk about like what kind of incremental business opportunities are there, what are the things which are clicking in this vertical, is it more driven by a new client or a new service line? If you can give any kind of color in terms of where the growth is coming from and what is the outlook that we have?
- Arvind Thakur** Okay. I will touch upon a few things, maybe Sudhir can add a little more. I think Srinivas you know we have a fairly strong brand presence in this particular space, so amongst our peer group I think we are second only to TCS, because TCS probably does more business in this space than us. So that positions us very strongly in terms of business acquisition and I think that was reflected when we secured very large engagement last quarter in the Asia Pacific region with a large airline. So part of the growth that is happening is because we have fresh new business which is not renewal, it is a fresh new business which is adding to revenues.
- Second, we are seeing good amount of traction in our digital services space where we have entered into engagements around digital transformation helping airlines make their websites more responsive which means having the same platform across desktops, mobile and other places and these are large programs; for example the engagement with Aer Lingus is one such engagement. We had a very large engagement with a chauffeured car service which is actually competing headlong with Uber and obviously they will need to make a lot of investments to be able to compete with that kind of technology and we are their technology partners. So I think we are well positioned in this space and that is the reason why we are seeing good traction. Sudhir may want to add anything more.
- Sudhir Chaturvedi** Just one more point to that Arvind is that out of the new logo openings also, out of the four in the US that we had, we have three in the TTL vertical out of five, so yes that is also contributing to the profit.
- Arvind Thakur** So there is traction Srinivas in this space.
- Srinivas Seshadri** And Arvind, given that some of the stuff you highlighted seems to be more of specific development kind of activity or transformation activity, is this kind of strong growth attainable over the next two to four quarters or do you think there will be some bit of a volatility like what you have seen in the past when you did some large transformation programs with say GDS

clients and so on. So is it going to be more structural growth or is this going to be up and down?

Arvind Thakur

See, it is structural growth but unfortunately you cannot say nothing will change. So for example, if there is upheaval in anyone of the key clients that could create an issue. One of the places where we are seeing a lot of change is in the International Airlines Group (IAG), the merger of BA and Iberia. So they just once again had a leadership change. Their group CIO has moved on, the new person has come in, so there are some changes in directions that could, I would say, slow down things. Nothing will change, they have to invest, but it takes time for new leadership to settle in and give direction. So other than things like that, I think we are on a good footing as far as the Travel space is concerned.

Srinivas Seshadri

Sure. And secondly on the GIS vertical can you give us some update of how things are in terms of revenue growth as well as what is the outlook with new government in place, have things started moving on the ground per se and what do you expect from a one to two year perspective?

Pratibha Advani

I will share the financials with you and Arvind can then take it forward. The revenue in GIS for the quarter was Rs 318 million and the margins were 28%.

Arvind Thakur

In short – I think the GIS business has bounced back. As you recollect couple of quarters ago we were dragged down by runaway project and margins had gone significantly down, so I think GIS is back on track. Lot of promise as a result of new Prime Minister Modi's Digital India announcement, one of the pillars in fact of his Digital India program is GIS, so we expect to see significant boost in this activity going forward.

Srinivas Seshadri

Okay. And this kind of growth rate, does it look sustainable where we have suddenly picked up?

Arvind Thakur

It is seasonal so it goes up, it comes down; Q4 is normally the biggest, Q1 is normally the smallest.

Srinivas Seshadri

Okay, fair enough. And sir just wanted to understand if we adjust for the hedging gain, margin has gone down even sequentially where last quarter itself was very weak. So can you give some idea or quantification of what is the impact of the transition which is running on the large program and by when can margin come to a more normalized level for the company?

Pratibha Advani

So actually there has been improvement in margin, primarily led by of course the hedge gain, but also some of the productivity initiatives that we have taken on. However, the entire gain did not flow through and this was partially offset by the transition cost that we are incurring on the large deal that we won last quarter.

