



TRANSCRIPT: NIIT Technologies Ltd Q4FY2015 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 Q4FY15 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 the conference call, please signal an operator by pressing '*' 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 of Investor Relations at NIIT Technologies. Thank you and over to you sir.

Abhinandan Singh: Thank you and welcome to our Q4 FY2015 earnings call everyone. Present along with me on this forum are Mr. Rajendra S Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Sudhir Chaturvedi, our COO; and Ms. Pratibha Advani, our CFO. We would begin this forum today with opening remarks from our leadership team and then the floor will be open for your questions.

Before I hand over to Mr. Arvind Thakur, I want to make one more quick announcement. You may have received invitations from our side for an Analyst Meet that we are organizing in Mumbai on this coming Thursday, 7th of May, at 4 PM. The venue is the Trident Hotel, Bandra Kurla Complex, in the Golconda Ballroom. So I just wanted to once again take this opportunity to invite you to our Analyst and Fund Manager Meet and look forward to see you there this Thursday. With that I would like to now hand over to Mr. Arvind Thakur, our CEO.

Arvind Thakur: Thank you Abhinandan and good evening everybody. I'm pleased to share with you our 4th quarter results and also touch upon the annual results for the year FY2015. Revenues in the quarter grew 2.7% sequentially to Rs 6112 million. Taking into account cross currency impact, in Europe in particular, growth in constant currency was 3.3% sequentially. Our US geography experienced robust growth of 3.8% during the quarter contributing to 44% of overall revenues. EMEA marginally increased 0.8% contributing to 35% of revenues and the rest of the world grew 3.6% resulting in revenue share of 21%.

Growth in the US was driven primarily in the BFSI side space which grew to 4.8% sequentially contributing to 33% of the overall revenues. Our Travel & Transport segment contributed 38% percent of revenues, manufacturing & distribution to 8%, and government business to 6%.

Operating profit for the quarter grew 15.6% sequentially to Rs. 997 million. Operationally, we saw improvement as a result of growth in the US as well as growth in our NITL business in the UK. We also saw five airports going live for the Airports Authority of India (AAI) and these are some of the major factors which contributed to the expansion of operating margin by 183 basis points sequentially to record an operating margin of 16.3% in the quarter. Net profit declined to a loss of Rs. 175 million during the quarter and this is primarily on account of the exceptional expense of Rs. 800 million booked on account of a dispute between the company's

subsidiary and a client in the APAC region which was eventually settled. Just to elaborate little bit on the exceptional item, on March 23rd we had informed that a dispute had arisen between our company's subsidiary and a client in the APAC region which could have resulted in claims and counterclaims. In line with the company accounting policy we had indicated that the company shall be providing up to a value of US\$10 million towards unbilled revenues during that quarter. Thereafter we had been exploring various options to resolve the dispute and the dispute was resolved with the signing of a settlement agreement which releases the company of all its obligations towards execution of the program and any guarantees there off. So the financial impact of this one off event including provisions for unbilled revenues is Rs. 800 million and this is reflected as the exceptional expense in the P&L for the quarter. I would like to add that the settlement is governed by strict provisions of confidentiality and I would be constrained in providing any specific details of the agreement.

Getting back to our business in the quarter, to talk a little bit about the order intake I will call Sudhir to share that with you.

Sudhir Chaturvedi:

Thank you Arvind. We had a fresh order intake of US\$89 million at this quarter resulting in a 12 month executable order book of \$295 million. Order intake from America was 39 million, Europe 29 million and Asia-Pacific 21 million. The total order intake for the year was \$425 million.

Five new customers were added during the quarter, two in the US, two in EMEA, and one in Asia-Pacific. These include three consumers in Insurance, one in Travel and one in Manufacturing. We also had two license sales of our new Advantagesuite product in our insurance products business in the UK. What we have seen is an upturn in our new logo, new revenue business. So 13% of the revenues in Q4 came from new logos. With this, I would like to hand over to Arvind for further commentary.

Arvind Thakur:

Thanks Sudhir. To support the business we had a net addition of 435 people during the quarter, taking our total headcount to 8494. Utilization levels were at 79% and attrition remains steady at 15.75%. Cash and bank balance at the end of the quarter stood at Rs.3375 million. We had capex spend during the quarter of Rs. 524 million of which 258 million was consumed in our campus in Greater Noida. Debtors at the end of the quarter were 93 days of sales outstanding.

To talk a little bit on the highlights of the complete year, the full financial year; our revenues for FY15 grew 2.9% to Rs.23, 725 million. Growth during the year was somewhat muted as a result of reducing our focus on domestic government business which declined by 38% during the year and there were also a few client specific issues which we'd encountered in the 1st Quarter of the financial year. We had set out on the year with the agenda to grow our US geography, to focus on infrastructure managed services (IMS) business and scale it and also scale business in the Travel & Transport space where we have a critical mass. I'm pleased to share that we have made progress on all these three dimensions.

