



TRANSCRIPT: NIIT Technologies Ltd Q3FY2013 Results Conference Call

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FROM NIIT TECH:

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Moderator

Ladies and gentlemen, good day, and welcome to the NIIT Technologies Q3FY13 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. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Abhinandan Singh, Head Investor Relations, NIIT Technologies. Thank you. And over to you sir.

Abhinandan Singh:

Thanks and welcome everyone to our quarterly earnings call. The slight delay in beginning the call is due to some technical issues. Present along with me on this call are our Chairman, Mr. R.S. Pawar; our CEO, Mr. Arvind Thakur; President and Head of our Asia Pacific and Emerging Markets business Mr. Arvind Mehrotra; and our CFO, Ms. Pratibha Advani. We will begin the call as usual with opening remarks by Mr. Arvind Thakur, our CEO, and then we will open the floor for your questions. With that I would like to hand over the call to Mr. Arvind Thakur.

Arvind Thakur

Thank you, Abhinandan and good evening, everybody. Welcome to the third quarter conference call briefing where we will talk about the financial performance for the third quarter of this financial year. Just a few comments on what we see in the environment. I think all of you are aware that the macro environment continues to be turbulent, but I think the issues are getting gradually addressed. For example, the fiscal cliff problem in the US has somewhat dissipated although not completely gone away, the Eurozone has put in a durable Stability Mechanism in place to deal with the sovereign debt issues over there, the UK economy, although somewhat unstable, has the Bank of England maintaining that there would be growth in 2013. And in India, the GDP growth expectation is somewhat moderated, the widening trade deficit continues to put pressure on the rupee, however, there are signs of inflation softening and that could result in lower interest rates which would further spur economic activity.

In our industry segments of focus, we see that in the Travel space the prospects for 2013 remain unchanged. In fact, what we are likely to see is that both passenger and cargo demand will improve over the next year. That's a healthy sign for us as a business. The BFSI space remains soft due to continued macroeconomic turbulence. More important, some insurers, typically the reinsurers, have got impacted by the natural calamity of 'Hurricane Sandy' which is resulting in some softness in our business as well. We see that the public sector, the government, continues to spend strongly on technology to improve governance and that could be an area of focus that we will talk about as we discuss more on our quarterly results.

With those macroeconomic remarks I will get specifically into our third quarter's results. As you can see, revenues have grown 2.9% sequentially to Rs. 5,144 million and that represents an 18.8% growth over the same period last year. There was an adverse impact of 1.5% on revenues due to the currency loss. So in constant currency terms sequential growth actually has been quite robust at 4.4%

We saw growth in the EMEA region and we saw growth in the US. EMEA now contributes to 40% of our revenues; the US gives 37% of our revenues. We have seen revenue share of APAC and India remaining unchanged.

In the industry segments of focus, top clients in the Travel space continue to grow, resulting in a revenue share of 42%. Softness in the BFSI space has contributed to reduction in the revenue share to 31%. Manufacturing and government business contribute 6% and 8% of revenue respectively.

We have seen improvements in the share of a top five and top ten clients. Our top five clients contribute to 34% of our revenue and top ten to 48% of our revenue. Onsite revenues represent 63% of total revenues.

So overall if you look at the revenue profile, we are seeing that there is a reflection of a sustained growth momentum. In constant currency terms growth in Q1, you may recollect, was 2.5%, in Q2 3%, and now in Q3 at 4.4%.

While revenues have experienced a currency loss during the quarter, the rupee's depreciation at the end of the quarter resulted in significant gains in other income which has contributed to 30% improvement in net profit, and it now stands at Rs 56 crores for the quarter. Operating profit for the quarter stands at Rs 812 million which is up 4.1% YoY but down 4.2% sequentially. The reason for our margins declining to 15.8% is primarily on account of continued softness in our GIS business which has shown a loss in this particular quarter and continued softness in our NITL business. Coupled with the transition of new business that we are doing with Morris, as you would recollect there was significant incremental business that we acquired and are executing which started in this quarter under review. So there is transition cost associated with that as well and therefore operating margins for the quarter now stand at 15.8%.

We maintained steady intake of fresh business during the quarter with some large \$10 million plus deals also flowing in. US\$83 million of fresh business was secured during the quarter. This included a USD10 million of new business in the Travel and Transport space. We also added four new clients during the quarter which includes a large \$10 million contract from states wherein we are responsible for providing a solution for the Registry and Stamp Department. This is an interesting program because this solution can be replicated across all states as well. So orders executable over the next 12 months now stand at US\$242 million.

