



TRANSCRIPT: NIIT Technologies Ltd Q4FY2013 Results Conference Call

4pm IST, 17 May 2013

FROM NIIT TECH:

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(1 crore = 10 million)

Moderator: Ladies and gentlemen, good day and welcome to the NIIT Technologies Q4 FY2013 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations, NIIT Technologies. Thank you and over to you sir.

Abhinandan Singh: Thank you and welcome everyone to our Q4 FY2013 conference call. Present along with me today on this call are Mr. Rajendra S Pawar, our Chairman, Mr. Arvind Thakur, our CEO, Ms. Pratibha Advani, our CFO and Mr. Arvind Mehrotra, President and Head of our APAC, India & Emerging Markets business. You would have received our results e-mailed to you earlier today; the same is also available at our website www.NIIT-Tech.com. We will begin the forum today with opening remarks by Mr. Arvind Thakur and after that the floor will be open for your questions. Before I hand over the floor to Mr. Thakur, I would like to make one more announcement. We are organizing an analyst & investor meet in Mumbai on May 20, which is this coming Monday, at 4 p.m. at the Trident Hotel in Bandra Kurla Complex. You may already have received an invitation to that, but I wanted to take this opportunity to invite you to Monday's analyst meet where we will be joined by additional business leaders including Mr. Marcus Broome who heads our IP-led insurance business in the UK. With that, I would now like to hand over the call to Mr. Arvind Thakur, CEO, NIIT Technologies.

Arvind Thakur: Thank you Abhinandan and welcome everybody to this call. This being the last quarter, we will also discuss the year that has gone by. So what I would really like to do is to first talk about our annual results and then get into specifics of our quarterly results.

As you would have probably seen from the information that we have posted on our website, our annual revenues have grown 28% and we have crossed a very important milestone which is of revenues crossing 2000 crore rupees and our current revenues for the financial year 2013 stand at Rs 2,021 crore. Revenue growth in constant currency is 16.5%; revenues in rupee terms have grown 28%. As you would have noticed, the company also grew 28% in the preceding year FY2012, so this indicates the sustained growth that we have been seeing in our business. But what is very significant is that we have grown sequentially in every quarter of the last financial year. In fact if you just go back to the last year as well, you would see that our growth has been sequential in every quarter for the last 9 quarters. So we have been able to build a good amount of growth momentum in the company from the approaches that we have been taking post the downturn in addressing the marketplace through our fundamental direction, which is to remain very sharply focused and build strong differentiation in our business to address the markets that we serve. Our growth is also a result of the exceptional value that we have been delivering to our customers, which can be seen by the growth that we have seen in our top clients. Our top 5 clients grew 37% and now contribute to 32% of our revenues. In fact if you look at the last financial year, each one of our top 5 clients have an

annual run rate exceeding \$20 million. So you can see that we have very significant clients and the revenues are not skewed to any one particular customer; it is fairly broad-based.

Operating profits during the year grew by 22.8% to Rs. 3,295 million which represents an operating margin of 16.3%. The net profits improved by 8.1% to Rs. 2,132 million. Another significant aspect of our FY'13 performance has been that there has been an all-round growth in every geography and every industry segment of focus. And if you look at the geography mix, US contributes to 38% of our revenues, Europe and Middle East to a 39% of our revenues and Asia Pacific and India to 23% of our revenues which is very balanced and I think it is been this balanced revenue mix that we have been maintaining which has created a platform for consistent growth that we are seeing in every financial year. Focusing more on the last quarter, you can see from the results we have ended on a high with every financial parameter showing growth and expansion. So revenues are up 4.4% quarter-on-quarter to Rs. 5,372 million in quarter 4. In constant currency terms, revenues are up 3.3% quarter-on-quarter. Operating profits are up 8.8% quarter-on-quarter and operating margins have expanded 66 basis points to 16.5% during the quarter. Net profits are also up sequentially and stand at Rs. 566 million. During the quarter we saw robust sequential growth in the US which in fact grew 5.8% sequentially contributing to 38% of our revenues. EMEA contributes to 37% and Asia Pacific & India to 25%, so we also saw significant growth in our domestic business. Among industry segments we saw BFSI grow 3.4% sequentially to 31% in terms of its revenue mix. Two major projects got executed during the quarter in the travel segment, one was with Virgin Australia, where we merged to passenger services systems and migrated it to one platform and that was one of the smoothest cutovers that has taken place in the industry.