Our US geography grew well in all contributes to 44% of revenues. Our IMS business grew 43% contributing to 17% of revenues and our Travel & Transport business grew 10% contributing to 40% of revenues.

Margins through the year, for the year were down; operating profits were down 1.7% to Rs.3457 million representing an overall operating margin of 14.6% for the year, basically on account of an increase in SG&A as a result of leadership hires in international geographies.

Net profits for the year declined by 50.5% to Rs.1141 million and this is primarily contributed by the one-off exceptional expense which we booked in the last quarter.

Looking at the environment as a whole, what we have seen is that there is increased pressure coming from our customer's customer demanding greater Digital solutions. So I am just wrapping up by sharing our agenda for FY16 where essentially I'm saying that in addition to growing our international business and continued focus on expanding our infrastructure managed services, our agenda would include sharp focus on Digital services. We've clearly articulated our offerings in Digital services and this includes, basically it has four elements the first is around Digital experience, the second is around Cloud, third is Analytics and the fourth is Digital Integration. We believe that the Digital Integration space provides the greatest opportunity for service providers such as ourselves. We already have good offerings around the Digital experience which includes multichannel offerings and mobility solutions. We are already serving many of our clients on the Cloud, and in the analytics space we had launched Digital Foresight offering in the US and we also have our own platforms which we leverage in providing Analytics solutions. It's in the Digital Integration space where we need to create strong capabilities and it was with this intent that we have acquired a 51% stake in a specialist integration services provider which is Incessant Technologies.

To talk a little bit about this strategic investment, I'm going to invite Sudhir once again to share with you the dimensions of this transaction.

Sudhir Chaturvedi:

Thank you Arvind. The Incessant acquisition gives us the capability to be a significant player in the Digital Integration space. In Digital integration there are three key areas, first is Digital legacy integration; this is where Digital front-ends which have been created using Social and Mobile, Analytics and Cloud stacks have to be integrated with complex legacy systems that most large corporations have in order for their customers to have a seamless experience when dealing with the company. The other aspect of this is re-factoring legacy applications by writing modern wrappers around them. So this space is called the Digital Legacy Integration space. The second space is the Digitalization of processes where processes which earlier involved manual intervention or required breaks are now done in a straight through manner through the Digitalization of the entire business process end-to-end. And finally, through intelligent business process management services we see an opportunity for Automation of business processes where complex processes are orchestrated automatically by technology too.

So hence in the Digital Integration space with Incessant we have an opportunity to play in all these three areas, the Digital Legacy Integration, in Automation as well as the Digitalization of business processes.

Incessant is sharply focused on as a BPM specialist and it currently has 300+ consultants who are certified practitioners. Their major markets are Australia and Europe, have strong relationships with 20+ clients, and they are also having strong partnerships with service providers, with product providers like Pegasystems and Appian. In addition they have invested in their own IP-based solutions and framework. So we have taken a 51% stake in the company, we have an agreement in place that allows us to take a 100% stake over a period of time using a pre-agreed valuation model. The current CEO and COO of Incessant will continue to run the company. We would partner with them in a joint go to market effort and our immediate target will be the US geography and the BFSI vertical for growth in FY16.

Incessant revenues in FY15 were \$17 million. This was up 22% year-on-year. Their revenues last year were \$13.9 million. Their CAGR from FY12 to FY15 was 25%. This acquisition will be margin accretive and EPS accretive to us. With this I will hand over back to Arvind for the environment analysis.

Arvind Thakur:

Looking at what's happening in the environment, what we have seen is that the major economies where we have a presence seem to be remaining in the growth mode, although there has been some slowdown during the 1st Quarter of the calendar year 2015. But this appears to be at least in the US an aberration owing to the harsh winter that they'd experienced and other indicators like job data seems to suggest that the slowdown may be temporary. The UK economy too had a tepid Q1 registering a growth of just 0.3% but its forecasted that these will grow at 3.1% or 2.7% based on different forecasts of different analysts.

The Indian economy is also doing well and there is optimism reflected with the upward revision of sovereign ratings by agencies like Moody's. I think the low crude oil prices in the past few months have been some significant development from the macroeconomic perspective; in particular this has been good for some of the segments that we are focused on like the Travel & Transport space where the outlook for the airline industry is relatively better as a result of the softened fuel prices. Data on air travel and freight data seems to indicate good growth in this segment.

Analyst reports for both the BFS and Insurance segments seem to indicate increased IT spending in our key markets, so that also bodes well for the environment. With the foundations of a broad-based global recovery now in place, we expect healthier demand conditions which would particularly suit specialized IT players like us in the segments that we focus on.