- Srinivas Seshadri** Sure. And if I may just squeeze in one more question, on the US geography we have seen lot of client additions in the last two quarters. So just wanted some flavor of whether some of these accounts look really scalable and are large logos or are these going to start on a very slow basis and then you are hoping to get more penetration into the IT spend of some of these clients?
- Arvind Thakur** Sudhir do you want to comment on that?
- Sudhir Chaturvedi** Yes, so on the new logo acquisition we have a “must-have account’ opening strategy so we changed the approach that we had for new logos in the market and these logos are in line with the changed approach. These logos are starting relatively small but what we are clear on is that each one of them has growth potential. So I think we will see the growth coming as Arvind said from Q4 onwards or the higher impact in FY16.
- Moderator** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja** Sir, this question was regards to the mishap that we had with regards to some of our clients in US last quarter, if you could talk about the progress on this front and what do you think about the outlook or business within the top clients going forward?
- Arvind Thakur** So as I mentioned we have seen all our all top clients in all regions for Travel have grown in this quarter but we continue to be stressed in the US in the Insurance space.
- Manik Taneja** Okay. And some of the large deals that you had signed in the recent quarters, how are they ramping up?
- Arvind Thakur** In fact that is what I talked about, the one we had in the Asia Pacific region is scaling up well, I think we are currently in the transition phase; the transition is actually proceeding ahead of plan so I think that is really kicking in well.
- Moderator** Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.
- Dipesh Mehta** Can you tell me free cash flow from operations generated during H1 and then Morris revenue and margin?
- Pratibha Advani** So our cash at the end of the quarter is Rs 2,638 million and that is an increase of 687 million over the previous quarter but net cash or free cash flow that is being generated is 200 million, that is net of loans.
- Dipesh Mehta** So when you say FCF, you have already subtracted capex or not?
- Pratibha Advani** Yes, I have.

- Dipesh Mehta** Okay. And what would be the capex outlook for the full year?
- Pratibha Advani** We expect to incur another 50-55 crore for the full year.
- Dipesh Mehta** Okay. And can you help me with Morris revenue and margin?
- Pratibha Advani** Morris revenue for the quarter is Rs 406 million and the margin is 10%.
- Moderator** Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.
- Sanjeev Hota** First question, the order intake is trending down for last three quarters - you have already mentioned that the growth will be seen by Q4 but if you could throw some light on this order trending up by Q4 or what is the kind of trend we can see in the order booking?
- Arvind Thakur** See, on the order book, as I have explained earlier we are basically comfortable if the intake is more than \$100 million. Earlier years in the quarter used to be between 80 million to 90 million. Basically we like the intake to be better than the revenues that we incur in that quarter. There will be some quarter where you land with a very large deal, it may jump up to much more as it did I think two or three quarters ago when we had a 300 million intake. But excluding that, a rate of 100-million plus is a good rate. Last year same quarter our intake was 84 million so I think we are quite happy with that.
- Sanjeev Hota** Okay. And on the headcount sir, attrition is also trending up over the last three-four quarters and the net addition is on the lower side. So how do we see that, the addition and the attrition going forward?
- Arvind Thakur** See, as the services revenues improve and increase you will start seeing increased headcount. So it is good that we have been able to maintain our headcount at a current level while improving our services revenues so far and that is the productivity initiatives which Pratibha talked about earlier. Attrition is a cause for concern. It has been increasing steadily over the last couple of quarters but this seems to be an industry phenomena. We are seeing attrition increasing across the board in the industry. There seems to be a preference for lateral hiring at this point of time in the industry and that is what is really contributing to increased attrition.
- Sanjeev Hota** What kind of wages that could result in...or out of turn wage hikes or some kind of promotions that can help to bring down attrition rates?
- Arvind Thakur** Our policy is very simple. We align our compensation and other policies to the market and so we participate in independent surveys and we peg our compensation at levels which is the median of the basket that we benchmark against. That has been a consistent policy, so if things happen in the industry which requires us to make those changes we will be doing that.

- Sanjeev Hota** Okay. And anything on the growth outlook on Europe; there is some news report of some part of that slowing down, so what is your take on Europe going forward into next one year?
- Arvind Thakur** Yes Europe is an area of concern, Germany for example has not shown good economic indices. We also have some flashpoints in the region which could be a cause for concern. I worry a little bit about the Travel industry and the impact of Ebola in Europe because there could be a lot of airlines servicing those markets. So far, we are seeing good traction in the market. I don't expect things do be difficult for us with the exception of as I mentioned earlier if there is something which is client specific. But maybe Sudhir you may want to comment a little bit on Europe?
- Sudhir Chaturvedi** Yes Arvind just in line with what you said, in our markets and in our core accounts we are seeing a healthy pipeline and reasonable prospects for growth. The macro is not great but in a sense the market has sort of got used to it but the fact is like Ebola, etc., or the change in CIO that you mentioned earlier, those are factors that we may have to contend with over the next quarters.
- Sanjeev Hota** Yes, NIIT Insurance Technologies revenue and margins and Proyecta revenues and margins, hardware revenue this quarter?
- Pratibha Advani** NITL revenue for the quarter is Rs 409 million and the margin is 16% . Proyecta revenue is Rs 184 million and the margins are 11%.
- Sanjeev Hota** And what is the hardware revenue?
- Pratibha Advani** Rs 56 million for the quarter.
- Sanjeev Hota** And the last question is on capex, you indicated that 55 crores is going to be entirely internally financed from internal accruals or are you going to take some debt from third party?
- Pratibha Advani** Currently with the outlook that we have, we should be able to finance this through internal accruals.
- Moderator** Thank you. The next question is from the line of Vimal Gohil from Union KBC Asset Management. Please go ahead.
- Vimal Gohil** My question is to Pratibha; ma'am where do you see the margins going forward? If I just look at the levers I think your GIS business is back on track, you hardly have any hardware revenues left now and we also spoke about margin improvement going forward. What are the levers that you have for margins, how will the margins increase forward going from here?
- Pratibha Advani** With the share of services revenue going up, they will contribute to margin improvement. Secondly, we mentioned earlier that some of the margin softness came from the transition cost

that we are incurring for the deal in APAC region, these should start to peter down by Q4 and we shall again start to see margin improvement coming through.