We also had another significant cutover which was in Hong Kong for Cathay Cargo Services. The Hong Kong terminal as you may be aware is the busiest cargo terminal in the world and one of the most modern and once again we were pleased to see very smooth cutover of this particular application. As a result of these two major programs having been cutover, we saw a slight decline in our revenues in the travel space which now contributed to 37% of our revenues in the 4th quarter. We had a very robust order intake during the quarter; there was an intake of US\$110 million of fresh business that was secured during the quarter. This included a renewal with BFSI client in the US which exceeded US\$10 million and also a very prestigious win in the domestic market where we secured business from the Andhra Pradesh Government for a building comprehensive financial management system. What I would like to do really is to bring in our President of Asia Pacific and the Middle East, Mr. Arvind Mehrotra to speak to you more about this program, so that you understand what we are trying to do in this particular engagement.

Arvind Mehrotra:

Thank you Arvind, and good afternoon. As Arvind mentioned, we have been selected by the AP Government to modernize their public finance systems and stream line their processes without compromising the user experience. NIIT Technologies partnered with SAP and we will be using its technology and modules for delivering the solution. We will deliver for the first time in India a public budget formulation module of SAP. SAP has been very successful globally with governments using PBF and recently the Australian Federal Government had

migrated to PBF. NIIT Tech will be building and delivering the solution in 18 months and then post that we will be managing the system of across 60 months. This creates a big opportunity for NIIT Tech as we will be leveraging full fledged delivery and maintenance competency and developing it as the first Indian company. We will be helping and supporting 6000 users across 402 locations to use the system. Once this system has gone live, it will impact about 9 lakh employees of the AP Government. Many government departments in India and its States have tried to implement custom application programs with similar functionality but projects eventually have been delayed largely due to requirements not matched as their people are not able to articulate their requirements in a timely manner. We will be leveraging the best practices in the processes of SAP and we will be configuring the same to meet the government procedures; and this was demonstrated during the technical assessment of the project. This creates immense opportunity for us as many States will be embarking on similar projects.

Arvind Thakur:

Okay thanks Arvind Mehrotra. So this is I think a very significant program, a Rs 185 crore contract, and as you could understand from what Arvind Mehrotra was saying, it is not a normal run-of-the-mill system integration execution but an implementation of a solution and technology which requires some very specialized skills, and therefore is extremely prestigious for both us & SAP and for the Andhra Pradesh government. Besides this, we added 4 other new customers which are significant, during the quarter under review. These are in India, Asia Pacific and as well as the US. Of the new customers , two of them are in government, two are in the travel and transport space, and one is in the manufacturing space. So with this intake our order book executable over the next 12-months, now stands at USD252 million. We added 276 people during the quarter taking the total head count to 8,158. Our attrition is amongst the lowest in the industry and I think one of the real strengths of the organization is the strong HR practices that we have been conforming to, which has resulted in a very highly motivated team which has been able to deliver this high growth that you have been seeing by the company. We have a strong cash position, cash and bank balances at the end of the quarter stand at Rs. 3,325 million. We had a capex spend during the quarter of Rs. 350 million and our debtor days at the end of the quarter stand at 82 days of sales outstanding. So with these opening comments I would now like to open the line for questions that you may have.