FY15 has been a somewhat tumultuous year with some client specific issues but with these issues behind us now we can expect sustained levels of growth in FY16 and the strategic stake

which we have taken in Incessant will enable us to emerge as the leading player in the Digital Integration space. With these opening remarks, my colleagues and I will be happy to answer your questions.

Moderator: Thank you sir. Ladies and gentleman, we will now begin the question and answer session. Our first question is from the line of Amar Mourya from India Nivesh. Please go ahead.

Amar Mourya: My first question is on the EBITDA margin front. Now, we have shown good spark in the EBITDA margin during this quarter. If I can get a detailed breakup about the EBITDA margin and how sustainable this EBITDA margin going ahead?

Arvind Thakur: As I had explained, we had a good growth in the US, particularly in the BFSI space so that has contributed to our margin expansion. We also grew well in the Insurance space and in particular our subsidiary which is NIIT Insurance Technologies, which is the erstwhile ROOM Solutions which is platform based services, that had good growth in the quarter, so that had a good expansion and contributed to margin expansion. Also, as I shared with you, we implemented five airports for the Airport authority of India (AAI), so that was a significant engagement which we delivered. So these are some of the reasons why we have expanded our margins.

Amar Mourya: But how sustainable do you see this?

Arvind Thakur: This is very sustainable. Some of our margins were earlier depressed because of a large contract where we were in a transition mode, so now that's behind us. Going forward I think we can expect this at sustainable levels, of course as you know in Q1 there is normally a dip in margin because of salary hikes.

Amar Mourya: So when we talk about, I mean, we had clearly articulated our focus is on US, IMS, and Travel. When we talk about IMS, what is the kind of prospects a player like we have, considering that the few of your bigger players are talking very big on that? I mean what is the kind of opportunity you see and what is the kind of deal wins you see into this IMS space?

Arvind Thakur: This is a high-growth area. As I shared with you, last year we grew 43% in this space and I think we are competing extremely well in the market place in the IMS space. But to elaborate a little more I will ask Sudhir to address.

Sudhir Chaturvedi: So infrastructure management services (IMS) was 13% of our revenues last year (FY14), it's 17% of our revenues this year (FY15) and what we are seeing is broad-based growth across Geos, this in Asia Pacific and US particularly and some growth also in Europe. What we are seeing is a bundling products from our material perspective and our clients we are seeing a bundling of services specially application services and infrastructure services together as well as the opportunities for infrastructure as a service type of deal, we did one recently in the Asia-Pacific region. So these are new areas of spend where people are looking at integrated

applications in infrastructure as well as leveraging Cloud-based infrastructure and the un-bundling of infrastructure in a large-scale infrastructure deals into multiple towers is also assisting us as we are competing in individual towers rather than large-scale outsourcing which used to be how this market used to work. So the other part of the infrastructure market is also there are projects happening, for example in the DevOps area where people are looking at Agile development that need to have Agile Infrastructure in place to support it, so that's the other element of growth that we will also see going forward.

Amar Mourya: And then Digital is the place we are likely to see further growth into IMS?

Arvind Thakur: Digital is where the things like DevOps and some of the areas like Cloud are more relevant because of the Digital Services.

Amar Mourya: So what is the Digital contribution today in terms of the revenue?

Sudhir Chaturvedi: About 9%.

Amar Mourya: And now this 17 million again 50% of that would be coming. The last question is if I can get a breakup of Morris, Proyecta, GIS, and ROOM Solutions revenue and the margin?

Pratibha Advani: GIS revenue for the quarter is 356 million and the margin is 24%. ROOM revenue for the quarter is 426 million and the margin is 26%. Proyecta revenue for the quarter 152 million, we've broken even this quarter and Morris revenue for the quarter 426 million with 11% margin.

Amar Mourya: And about Proyecta you are saying it's just at break even, right?

Pratibha Advani: That's right.

Amar Mourya: Thank you.

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

Dipen Shah: Firstly on this provision which you have made, is this going to have any impact on the revenues going forward in the sense that the revenues from this contract will not accrue in the next quarter onwards, so any impact on that going ahead?

Arvind Thakur: Very minimal because there were minimal revenues in the current year from this contract.

Dipen Shah: So all of it relates to the year before last year?

Arvind Thakur: That's right.

Dipen Shah: Second one is that in terms of the macro. If you can just give us some more insights into how is BFSI panning out, especially Insurance where we have seen ROOM Solutions doing well; so should we take this ROOM revenues as a trend or is there any turnaround in the Insurance business?