What we will now do is, I will request my colleague, Arvind Mehrotra who is the president of our Asia and India business to give you a briefing, and immediately after that we will get into the Q&A. So in case you have not been able to hear me properly in my opening remarks feel free to ask me the questions or clarifications, I will be happy to do that.

Arvind Mehrotra:

Thank you, Arvind and good afternoon ladies and gentlemen. Just to share with you in the quarter gone by how we have progressed. As you would have seen in the press release our four large programs in the CCTNS kitty that we have, the pilot phase went live in the last week of December. This is a great milestone for the organization and for the country because the pilots have been launched and inaugurated by the chief minister of the respective states and NIIT Tech is the only company which has not only been on track but ahead of the curve vis-à-vis the other providers.

The other big program that we had announced last quarter was a significant win with a commodity board, which was the tobacco board, where we were delivering a transaction pricing-based solution for auction which will help the marginal farmers realize a better price realization. In three months' time from the signing of the contract the program went live. It was launched by Union Minister Dr. Mrs. Pundeshwari Rao and it has gone live in the State of Karnataka and I am pleased to share that this is the first mobile-based e-auction platform in India and we are seeing a positive news both from the farmers and the buyers because the transactions are now transparent and completely visible to all the stakeholders.

As we move forward, in Asia we saw for Cathay Pacific Services Limited which is the new cargo terminal entity of Cathay Pacific Group, that system went technically live. The terminal will open in February as and when they get the clearances from the Hong Kong Ministry, it is under approval process but the terminal went live and our application and our work as a provider has been recognized by the customers and the various stakeholders. Further down in the south region which is in Asia Pacific as the greater market, we were working with a large carrier in helping them to move from two multiple GDS to a unified GDS, and they went live as the year end progressed and the users of the system which is the business and the flyers of this airline have recognized that the transition has been smooth and the application is stable and performing well.

As Arvind had shared in his remarks, we had a large win in India, for a solution for the Registrar and Stamps Department, where we have been able to win a large deal. This deal, like CCTNS, is replicable as this will be rolled out in various states. This is the computerization of the stamps department in view of the Tehelka scandal and thus this IT project holds significance.

With this I hand it back to Arvind.

Arvind Thakur:

Thanks, Arvind. I think the whole idea here was to give you a flavor of some transformational engagements that we are involved with in the region and how NIIT Technologies has been helping its customers successfully cut over to these new platforms and doing it on schedule and on time.

So, with these remarks I think it will be best for us to engage in the Q&A. So moderator may I request you to open the line for Q&A.

- Moderator** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Yash Mehta from Equirus Securities. Please go ahead.
- Ravi Menon:** This is Ravi Menon from Equirus. Just want to check about the decline in revenue from NITL. Because of some royalty linked payments? Which solution would this be?
- Arvind Thakur** As I explained, the customer base of NITL are primarily reinsurers because the business and the solution that we have supports that particular segment of commercial insurance. And if those clients are not growing, if they are getting impacted by a number of catastrophes that have happened in the recent past, most recent being ‘Sandy’, then the license revenues do not grow and that is one of the reasons why we are seeing softness in that business.
- Ravi Menon:** I thought that the reinsurance solution was actually with Lloyd’s in the UK. I did not realize that it is also in the US.
- Arvind Thakur:** The reinsurance provider reinsures properties all over the world.
- Ravi Menon:** I have a follow-up question on the system integration and package implementation. Could you share which region or vertical you have seen its growth in?
- Arvind Thakur** This is mainly the domestic government business because that is where we do a significant amount of system integration and package implementation but by and large SI and package implementation and solutions are the preferred solution set in the whole of the Asia region. So this business primarily happens in Asia and India.
- Moderator** Thank you. The next question is from the line of Karan Torani from IFCI Financial Services. Please go ahead.
- Karan Torani** Just wanted to understand your volume growth in US and Europe, if you can give me that number?
- Pratibha Advani** Volume growth in US is close to 1% and in Europe it is 5.7%.
- Karan Torani** The discretionary IT spending, basically your consulting and PI has been good, System Integration and Package Implementation. Do you see this kind of positive uptick in your Insurance business also going forward?
- Arvind Thakur** What we are seeing is strong traction in the Travel and Transport space. We are seeing softness in the BFSI space. Our spending of SI and PI is mainly in the domestic government space.
- Karan Torani** But could it be replicated among the BFSI clients in Asia if you have any? I mean overall the demand side for the discretionary IT spend, I would want to understand that from your company’s point of view.