Vimal Gohil Second question, are you seeing this softness in the Insurance as a sector-wide issue because one of your larger peers is also indicating that Insurance is soft in the Western market?

Arvind Thakur Well, I think there are mixed views on that, I think some people are saying it is okay, some people are saying it is not okay. We are experiencing some softness so that is what we are trying to communicate.

Moderator Thank you. Next question is from the line of Karan Taurani from Religare Capital. Please go ahead.

Karan Taurani My question is again pertaining to the margins. Basically if you see this quarter again your margins improvement has been just 56 basis points despite the currency impact and your hardware revenues have basically kind of stopped now. So how do you exactly see the margin going forward improving from hereon?

Arvind Thakur Yes, I think Pratibha explained the margin pressure is coming from the large contract that we are executing which we are having the transition cost which typically happens when you engage on a large contract, so that is really what is putting the pressure.

Pratibha Advani And just to add to what Arvind said, I had also mentioned about some wins in Infrastructure Management Services, those also require some upfront investments that have been contributing to decline.

Karan Taurani And in terms of the revenue growth trajectory where do you see that in the next two quarters?

Arvind Thakur Our revenue growth for the year would be in single digits.

Karan Taurani So will we maintain what we maintained last quarter or it will be lower than what you were expecting last quarter?

Arvind Thakur I think we said that in the last quarter, that our growth will be in single digits.

Karan Taurani And coming to the levers basically operationally if you see in terms of onsite-offshore mix or in terms of utilization, what would exactly be the levers that you can play around or you will see some pain in the levers or improvement in margin exactly going forward at this juncture?

Arvind Thakur Onsite-offshore is definitely one lever, but after transition.

Moderator Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

- Rahul Jain** Yes, just an extension of some of the earlier questions. My question pertains to the change of the strategy where we are more focused towards the TTL, IMS and US in particular, we are saying that this is a transition year but given the fact that we would be losing a lot of government revenue in the coming fiscal do we see the coming year would be substantial enough in terms of new drivers based on the current order intake to ensure that we would be at par or better than the industry growth in coming period?
- Arvind Thakur** Well, that is certainly our direction because even though now we have brought down our government business to something which is very low, there is the Digital India opportunity and we are going to be very, very selective when we look at where we want to engage in that opportunity. So for example that opportunity will open up because the whole Digital India program will open up, create an opportunity for GIS business, that is certainly something that we will go after. So I think we have been able to in these last couple of quarters bring our mix now to a level where we should start looking at growth in all our geographies but our focus would remain in the US, we want to really see that geography grow and so that is where we have most of our attention going.
- Rahul Jain** Yes, I appreciate that, my only point is that your strategy would definitely ensure relatively better performances versus what we had during the current fiscal but would it definitely lead to better than peers of industry as in general, how we see chances of that happening?
- Arvind Thakur** It is very possible but difficult to comment at this point in time because we are about to begin our planning sessions for the next year, I think we will get a better picture towards the end of this quarter.
- Moderator** Thank you. The next question is from the line of Ashish Aggarwal from Tata Securities. Please go ahead.
- Ashish Aggarwal** I have actually two questions, first on the growth per se – we are looking at growth in FY16 but if I look at your executable order book position 12 months that has almost remained similar over the last two-three quarters. And secondly, on the margins front, now ma'am has said that you are looking at margins recovering from Q4 of FY15 onwards because the transition will come to an end. Just wanted to understand; we need a lot of larger deals to kick start our growth, won't the transition costs on those larger deals impact our margins going forward then?
- Arvind Thakur** No, I think if you look at the order executable over the next 12 month, if I look at the same quarter last year it was about 248 million. So from 248 million it has now become 298 million so I think there is a definite improvement that has happened within the last 12 months, and I think that is encouraging. Now as far as margins are concerned – yes, if you do large transformational deals you do have upfront margin impact but then once you execute that part, do the transition then for the period of the deal which is 4 to 4.5 or 5 years, you enjoy very good margins. So hopefully there will be more such overlapping situations over the period

rather than new starts to offset the decline in margins that you have when you start a large engagement.

Ashish Aggarwal And the margin gains for us will get shifted by maybe a year or so, am I right in assuming that because newer deals will compensate for the higher margins in the older deals?