Sudhir Chaturvedi: As we mentioned during our commentary, BFSI for us is a market primarily in the US and Europe geographies and in both the geographies we have seen an uptick in budget, in fact as per Celent and other analyst there is about between 4 and 5 per cent budget increase in BFSI and these two geographies so the macro environment is good. In terms of our NIIT Insurance Technologies Ltd business, the ex-ROOM Solutions business, what we really are leveraging is the launch of our new product suite, the Advantagesuite of products that we launched and this is getting traction in the market so we have our launched customers in place and therefore we have reference to the clients. So I was talking about the reasons for demand in ROOM solutions based on our new product launch, so as Insurance companies looked to expand their business through making faster sort of under-writing decisions backed by Analytics and managing their overall policy process much more efficiently that's where modern platform comes into play and along with some of the features that we have around risk aggregation and Analytics. That's the traction we are seeing in the market and we have invested significantly from a sales and marketing perspective and we are driving that in the market right now.

Dipen Shah: Also in the last quarter there were a couple of Insurance accounts which were not doing well plus one Travel & Transportation account, if we can get some more status on that whether the accounts have stabilized and you have started to grow or is it otherwise?

Sudhir Chaturvedi: So the two Insurance accounts that you are referring to that we spoke about have bottomed out. In fact, Insurance growth in Quarter 4 was 9.2% and we have new two logo wins in Insurance that have contributed very significantly to the Q4 growth.

Dipen Shah: And in the Travel & Transportation piece?

Arvind Thakur: There also, the issue in the Travel and Transport space actually is that a European client where I think I had mentioned in my earlier call, one of them is significantly offshoring. So that's helping us improve our margins but it is impacting our revenues. So we see that likely to recover from the next quarter.

Dipen Shah: And any insights into how competitive landscape is panning out? Are we looking at discounts or rate cuts to clients or is it largely a stable scenario out there?

Sudhir Chaturvedi: We are not seeing any demand for pricing cuts across the board, so that we are not seeing for sure. But what we are seeing is some business as usual request when we are bidding for projects. In terms of the competitive environment, what we are seeing is the nature of demand

shifting into Digital Services. Many of our clients are either looking to catch up with something in the competition or some new players that are emerging in that sectors and that nature of demand is revolutionary, so they also want to see a stake sort of experiment, take some steps and see whether they should expand their investment in that area. So that is what is leading to the shifting nature of demand is what I call it where we are looking to start projects in an agile fashion, try and deliver output quickly and then build on that if the output is successful and if the output is not then change strategy and move to another way of working. So that's the nature of demand that is shifting in a market through Digital Services so that's where we are going to focus more on going forward.

Moderator: Thank you very much. Our next question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran: Just wanted to understand there is an anticipation of build-up of discretionary spend in the Travel and Transport space specially airlines, just wanted to see how is the pipeline building up in that, has it been broadly in line with expectation or not up to expectations?

Sudhir Chaturvedi: Travel is one of the industries where Digital is having very fundamental impact. I think what we are seeing in Travel very significantly is the whole move to mobile-first channel; that's the critical shift that is happening and therefore it's a combination of Digital services plus very importantly Digital legacy integration services because Travel is also a sector where there are a lot of platform-based technologies that need to be integrated. Having said this, it is a sector where there is competition and the client's quantum of spend is lower than, for example in BFSI, but it is concentrated in the Digital area and we are well placed for that growth.

Srivathsan Ramachandran: Okay. Second, just wanted to get your thoughts, you said the focus areas would be Travel, IMS, and Insurance as a sub-category. Just wanted to understand how some of the other pieces of business like GIS or even the domestic businesses that we do, how do we fit in? Do you think over a 3-5 year period do we need investments on the business or you look at even maybe divesting some of these businesses or just allow it to see a natural course of wind down over a period of time?

Arvind Thakur: On the contrary, GIS has been one of the high growth businesses in the current year and in fact high margin business as well. See, anything which is specialized is something that we need to nurture and that's what we do because we position ourselves as a specialist player in the marketplace. So we will continue to invest in GIS and that will in fact continue to grow going forward.

Srivathsan Ramachandran: My last question is when it comes to margins ex-currency how do you see it playing out? Do you think you have enough move especially towards offshore kind of movements or utilization on a constant currency Basis? How do you see margins playing out?