- Arvind Thakur** It would be more appropriate for Travel and Transport space than the BFSI space.
- Karan Torani** Coming to your EBITDA margins, they stand at 15.8% which are at historical lows probably given the one-time impact which you had after the Morris deal in Q2FY12. What is the strategy for getting back the margin in the range of 18% to 19% because I think that is where your company is lagging as of now?
- Arvind Thakur** As I was explaining, there are some short-term I would say issues which have impacted our margins in this particular quarter. The most significant being the margin decline that we have seen in our GIS business as well as reduction in margin in NITL business. Second part, we had secured a large contract from Morris, and this is a services contract which we are transitioning. And as you know there are initial costs associated with transitioning the large businesses, so that is the other reason why we are seeing a decline in our margin in this quarter. So both these are transitional and should be dealt with in the coming quarters.
- Karan Torani** But when do you see this coming by because you will be a strong re-rating candidate if your margin again comes to 18 to 19 per cent level which was there earlier, so when do you actually see this happening?
- Arvind Thakur** We will see this happening in the beginning of the next financial year.
- Karan Torani** And what about BFSI? I mean Insurance is obviously not doing well. Last quarter you did indicate you may have some pricing pressure in the BFSI vertical. Have you witnessed anything of that sort this quarter?
- Arvind Thakur** In fact, we are not experiencing pricing pressures. We are just experiencing a slowdown in business intake from that segment.
- Moderator** Thank you. The next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.
- Srinivas Seshadri** The first one is on the GIS business. At the early part of the year management was guiding to a reasonably healthy growth in this business. So that has not happened plus obviously we had the surprise on the margins. So could you reflect on what has kind of gone wrong and when do you expect to grow to revive it, plus the margin to come back to healthier levels as what we have seen, is that visible next quarter or further down the line?
- Arvind Thakur** I think I had shared probably in my last call that we have an overrun in a program that we are executing for one of the electricity boards which is the APDRP program and so that is what has contributed to the decline in the margins in this particular business. Traditionally, the fourth quarter is a good quarter for this business and we will definitely see improvement in the next quarter in our GIS business.

- Srinivas Seshadri** Can I just follow up on the margin bit? Is the cost overrun over in this quarter or is it likely to go on in the next quarter as well or even further down?
- Arvind Thakur** This quarter we actually had margin loss, there was a 7% loss in GIS margins. This actually never happened before. This is the first time we are seeing a loss in the GIS business. And that was because of our all out efforts to conclude the pending exercise and work in this program in this quarter. So I think the work has been done. There is I would say some vestigial bit which is left where work has to be validated. So to that extent there maybe some cost moving into Q4 but otherwise the major part of the cost has been taken care of.
- Srinivas Seshadri** And secondly, wanted a couple of data points and then I will come back for more questions. One is how much of the CCTNS revenue was booked during this quarter and how much of it was likely if you can give a split of hardware and software? And secondly, also the Morris revenues and margins during this quarter?
- Arvind Thakur** I can tell you CCTNS is Rs 22 crores and on Morris Rs. 303 million.
- Srinivas Seshadri** Arvind, this 22 crores number includes the services bit or is it just the hardware?
- Arvind Thakur** No, this is just the hardware element.
- Srinivas Seshadri** And any overall number you can share?
- Arvind Thakur** We have Rs 266 million I think.
- Moderator** Thank you. The next question is from the line of Govind Agarwal from JM Financial. Please go ahead.
- Govind Agarwal** If you could update on the outlook for the Insurance product business, are any deals coming back over there? And second on margin bit again, if you could walk through over the margin for the current quarter, the headwinds for the current quarter and what are the tailwinds going forward for next quarter and next year?
- Arvind Thakur** As I had shared earlier in terms of the outlook of the business segments, we anticipate our BFSI business to be soft for one or two quarters but we expect good traction in our TTL business. Although this has been a difficult year for the Insurance business, because there have been a number of catastrophes that have happened, there was the earthquake in Japan, there were earthquake in New Zealand and then Sandy in the US, we expect next year to be a good year and so we will see a pick up in the Insurance business happening after one or two quarters.
- Govind Agarwal** On the margin bit, if we expect margin uptick what would be the likely trajectory of margin improvement over the next few quarters?