Arvind Thakur It depresses the margins for some time. Yes, you are right, it shifts the margin in the period.

Moderator Thank you. The next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.

Shivam Gupta Just want to understand the fresh order intake, so we are not counting any more renewals in this metrics?

Arvind Thakur No, renewals are part of that.

Shivam Gupta Okay. So could then just clarify what will be the fresh, new, absolutely new incremental revenues in this which would get added a little later?

Arvind Thakur That we will not be able to share at this point in time.

Shivam Gupta The two large clients which caused you some headwinds in revenues in the last two quarters, I think both of them were from BFSI, so were they from the Insurance vertical which continues to stay soft?

Arvind Thakur Yes.

Shivam Gupta So both of them?

Arvind Thakur No, one of them.

Shivam Gupta Okay, so what is the status in the other one? Do you see any scope of work expanding with them in the next two quarters or...?

Arvind Thakur Beyond two quarters.

Shivam Gupta Beyond two quarters, okay. And lastly, Pratibha could you just share me with your hedge book and strike rates for the next four quarters?

Pratibha Advani Yes, sure. So for Q3 the outstanding hedge is \$15.26 million and this is at 65.32. Q4 it is 13.56 million at 65.61. Q1 will be 12.08 million at 64.61 and Q2 10.35 million at 65.48.

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

- Srinivas Seshadri** Just one question. I was just trying to reconcile some of the financials with the operating metrics. You have reported that cost of revenue has gone up from about 388 crore to about 392 crore, this is despite the lower PFR revenues from 17 crores to about 6 crores, so is this mainly on account of the higher transaction cost and if yes then if a lot of people are in transition then why is the utilization still showing an increase, do you count the people in transition as utilized or not utilized?
- Pratibha Advani** That is right, so the increase in cost that you are seeing is because of transition and we do count the people on transition as also utilized.
- Srinivas Seshadri** Okay. So mainly the increase in the cost is the transition?
- Pratibha Advani** That's right.
- Moderator** Thank you. The next question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.
- Srivathsan Ramachandran** Just wanted a follow up on the revenue growth bit; you said FY15 is something which you are still going to be looking at single digit. But directly when you look at the mix of the business and the various offerings, just wanted to see how would you look at it over a medium term? That's one. Second, there was a decision to focus more on western markets, now I am hearing some commentary on focusing on digital opportunities in India and other things; just wanted to know is there any specific reason for this relook or what is driving this thought process?
- Arvind Thakur** I did not understand. You wanted me to comment on Digital Service in western markets?
- Srivathsan Ramachandran** No, on the domestic market because there are a couple of commentaries, you could look at participating in the domestic piece.
- Arvind Thakur** What I was saying was that Digital India is going to create a lot of opportunities and that we can be very selective about what we want to pursue and I will just give you an example. For example, there will be a lot of opportunity for GIS and that is an area that we are very sharply focused on, it is a good margin business and so we will definitely want to exploit that opportunity. So that was the comment on Digital India.
- Srivathsan Ramachandran** And my first question was more from a multi-year point of view, how do you look at revenue growth given the mix you have, be it geography or verticals, do you think you are in the right pockets to see at least to come back to in-line with industry kind of revenue growth over the next 8-10 quarters kind of trajectory?
- Arvind Thakur** I think we have the right agenda in place, even if I look at the economic environment, the US is very encouraging, they had very good economic GDP growth last quarter. Their current data which we are talking about in terms of unemployment rate, etc., is also very healthy, 5.9%

unemployment for the first time since 2008, they have come down to those levels. So all the indicators are good and as I mentioned one aspect of our growth strategy is to focus on the US and grow that business in the US. Travel, we are seeing the results, we are seeing good growth, and we are seeing good traction. As I mentioned we are secondly only to TCS amongst our peer group so we have the opportunity of assuming the leadership position in this space so it seems sound going forward. And the third, we all know that the ADM space is getting more and more monetized and that the new area for business growth is Infrastructure Management Services and I think we are seeing good traction in that space as well. So I think we have got the right cylinders in place, two of them seem to be firing well, the third which is the US is what we have got to get to fire even better.

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

Dipesh Mehta Is it possible for you to give transition cost which you incurred during quarter?

Arvind Thakur Unfortunately we are obliged by a contract not to discuss anything specific on the contract.

Moderator Thank you. As there are no further questions from participants, I will now hand the conference over to Mr. Arvind Thakur, CEO, NIIT Technologies for his closing comments.

Arvind Thakur Thank you very much for participating on a holiday, I do hope those of you who are in Mumbai had the opportunity to cast your vote and we look forward to seeing majority stable government in Maharashtra. Hope you have done your bit. Thank you very much and good bye.

Moderator Thank you very much members of the management. Ladies and Gentlemen on behalf of NIIT Technologies Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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