- Arvind Thakur:** In fact, part of the margin expansion that you would have seen in this quarter is a result of larger revenues coming from offshore. And as I mentioned some of our large clients are driving that very aggressively. So I think we will continue to see that going forward and so even on a constant currency basis I think we can expect to see margins improving on that front.
- Moderator:** Thank you very much. Our next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** The question is in terms of the Order Book. So if you look at Q-on-Q, this is one of the lowest in terms of the quarterly order intake so does that reduce your confidence while entering into FY16? How should we read this here?
- Sudhir Chaturvedi:** Sandeep, the order intake of \$89 million is, I gave you the split earlier, see what we have found in the order intake is firstly, we were expecting a large deal closure this quarter which has moved to the next quarter so that accounts to some part of the decrease in our order intake from what we had expected it to be. So more importantly what I like about the order intake is our New Logo New Revenue. So this order intake comprises more new revenue that will add fresh growth going forward as we scale that business up. And what we are also saying is that as I said the changing nature of demand in Digital services is where the project sizes are smaller and therefore the order intake will be in line with revenue for much of that for the year, we expect that to happen. And last but not the least, our Insurance products business where we started with license sales and then with professional services and AMC, as that picks up and some of the growth that we expect in those geographies, then we should see an uptick in order intake. So we will focus on quality order intake and especially our new order intake not just renewals but New Logo New Revenue and Existing Logo New Revenue.
- Sandeep Shah:** So as of today when entering FY16, you believe now the growth potential in FY16 should be materially higher than the growth we registered in FY15, which had some own challenges which are largely behind?
- Arvind Thakur:** Yes that's a correct assumption. In fact I think you can draw confidence from the significantly higher net additions that we have had in our headcount which is really to service all the visible business that we are seeing in the coming quarters.
- Sandeep Shah:** On sales and marketing, there was some reorganization we were doing in the last couple of quarters, is that largely behind or is that ongoing stuff in the near term?
- Sudhir Chaturvedi:** All our transformation, transition, and consolidation efforts are over now. So this year we start with all that behind us.
- Sandeep Shah:** Okay. And just last few bookkeeping; in terms of the hedge can you give us some more details because this year if you look at the hedges has led to 140 basis point margin improvement. So

as a percentage to the revenue the forez gain was almost like 140 basis points. So can you give us color how this will look like in FY16 and beyond?

Pratibha Advani: Our total hedge position for the next four quarters is \$51.76 million in USD and this is at an average rate of 65.57. Similarly we have also taken, albeit in smaller value, forward cover for GBP and Euro. GBP designated covers add up to 11.25 million with an average rate of 104.6 and Euro designated covers add up to 4.5 million with an average rate of 82.76.

Sandeep Shah: This will all expire in FY2016?

Pratibha Advani: That's right. This is across the four quarters for FY16.

Sandeep Shah: Anything which is outstanding for FY17 and beyond?

Pratibha Advani: No, we actually take cover for the following four quarters. So our hedge policy is 90, 80, 70, and 60 across the four quarters.

Sandeep Shah: This Rs. 800 million, is it the cash outflow that has already occurred?

Pratibha Advani: This is a combination of unbilled and settlement amount. Unfortunately we cannot share more details.

Sandeep Shah: Okay. Why I am saying so is it looks like the debtor days have improved, your Net Current Assets have gone down and the current liability has also gone up but the Cash position on a Q-on-Q does not show an improvement?

Pratibha Advani: The current assets have gone down because of the adjustment of the unbilled revenue and the liabilities have gone up because there is an amount towards settlement that is included there, the dividend component and true up of year-end provision.

Moderator: Thank you very much. Our next question is from the line of Ruchi Burde from Emkay Global. Please go ahead.

Ruchi Burde: On the acquisition, could you please talk more about the margins if I have missed it in the earlier comments?

Arvind Thakur: Well, the acquisition, we talked about it being a fast growing company. I think Sudhir spoke about growth over last year 22% and a CAGR of 25%. In terms of margins it's much better than our current margins as a company so it is very margin accretive as well as EPS accretive.

Moderator: Thank you very much. Our next question is a follow-up question from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran: Just wanted to get more thoughts and your comments on the acquisition you have done. In terms of vertical overlay, what kind of a vertical overlay will this acquisition have? That is one. Second, any indications you can give in terms of consideration paid, how you are financing it and then we have a right to buy off the remaining 49% over a period of time.

Arvind Thakur: Okay, let me take the second part first and then Sudhir can answer the vertical part. So in terms of consideration, we have valued the entity at about twice its revenues and it's being paid for in cash from our existing cash positions. And what was the third part of the question?

Srivathsan Ramachandran: In terms of do you have the right to buy the remaining 49% over a period of time?

Arvind Thakur: Yes, we will be buying the balance over a period of time.

Srivathsan Ramachandran: Any indications how long and also wanted your thoughts on vertical overlay vis-à-vis our focus areas vis-à-vis the acquired company's focus areas in terms of verticals?

Arvind Thakur: Yes we are looking at buying out over the next two years. And Sudhir you want to talk about the vertical overlay?

Sudhir Chaturvedi: The two primary verticals that they operate in are Banking & Financial Services and Insurance. And the revenue contribution is approximately 80% from these two verticals.

Srivathsan Ramachandran: BFS and Insurance, predominantly?

Sudhir Chaturvedi: Yes. And BFSI is 80%.