- Arvind Thakur** We will see very marginal improvement in the next quarter. We will start seeing significant improvement from the next financial year.
- Govind Agarwal** If you could quantify the impact of GIS in the current quarter...?
- Arvind Thakur** We had a (-7%) operating margin in our GIS business in this quarter.
- Govind Agarwal** I do not want any guidance over here but historically it has been 20% plus margins in GIS. Can we expect it to come back to that level over sometime?
- Arvind Thakur** Yes, it should definitely come back in two quarters.
- Govind Agarwal** June, you are saying, should be back to normal margin trajectory?
- Arvind Thakur** That is right.
- Moderator** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja** Just carrying on the question with regards to first of all in your revenue growth, you did indicate in your opening remarks that we have seen an improvement in constant currency revenue growth through the last three quarters. So do you see that trend continuing? That is number one. Secondly, for us traditionally there has been some linkage to our closing order book with regards to the revenue that we deliver next year. So, in that context 1.6 or 1.7 multiple on the closing order book, does that still hold according to you for FY14? And then also wanted to get a sense on the GIS revenues as well as ROOM revenues in the current quarter?
- Arvind Thakur** I think one of the things that we have been talking about is how are we going to fare with respect to our overall growth with respect to the industry. At the beginning of the year NASSCOM had indicated industry growth of 11% to 14%. We definitely see ourselves growing ahead of the upper end of that forecast. That should give you a sense of the momentum that we have in our business for this financial year. You would have noticed that we have had steady intake throughout the year and we can only expect that to improve in the next quarter. That was one part. What was the second part of your question?
- Manik Taneja** A couple of book-keeping questions on the GIS and the ROOM revenues as well as the margins in the ROOM segment?
- Arvind Thakur** GIS has done a revenue of Rs 197 million this quarter and it had had a negative margin of 7%. Traditionally, GIS runs at 25% plus margin. So you can see why we have seen a decline in overall margin for this quarter. That is definitely going to come back. NITL (formerly ROOM) has been running at a revenue of Rs 337 million and a margin of about 17% to 18%. Now, that

also typically runs in the around 25% that range, so that is another area which is going to be a margin driver for us.

Manik Taneja You talked about some improvement in margins into FY14. So would it be fair to assume that most of the improvement that you envisage in terms of margins would more be a function of both GIS and ROOM returning to normal profitability levels and that is driving the overall companywide margins or is there anything else that you foresee driving the improvement in margins?

Arvind Thakur That is definitely one of the main drivers of margin into FY14.

Manik Taneja Could I also have the Proyecta revenues?

Arvind Thakur Proyecta is Rs 144 million.

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

Dipesh Mehta I have a couple of questions. First, just to understand Morris transition cost. What would be the impact on margin this quarter? Second question is on SG&A. We have seen some kind of rationalization in this quarter. So can you share what would be the S&M component and G&A and what would be the trend going forward? And third question, what would be the contribution from Sabre BPO, because I think that would be integrated from this quarter?

Arvind Thakur Okay, I can talk about the first, where in this quarter because of the transition cost we have had a margin impact of 40 basis points as a result of the Morris contract. On S&M and other things I will ask Pratibha to answer.

Pratibha Advani The S&M component is 6.7% to our revenue and the G&A is 11.7%.

Dipesh Mehta So where have we seen decline this quarter?

Pratibha Advani We are seeing a decline in our G&A.

Dipesh Mehta And you expect that control to continue or you expect it to again come to normal?

Pratibha Advani We expect the control to continue.

Dipesh Mehta And Sabre contribution to revenue this quarter?

Arvind Thakur You are talking on Manila?

Dipesh Mehta Right.

- Arvind Thakur** Rs 52 million.
- Dipesh Mehta** This is the first full quarter. So this 52 million is fully incremental or we had something in Q2 as well?
- Pratibha Advani** We had a very small share of revenue, insignificant, the main contribution has come in this quarter.
- Dipesh Mehta** And what would be the margin it operates that?
- Pratibha Advani** At about 8-9%.
- Dipesh Mehta** So it has also some dilutive effect on our margins?
- Pratibha Advani** What we have shared with you is our business margins, but if you look at the composite margin of some of the work that we have offshored to India then it is slightly higher.
- Dipesh Mehta** And last question is data related. Can you share outstanding hedges?
- Pratibha Advani** Our hedges outstanding are 47.9 million and the rate is 56.71.
- Dipesh Mehta** And Euro hedges?
- Pratibha Advani** We actually generally give the number for USD because the Euro hedge is a very small number, it is in the range of normally 5 to 6 million.
- Moderator** Thank you. The next question is from the line of Anurag Purohit from Systematix Shares and Stocks. Please go ahead.
- Anurag Purohit** I had a question regarding the executable order book over next 12 months. For the last few quarters we have consistently seen a good fresh order intake but the executable order book has remained stagnant at somewhere around \$240 to 250 million range. Any particular reason for this trend?
- Arvind Thakur** Actually, one of the main contributors for that is the currency fluctuation because the executable order we talk about it in USD whereas when the rupee depreciates that USD value reduces. So if you look at the current executable order book over the next 12 months what we are reporting is 242 million but if I look at it in constant currency it is actually 252 million.
- Anurag Purohit** But still the range has been somewhere \$240 to \$250 million only...?
- Arvind Thakur** That is because if you look at our intake, it kind of follows the revenue in every quarter. Typically, our intake is skewed towards the fourth quarter; you will see an improvement in the last quarter which will take up the orders executable for the next year.