Moderator:

Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja:

I just wanted you to talk about what is happening with regards to our insurance business as well as the domestic GIS business because those two businesses were impacting our margins in the last few quarters. And then finally a couple of book-keeping questions in terms of revenues from ROOM Solutions, margins over there, as well as revenues from the current quarter. And I have one more question with regard to the hardware revenues that was recognized in the quarter.

Pratibha K. Advani:

Our revenue from ROOM for the quarter was Rs 343 million and the margin was 18%. For Projecta our revenue for the quarter was Rs 151 million and the margin was 7%. Now on the

PFR hardware, this quarter our total hardware for CCTNS program was Rs 28 crores. But we also have other components in this for MPIGRS and some others but for a like-to-like between quarters, for CCTNS last quarter was Rs 22 crore, this quarter (Q4) is Rs 28 crore.

Manik Taneja: Okay and what are total revenues from CCTNS contract because there is some hardware component; there is other services component as well over there.

Pratibha K. Advani: Yes so the total revenues were Rs 32 crore.

Manik Taneja: If you could talk about both the outlook on the Insurance business and GIS business.

Arvind Thakur: We have seen recovery in our GIS business both in terms of revenues as well as the margins. As I have been explaining earlier, the margin decline had been because of an overrun in one of the programs that we have had which has now been completed. So we can only expect margins to continue to improve as we go forward. On the Insurance business in the UK, we have seen revenues remaining at the same levels and we were not expecting, if you recollect my earlier conversations, any improvement in the last quarter. As we go forward and the environment starts improving we will start seeing improvement in those revenues as well.

Manik Taneja: And any outlook with regards to revenue growth for FY' 14 as well as margins?

Arvind Thakur: Well as you know we do not give any specific guidance but you would have seen that we have had strong intake in the last quarter and also as we began the first quarter this year, we have already announced some big wins, so I think we are on a good wicket to sustain the growth momentum going forward.

Manik Taneja: Okay and any thoughts on wage hike for the next year?

Arvind Thakur: Wage hike, yes, we would be having average wage hikes of about 7% for the next year.

Manik Taneja: And this would be implemented from 1st of April itself?

Arvind Thakur: That is right.

Manik Taneja: Okay, any potential impact on margins from this?

Arvind Thakur: Obviously it will impact margins but that is something that happens every year and in the subsequent quarters we will recover from those impacts.

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

Madhu Babu: Sir any internal limits we have set for the India business because now it is already 17% and second, how the margin curve for these two orders would be, AP Government and Airports Authority of India.

Arvind Thakur: The limits are not for the India business. India business will have no limit because it is a great market. I think what we were trying to do was to limit the system integration government business. So right now we are trying to keep it at 10% to 11% which is the current levels that we have for this business. Airports Authority in fact is a very different kind of business, in fact even AP Finance as I mentioned, is a very different kind of business because we are talking about specialized software implementation but I think that is something which Arvind Mehrotra already explained to you. So let me also get him in to talk about what we are doing at the Airports Authority.

Arvind Mehrotra: Thank you Arvind. We have already announced that NIIT Tech has been awarded with a multi-year service contract with the Airports Authority of India (AAI) for implementing of the airport operations control center in partnership with SITA. As you know SITA is the global air transport IT and communication specialist. This is a first multi-airport project in Asia which will not only benefit passengers, airlines, and other stake holders but help to modernize and make airports efficient that are under AAI management. We will be implementing it across 10 airports. The airport management system and the resource management system will be implemented to deliver the full airport operations control center functionality. This will be implemented and integrated to 17 other systems including FIDS which is Flight Information Display System, baggage handling system, CUTE, and ATC, etc. The system interfaces will improve the airport management by consolidation of multiple sets of information and provide accurate real-time data from a single source. The project is a key initiative by the Civil Aviation Ministry towards modernization to improve capacity utilization, passenger throughput, enhancement of functionality and features at the airports, stake hold of management and process standardization. The projects will be executed within the next 12 to 15-months at the 10 airports. The Metro Airports of Chennai and Kolkata will act as primary data center and disaster recovery locations. The project has a provision under the contract that we have signed to expand it to additional 25 airports in India under the Airports Authority Management.