Srivathsan Ramachandran: Okay. Just one more follow-up on the Capex and Cash front; we have been in major capex mode so just wanted capex outlay for FY'16 and how do you see debtor days playing out over the course of FY16?

Pratibha Advani: Our capex for FY16, the investments should be to the tune of Rs 1750 million. This will be largely towards investments in our Greater Noida campus and some related to specific customer projects. These are some of the recent wins that we have had.

Srivathsan Ramachandran: And in terms of debtors, do you think you can bring it down by a few days over the course of FY16?

Arvind Thakur: Yes indeed. In fact in FY16 there would be a very strong focus on collections and we certainly look forward to bringing down the debtors days.

Moderator: Thank you. Our next question is from the line of Nitin Jain from Credit Suisse. Please go ahead.

- Nitin Jain:** Just a bookkeeping question on your hardware component, what would it be in 4Q and what do you expect going forward in FY16?
- Pratibha Advani:** Hardware component for Q4 is 242 million.
- Nitin Jain:** And for the next year?
- Pratibha Advani:** We don't expect too much of hardware next year. We are actually towards the fag end of our execution of our government program.
- Nitin Jain:** But is it higher QOQ? Last quarter I think it was....
- Pratibha Advani:** Yes it's marginally higher, last quarter was 187 million and this quarter it's 242 million.
- Nitin Jain:** So is it related to any new project?
- Pratibha Advani:** This is hardware for our existing projects.
- Moderator:** Thank you very much. Our next question is from the line of Ashish Aggarwal from Antique Stock Broking. Please go ahead.
- Ashish Aggarwal:** I have a couple of questions. If I heard it right, you said that the capex for next year would be 175 crore?
- Pratibha Advani:** That's right.
- Ashish Aggarwal:** Last year we did a capex of around 203 crores odd. Out of that, a significant portion was on Airport Authority of India (AAI) contract. So just wanted to understand why is this capex still very high given the fact that AAI contract will almost be over?
- Pratibha Advani:** As I mentioned earlier we are still within doing the construct phase of the Greater Noida campus and that campus would get commissioned next year, so a large amount of capex will be directed for that construction and the balance is towards, as Sudhir mentioned, we have had some recent wins and some capex is towards meeting the customer requirements.
- Ashish Aggarwal:** Is this related to India business, the capex related to....
- Arvind Thakur:** This is international business.
- Ashish Aggarwal:** What type of capex will be there for this international business?
- Arvind Thakur:** We will be actually setting up data center for the customer. Sudhir do you want to throw some light?

- Sudhir Chaturvedi:** Yes. In fact I mentioned it in my answer to the infrastructure management services question. We are setting up a Hybrid Cloud-based infrastructure for one of our clients in the Asia-Pacific region.
- Ashish Aggarwal:** Okay. And my second question is regarding executable order book. Your executable order book is flat on a year-on-year basis. So how do we read that especially going into FY16?
- Sudhir Chaturvedi:** So basically our order book is \$295 million and going into FY16 there are two things that I will again draw your attention to, one is our New Logo New Revenue component. If you go back, if I gave you the 18 month Order Intake that would have included two large deals that we had done in the US one which is over \$300 million, so there is an overhang of that in the Renewals. This is a reflection of New Logo New Revenue business and the changing nature of demand where we will see demand for quick ramp ups on projects which is reflected, for example in our net addition of employees and that would continue.
- Moderator:** Thank you very much. Our next question is from the line of Ritesh Rathod from UTI Asset Management. Please go ahead.
- Ritesh Rathod:** Good evening all of you. On the net worth side I see quarter-on-quarter it has declined by some 100 crores if I am not wrong?
- Pratibha Advani:** That is because of lower profit and dividend.
- Ritesh Rathod:** How much dividend you paid in this quarter?
- Pratibha Advani:** Yes, we declared the dividend, so we have to provision for it.
- Ritesh Rathod:** Yes, so that would be how much? 9, 9.5?
- Pratibha Advani:** About 65 crores odd.
- Ritesh Rathod:** And your loss is some 17-18 crores.
- Pratibha Advani:** That's right.
- Ritesh Rathod:** So is there something else we have taken over and top of that?
- Pratibha Advani:** No, that is it.
- Ritesh Rathod:** Because still it's, if I am not wrong, 20 crores extra, so have you taken some on this delay or dispute we have taken it from Reserves and Surplus also?
- Pratibha Advani:** And also there is a loss of 195 million in Translation Reserves.