- Anurag Purohit** And any recruitment plans that have been finalized for FY14 particularly from freshers point of view?
- Arvind Thakur** I think what we are basically doing is this quarter we have added 265 people. Normally we hire anywhere between 200 to 300 people per quarter.
- Anurag Purohit** But campus offers that you would have offered for FY14, can you give a particular figure to that?
- Arvind Thakur** I do not have that number.
- Anurag Purohit** In case of Insurance, typically what will be the time gap between let us say a particular calamity happens because so far there has been quite a lot of calamities that the insurance players have faced in the last one-and-a-half years, but typically in your experience what has been the time period between which the calamity happens and insurance players start again spending on growth from their perspective?
- Arvind Thakur** Typically takes 9 to 12 months.
- Anurag Purohit** So generally three to four quarters...?
- Arvind Thakur** Because they have to settle the claims, then there is a capital event, there is capital infusion and then they start.
- Moderator** Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah** Just had a couple of questions. First of all, on the macro front, if you can just throw some more light on the trends which you are seeing in the Travel and Transportation especially some of the segments which are witnessing good growth? And if in the BFSI we are seeing any revival in terms of some of the projects which had seen a scale down. So maybe some inputs on that would help?
- Arvind Thakur** I will just refer to industry body IATA's report on the Travel segment. That is where I actually picked up the view of 2013, which they said remains largely unchanged from 2012.
- Dipen Shah** This is the budget for 2013 as it is?
- Arvind Thakur** What they are talking about is that both passenger and cargo demand will increase by 4.5% and 1.4% respectively. So there is definitely an uptick in demand. So that is a good sign. And as far as Travel is concerned, as you know, IT is very integral to airline operations as well as other associated industry. So we expect to see good continued traction in this space. Also, at 42% now we have a very significant critical mass, good positioning in that industry vertical. In BFS what we are seeing is softness in the large clients. So we are seeing cutbacks, particularly

in our case we have one client in the US which is ING which is very seriously restructuring itself, hiving off parts of its business. So in large financial institutions is where we are seeing cutbacks and slowdown but our approach now is to address the smaller institutions. So we have a large number of them, like the Tower Group, Utica, Bankers Insurance and so on. And all of them are scaling up well. In fact, most of them are now having a run rate of \$5 million plus. Our focus is moving from the Tier-I financial institutions to the Tier-II financial institutions and that is where we are seeing traction.

Dipen Shah Also, can you just help me, Pratibha, with Morris margins in the current quarter with revenues of 303 million?

Pratibha Advani Morris margin is 9%.

Dipen Shah In the balance sheet we had cash and cash equivalents of about 280 crores and if you look at the other income component then the interest and related income is about 2 crores per quarter.

Pratibha Advani What is the other component you want to know? That is the FX, the revaluation of assets and liabilities.

Dipen Shah No, I am just trying to put in terms of what is the yield which you are getting on your cash and cash equivalents?

Pratibha Advani Effectively our yield will be in the range of 8.5 to 9%.

Dipen Shah Because then some other income component should be higher per quarter...?

Pratibha Advani That is the yield that we are getting in India but the cash that you see here is the global cash and the yields there across in the other international geographies is much lower.

Dipen Shah So what proportion of this cash and equivalents would be in India?

Pratibha Advani It will be roughly about 50/50.

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

Madhu Babu Within our top ten clients how do we see the growth opportunities for next year?

Arvind Thakur Our top ten are doing very well. It is 5% in this quarter.

Madhu Babu One of the larger peers was saying that CY13 would be better than CY12. So do we agree that, I mean are we seeing better visibility in CY13 from the developed markets?

Arvind Thakur Definitely. I think '13 would be a better year than '12.

Madhu Babu And broadly can you give the EBITDA margin profile of the India business and APAC business as a whole?

Arvind Thakur I can only say that the margins are lower in the Asia business as compared to the US and Europe.

Moderator Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota Most of the questions have been answered, I have two questions only. What is the Hardware revenue for this quarter?

Arvind Thakur Rs 22 crores.