- Ritesh Rathod:** And in terms of growth for next year FY16 we are saying better than FY15; what would it be? Low single digit kind of thing possible? Would that be a possibility next year?
- Arvind Thakur:** Our aim is to grow at industry levels.
- Ritesh Rathod:** Okay. So NASSCOM number of 12% to 14%. Even if our Order Book is flat in Dollar terms, it would be up in Constant Currency, if I am not wrong? And how much would be that number?
- Sudhir Chaturvedi:** Europe was 29 million Order Intake this quarter, so yes, there is some currency impact because of that. But as Arvind said we expect to grow in line with industry average.
- Ritesh Rathod:** And this would include acquisition or we still expect it organically?
- Arvind Thakur:** Includes the acquisition.
- Moderator:** Thank you. Our next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.
- Dipesh Mehta:** Just wanted to understand about the acquisition's remaining 49%. You suggested over the next two years. So what would be the terms and condition for buying that remaining stake and at what consideration we need to buy?
- Arvind Thakur:** There is a predefined formula based on the performance of the company.
- Dipesh Mehta:** Okay. And about the acquired entity, do we have any common client and what would be the client concentration in that acquired entity?
- Sudhir Chaturvedi:** They have 21 odd clients, about 90% of their revenues comes from their top 10 clients, just under 90%, but remember they are in a growth mode and they have been growing 22%. Some of those new clients are new acquisitions. Importantly, there is no overlap between our client bases, so all of this for us is net new clients.
- Moderator:** Thank you very much. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.
- Ashish Chopra:** I had a couple of questions. Firstly, just wanted to know on the margins, in the next quarter we will have headwinds from wage hikes, what kind of pressure can we assume on the margins because of that?
- Pratibha Advani:** Around 200 to 225 basis points.

- Ashish Chopra:** And secondly, we had some good bump up of revenues from the Government segment in this quarter. You also mentioned about the five airports going live in the AAI. And traditionally also when we were a little more focused on the Government business, the fourth quarter would be a stronger quarter and then we would enter into the first quarter with some amount of base-effect led headwind. So could you expect that kind of a seasonality marginally dampening the growth in the 1st quarter? Or do you think that should not be the case this time around?
- Arvind Thakur:** That's a correct assumption because indeed, for example our GIS business declines very significantly in the 1st Quarter.
- Ashish Chopra:** Right. And I had a question on the dividends. The dividend paid actually has been increasing every year but now with close to around \$17 million odd that you would be paying for this acquisition should we expect you to revisit the payout policy or you expect that to continue growing despite this acquisition?
- Arvind Thakur:** I think the Board has recommended the dividend amount taking into account all these aspects, so we don't expect that to change.
- Ashish Chopra:** Okay. And regarding the deal that Sudhir mentioned actually that got spilled over into the next quarter, would that have already been signed or would that still be in the pipeline as of now?
- Arvind Thakur:** That's actually stalled. It was something that we were hoping this quarter. It got stalled because of a merger discussion which our client is having, so we don't even know if it's going to happen next quarter actually.
- Sudhir Chaturvedi:** Yes right now, as Arvind mentioned, they are in an M&A situation. So once that is over we will know how they plan the progress.
- Ashish Chopra:** Sure. And lastly just a question, a data point, on Incessant. Would it be possible to share the location of the 300 consultants?
- Sudhir Chaturvedi:** They are a global company. They have offices in Australia, UK, US, and their India delivery center is in Hyderabad.
- Ashish Chopra:** Okay. So the employee base, would maximum be in India or how would they be spread across, if you could give a ballpark idea on this please?
- Sudhir Chaturvedi:** It's approximately the same onsite-offshore spread as the industry. In terms of the profile of their people, about 15% of their people are architects and business analysts and about 60% of their people are certified consultants.
- Moderator:** Thank you very much. Our next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

- Jagdish Bhanushali:** I wanted to understand how many airports have been implemented till now, and how much amount of revenue have we booked from those airports in terms of implementation?
- Arvind Thakur:** We don't give any client specific revenues but I can tell you 9 airports have been implemented.
- Jagdish Bhanushali:** And in the pending airports how many are the bigger ones?
- Arvind Thakur:** There is just one more airport pending. So the contract was for 10 airports, 9 have got implemented one is pending, but there is likelihood of an extension which when we conclude we will talk about it.
- Jagdish Bhanushali:** So extension means more airports being added to the project?
- Arvind Thakur:** That's right.
- Jagdish Bhanushali:** Second thing is, when you are saying the growth rate will be better than FY15, wanted to understand which of the verticals and geography do you say would be performing better than the company average?
- Sudhir Chaturvedi:** We expect the US to be the driver for growth and the BFSI vertical to also drive growth in the future.
- Jagdish Bhanushali:** And how about Travel & Transportation part?
- Arvind Thakur:** That will continue to grow but I think in terms of relative growth these are the two places where we expect to have growth.
- Jagdish Bhanushali:** The second question is regarding the acquisition. If I could get some sense of what sort of margins this company has, if you could give us some sense?
- Arvind Thakur:** Actually I did answer that question earlier, it is much better than our current margins. In fact it would probably be better than the margins that we used to have in our good old days when we had good margins.
- Moderator:** Thank you very much. Our next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Just on the domestic hardware business, if you look at it, it has declined by almost more than 50%, and as Pratibha said that this may further decline. So how should we take this? Will this virtually go to zero, that is the choice or this may continue still going forward at the current run rate of Q4?

- Arvind Thakur:** It will decline. The idea is to reduce this kind of business. I think we have been fairly successful in this year and as I mentioned our overall government business has come down by 38% during the year as a result of this.
- Sandeep Shah:** Okay. And the same thing in terms of India as a percentage to the revenue; it has slightly come down this year versus last year. So is it fair to say that most of these kind of businesses we are exiting by choice? Then India as a percentage to the revenue may also decline?
- Arvind Thakur:** Yes by choice we are exiting out of the government business but if it is good margins India business, we will definitely pursue that.
- Sandeep Shah:** Okay. So it may still continue at 12 or 14 per cent of the revenue?
- Arvind Thakur:** No, it could probably come down. I think our bigger concern with the Government business is the BR, the money that are locked up in these contracts, so the motivation for reducing our dependence on this business really arises from that.
- Sandeep Shah:** Okay. And last, when should we expect the consolidation of the acquired company?
- Arvind Thakur:** That will happen within this quarter.
- Sandeep Shah:** Okay. And just last, in terms of the further capex plan after this Greater Noida campus, do we have any further high campus requirement going forward beyond FY16? Because one investor concern is that FCF generation has not been very high or up to the mark versus peers. So do you believe that from FY17 both the growth as well as the cash generation would be better?
- Arvind Thakur:** Yes, actually Free Cash Flows are getting locked up in our Bills Receivables, so one of the major drivers that we are going to have in FY16 would be to recover those monies. And yes, I think capex had been high because of some of our customer projects that required investments, so going forward it will depend upon what kind of business that we are going to be acquiring, not as much on the campus.
- Moderator:** Thank you very much. Our next question is from the line of Ashish Aggarwal from Antique Stock Broking. Please go ahead.
- Ashish Aggarwal:** I just have one data question. Your effective tax rate was very low this quarter. Any specific reason and what we should build-in for FY16?
- Pratibha Advani:** There was the Advance Tax reversal that we took on account of this settlement. So part of the settlement component also pertained to India.
- Ashish Aggarwal:** So next year what should be the tax rate? It will be in 26-27%?

- Arvind Thakur:** The current mix of revenue that we are forecasting, it should be in the range of 27% to 28%.
- Moderator:** Thank you very much. Our next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** Wanted to understand what sort of revenue growth would be possible from the acquisition that we have done?
- Arvind Thakur:** So again, as Sudhir shared with you they grew 22% last year, they have a CAGR of 25%, you could expect within that range.
- Jagdish Bhanushali:** Okay. So this would be a very big contributor in terms of revenues coming in FY16 in terms of incremental growth?
- Arvind Thakur:** Yes and also beyond.
- Sudhir Chaturvedi:** This is a strategic play in an area which is going to become bigger and bigger. Right now clients' most Digital investments are focused on the frontend but as clients look to build what we call seamless business processes across their organization, this would become bigger. So for us it's really an intention to lead in the Digital integration space that has driven this acquisition and that's what we were also be investing in terms of building capabilities and expanding the footprint both geographically as well as from a IP-led solutions and frameworks perspective.
- Jagdish Bhanushali:** What I mean is that the organic growth will be lesser or it will be equivalent to FY15 in terms of percentage.
- Arvind Thakur:** No, because this is a small proportion of our overall revenues. This is a small proportion of our overall revenues which will grow rapidly.
- Moderator:** Thank you. Our next question is from the line of Atul Pandit from Vantage Securities. Please go ahead.
- Atul Pandit:** Actually I just had a clarification, do the 435 people added during the quarter include the acquired company employees?
- Arvind Thakur:** No, not at all.
- Atul Pandit:** Okay. And one more thing was have you decided on the quantum of wage hikes, because Q1 would see pressure on margins so have you had any quantum decided on that?
- Arvind Thakur:** Yes, offshore it will be 8% on an average.

Atul Pandit: Okay. And onsite?

Arvind Thakur: Onsite, 2-3%. So let me just conclude by looking forward to seeing those of you who are in Mumbai this Thursday at 4 o'clock at our Analyst Meet in Trident Hotel at BKC. Thank you very much for participating in this call and look forward to more interactions in the future. Thank you very much.

Moderator: Thank you. On behalf of NIIT Technologies, that concludes this conference call. You may now disconnect your lines.

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