Sanjeev Hota And second question is on this registration and stamp department contract. So what will be the hardware component that is going to be booked in the coming quarters?

Arvind Mehrotra If you take with the AMC cost of the hardware which is spread across a five-year period it will be about 65 to 70% would be hardware and the balance would services.

Sanjeev Hota 65 to 70%?

Arvind Mehrotra Yes.

Sanjeev Hota And the tenure of the deal contract is five years?

Arvind Mehrotra Five years.

Sanjeev Hota And last quarter you mentioned about there is a delay in the new billing in the CCTNS project, what is the status now?

Arvind Mehrotra CCTNS, as I had explained, the pilot phases have gone live in all the four states. NIIT Tech's all contracts have gone live. So that is the major achievement in the quarter and now that will create the momentum forward.

Sanjeev Hota We have now like three government contracts in the domestic market. So are we going to see some incremental hardware revenue booking in the coming quarters? What kind of hardware revenue can we assume from this contract to come in the...

Pratibha Advani It will be in the range of 25 to 30 crores.

Sanjeev Hota For how many quarters?

- Pratibha Advani** This is for Q4, but depending how we plan the project going forward, we are still planning for the Madhya Pradesh revenue and stamp project that Arvind spoke about, so we will have better visibility when we speak to you next quarter.
- Sanjeev Hota** Last question is on the GIS revenue. So, seasonally Q4 is going to be a strong quarter for the GIS business. So, when we say that the improvement is going to come, so are we saying that the run rate will be the same as the last year because it is going to be a bit difficult, so what kind of run rate can we see in the next quarter for GIS revenue?
- Arvind Thakur** I think what we will see is overall revenues for GIS for the year would be the same as last year.
- Sanjeev Hota** So this fourth quarter run rate will be substantially improved?
- Arvind Thakur** Yes.
- Sanjeev Hota** And margins will improve in the first quarter you are saying ...?
- Arvind Thakur** Margin will improve from the fourth quarter and completely recover in first quarter.
- Moderator** Thank you. The next question is from the line of Amar Mourya from India Nivesh. Please go ahead.
- Amar Mourya** One repeat question primarily on the margin front. If I remember correctly last time we had spoken that because of the competitive intensity we are seeing some margin pressure. So, how is the status now and from here when we are talking about the margin improvements how is it going to pan out and in terms of the competitive intensity what we see, are we seeing some pricing pressure going ahead?
- Arvind Thakur** I think we talked about the competitive intensity in the BFS space because that is an area which is somewhat soft. So, that is the only area which is of concern going forward. In the other areas, we do not expect to see any kind of pressure because we are seeing good traction in those areas.
- Moderator** Thank you. We are going to take a follow-up question from the line of Srinivas Seshadri from CIMB. Please go ahead.
- Srinivas Seshadri** My question is on the margins. Arvind, you mentioned that you are not expecting major improvement in the fourth quarter. If I look at this quarter you mentioned that the GIS business margins have kind of normally been high and should recover to some extent. And again this quarter we had a drag on the Morris second contract. So why are we guiding to only a marginal improvement? Are there any other factors like we should be aware of in terms of margin drags which are built into the fourth quarter when you say this?

- Arvind Thakur** I think one of the elements is that there will be an increased delivery of government contracts and we talked about increased hardware delivery in the next quarter.
- Srinivas Seshadri** And any other one-offs we are expecting apart from that?
- Arvind Thakur** No, I think basically that is it.
- Srinivas Seshadri** And the second question is on the order booking. Like you mentioned that you won \$10 million from a renewal deal from an existing client. So is it incremental business or is it the same business which you again won?
- Arvind Thakur** It is new business.
- Srinivas Seshadri** And when you give this number of order booking every quarter I believe it includes both new business as well as existing business, right, or...
- Arvind Thakur** Yes.
- Srinivas Seshadri** So any numbers you can share in terms of incremental business versus old business renewed for this quarter or the ...?
- Arvind Thakur** It is very difficult to segregate, which is the reason why we do not talk about it, because it is difficult sometimes to allocate what is renewal and what is new business.
- Srinivas Seshadri** But any rough kind of estimate or that is not possible?
- Arvind Thakur** Cannot say.
- Srinivas Seshadri** And also, the last quarter you were talking about a few large deals which are in the pipeline. So can you give some update on where they are? This quarter I believe we have not won anything very large. So, what is the update, any closure, prospects?
- Arvind Thakur** I think that is what I said. We expect to have better intake next quarter, and that is because of the large deals hopefully, they should fructify in the coming quarter. But we have got discussions happening in every geography.
- Srinivas Seshadri** And how many large deals would you have like throughout your business at some stage of advancement?
- Arvind Thakur** Normally there are three to four at different stages.
- Srinivas Seshadri** And the last question is on the BFS vertical, that is, excluding Insurance. If I look at it, it has declined on a QoQ basis in dollar terms. This is one area where you were quite enthusiastic in terms of adding the Tier-II banks, etc. So despite that the revenues have kind of declined. So

you mentioned one factor which is ING. I believe there is also one more account which is fairly sizeable. So, is the existing business from that account also under considerable stress because of which we are seeing these numbers?

Arvind Thakur There is no stress, yeah, you are right, the other account is SEI which is a very large account, but you must remember that December quarter is traditionally a smaller quarter because of the lower number of billing days. So it is only that which is impacting the other account. Our major issue is ING.

Srinivas Seshadri So we should expect a revival in the next quarter itself?

Arvind Thakur Yes.

Srinivas Seshadri And sorry, I believe you gave a number of a one-off transition cost of Morris. Can you please repeat that?

Arvind Thakur Diluted margins by 40 bps.

Srinivas Seshadri And they should recover in the next quarter itself or it will be a multi...?

Arvind Thakur First quarter of the financial year.

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

Ganesh Shetty My first question is regarding our new technologies, which we are trying to build up, that is analytics, mobility, and cloud. So can you please update any progress in that particular section of our business?

Arvind Thakur Lots have been happening over there, Ganesh and fortunately, Mr. Arvind Mehrotra is over here, so I will ask him to talk to you about it.

Arvind Mehrotra I did mention about it in the opening remarks that a large e-auction mobility solution has gone live for a commodity board. This allows for the auction to take place at the site where the bids are displayed, and it allows simultaneously display of the price that has been finalized as the auction is happening. Now, what this does is bring in transparency and this is basically being executed on a mobile device which most of the users, the buyers are familiar with. The auctioneer also starts the auction on a mobile device and he gets an update on the price so there is no hanky-panky that is allowed. So thus you have seen a very innovative solution from us in the mobility space. We will continue to develop solutions which will impact the business on a positive side as a cost reduction or better service to the customers. So that investment is going on always. With respect to cloud, one of our large customers in India, their entire branch operations, their headquarters, all their branches went live on the cloud which is our core banking system and they announced that in their AGM. We were also able to launch SMS,

ATM Card services on top of that as value-add services. So this has been a great win because this customer has not invested anything on premise, the entire application environment is on cloud and this is our first major success for a Tier-III, Tier-IV bank. With respect to analytics, we are preparing ourselves to address some of the challenges in the Insurance business that the insurers are facing in the Lloyds market where we have introduced an analytical product which works along with the GIS technology and allows the risk taker or risk evaluator to get a better view of how its policy and how its risk coverage is distributed. So there is some set constant movement but we are looking at as this industry is looking at a sharply focused solution, which are supporting the business.

Ganesh Shetty

Second question is regarding our revenue growth. We have fairly done well as far as revenue growth is concerned and our organic growth is concerned. But any inorganic growth initiative or any kind of program which you have shortlisted? Can you please throw some light on this?

Arvind Thakur

As I have always been saying in our calls, inorganic programs are an integral element of our growth strategy. There are a number of opportunities that we are pursuing but this can only be talked about when transaction actually takes place.

Ganesh Shetty

My third question is regarding rupee/dollar exchange rate. So as now macro conditions for India is supposedly getting better and chances of rupee getting appreciating is also higher than the previous quarter or previous year. And at present the rupee/dollar ratio is quoting around 54.50, do we find this as a very favorable currency exchange rate and for that matter are we going to increase our hedging position at this present rate as we have good revenue pending orders with us? Can you please throw some light on this?

Arvind Thakur

Unfortunately, this is a very complicated subject. To help us manage our exchange rate and currency fluctuation we have actually got specialist advisors whom we do take on how to hedge and what to hedge because the view of which way the rupee is going to move is wide and varied as well at this point in time the widening trade deficit is going to put more pressure on the rupee, so it may just as well depreciate even further. So we really do not know which way the rupee is going to move. So we rely on experts who we have engaged as advisors to give us advice on how to do this thing going forward.

Moderator

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

Dipesh Mehta

What would be the operating cash flow for the quarter?

Pratibha Advani

We generated free cash flow worth Rs 55 crores this quarter.

Dipesh Mehta

So, because this is I think unusual compared to previous two quarters. So what led to this kind of improvement?

Pratibha Advani

Better management of our receivables and of course our unbilled revenues also came down.

- Dipesh Mehta** Because reported DSO is showing a one day uptick. So how much would be the unbilled decline that we have seen?
- Pratibha Advani** Unbilled is down by almost Rs 5 crores and DSO has actually gone up marginally because of the FX impact. So in absolute terms if we knock off the FX impact, our DSOs have actually come down.
- Dipesh Mehta** 55 crores for the quarter, any FOREX plus/minus is part of this 55 crores?
- Pratibha Advani** In the cash generation?
- Dipesh Mehta** Right.
- Pratibha Advani** No.
- Moderator** Thank you. We are going to take a next question from the line of Yash Mehta from Equirus Securities.
- Yash Mehta** Just had a question about the utilization impact, the 1.4% decline in utilization. Do you know how much that impacted margins this quarter?
- Pratibha Advani** Yes, it typically impacts our margins about 40 basis points.
- Yash Mehta** Each 1% decline.
- Pratibha Advani** Yes.
- Moderator** Thank you. A follow-up question from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah** Just a bookkeeping one, what could be the contribution of nonlinear revenues to the overall revenues this quarter?
- Arvind Thakur** It is 21%.
- Dipen Shah:** So it was 21% last quarter also. So we are still not including Morris revenues in that?
- Arvind Thakur** Actually we are still not, we should start doing that because we have moved into transaction based pricing, we have to just compute that and start including that. That would probably add another 2%-3%. And Tobacco Board also we have not added. So there are a few elements which have been missed out.
- Moderator:** A next follow-up question from the line of Srinivas Seshadri from CIMB. Please go ahead.

- Srinivas Seshadri:** Just one bookkeeping question. Can you give the breakup of the hedging position quarter wise? And also what is the current hedging policy?
- Pratibha Advani** So I will first share with you the current hedge policy. For the following quarter it is 90% hedge covered for our net cash inflow. Q2 would be 80%; Q3 70%; and Q4 is 60%. Our forward covers in USD for Q4 are 14.19 million; Q1 next year are 12.84 million; Q2 are 11.24 million; and Q3 are 9.63 million, it adds up to 47.9 million.
- Srinivas Seshadri:** And is there any major difference between the strike price for the hedges between these quarters?
- Pratibha Advani** Yes, there is actually. So, for example, in Q4 the rate would be about 54.89 versus Q3, which is 57.45. Fortunately, we are still getting good premium, which could be anywhere in the range of 5% to 7%.
- Srinivas Seshadri:** Can you also share the rates for the two quarters in between?
- Pratibha Advani** Q1 is 57.62 and Q2 is 57.35.
- Moderator:** The next question is from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.
- Abhishek Shindadkar:** A quick question is that if I understand it correctly, would you be doing now revenue growth towards the upper end of the NASSCOM guidance or the lower end of the NASSCOM guidance?
- Arvind Thakur** Beyond the upper end.
- Abhishek Shindadkar:** And the second question is on the margins. I apologize, this could be a little repetitive, but if I look at the nine months FY12 average rupee rate it is more closer to 47, 48 and the nine month FY13 is more closer to 54, which is depreciation of around 15% and on a conservative estimate that is roughly around 300 to 400 basis points of margin tailwinds. If I look at the nine month average for '12 and '13, the margins are 17.1 and 16.3. So could you help us understand that what has gone into the margins where we have lost on those 300 basis points?
- Pratibha Advani** Basically, the margin decline will be attributed to the two businesses that Arvind mentioned earlier. Both NITL, our Insurance business, and GIS would have contributed to upwards of 200 basis points of margin decline. Coupled with that would be the Morris transition as well as a higher component of domestic business.
- Abhishek Shindadkar:** Just a follow-up to that is now were we to assume that we see a significant appreciation in the rupee. Then could you help us understand what are some of the levers that you have if there is another 200 basis points impact because of the rupee appreciation?



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Pratibha Advani Again, whatever has been the reason that has led to the margin decline will obviously work the other way in our favor next year and give us an uptick in our margins.

Moderator Thank you. As there are no further questions, I would like to handover the conference over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments.

Arvind Thakur Thanks once again for participating in the conference call. As you would have seen we have been maintaining a pretty good revenue momentum throughout the year and as I reiterated and many questions were asked about the year-end picture, I just want to reiterate that we would be beating the upper end of the NASSCOM guidance. So look forward to your continued support and suggestions and comments as we go through for the balance part of the year.

Moderator Thank you. On behalf of the NIIT Technologies that concludes this conference call. You many now disconnect your lines. Thank you.

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(1 crore = 10 million)