Arvind Thakur: We are partnering here with SITA in implementing this solution, and these projects are on par with any international project; so when you are talking about margins and other things, you should view it from that perspective. It is very difficult to talk about specifics of margins in government contracts because as you know those are sensitive issues which are commercial and competitive in nature that we do not want to get into details about.

Madhu Babu: Any hiring plans for next year and what is the kind of talent you are deploying in the India side? Is it different from the global projects or are we sub-contracting some of that?

Arvind Thakur: Some of the India government projects have very different talent sets so when you are implementing the CCTNS in Jharkhand, we are actually sourcing people locally and deploying them on those projects and that has a very different cost structure and that is the reason why we are able to generate margins out of these projects. So those profiles would not be suitable for global programs without a significant amount of training and intensive exercise. So what

we are really doing is building up a good amount of critical mass in our domestic business to be able to use and redeploy those particular resources.

- Madhu Babu:** Any hiring outlook in terms of fresher offers made for FY'14?
- Arvind Thakur:** Yes in fact we have already made all the fresher offers and if I am not mistaken they have already joined and are undergoing their training programs. Freshers intakes normally happen during this period when their university programs or engineering programs come to an end and all the offers that we have made are joining.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBI Caps Securities. Please go ahead.
- Dipesh Mehta:** First just need some data points. Just wanted to get the revenue details and margin profile for Morris JV and GIS business?
- Pratibha K. Advani:** For Morris the revenue for the quarter is Rs 297 million and the margin is 12.9%.
- Dipesh Mehta:** And for GIS?
- Pratibha K. Advani:** For GIS the revenue is Rs 256 million and the margin for the quarter is 9%.
- Dipesh Mehta:** Just want to understand now if we see this quarter tax rate appears to be much lower than our usual run rate. I just want to understand for next year and thereafter, what kind of effective tax rate are we seeing and the reason for the lower tax rate in Q4. And second question is just to understand depreciation and amortization, it is inching up, one reason could be our Greater Noida facility. I just want to understand where we expect it to stabilize? Thank you.
- Pratibha K. Advani:** The reason for the lower tax rate this quarter is primarily because of the swing that you would have seen in our other income that has brought down our tax rate down by about 7%. Added to this we also were able to leverage some tax benefit in UK which has further helped in bringing this down. For the year as you would be aware, the tax rate in India is going up to now touch 34%. And given the anticipated profit mix that we see for the year, our effective tax rate would be in the range of 27% to 28%. The depreciation component is going up because this year under review, we have seen the full impact of capitalization of our Greater Noida campus, added to that you would recall we had entered into the joint venture with Morris and taken on the assets, so this is the full depreciation impact of those assets for the full year. On account of Proyecta again, we had acquired this mid FY2012, so the full year impact of that in FY2013 has also come in. Added to this we acquired the facility in Manila so we also got the depreciation impact for that.
- Dipesh Mehta:** In Q4 we have seen around 16 odd crore rupees of amortization amount so that 16 crore contained all the effect what you referred to Morris, Proyecta, Greater Noida facility, and Manila?

- Pratibha K. Advani:** Yes. That is why, what we have also done is in Morris when we acquired it you would recall that year the JV did not make a profit so we did not align the depreciation policy of those Morris assets with ours which we have done this year. So this quarter we have also taken the impact of that alignment.
- Dipesh Mehta:** So going forward, we do not expect any material jump in absolute number right?
- Pratibha K. Advani:** Not material but we are looking at a capex spend of about Rs 200 crore in the next year, this would be on account of the Airports Authority of India deal that Arvind spoke about and also towards expansion of the Greater Noida campus. So there would be a slight increase in the depreciation run rate quarter-on-quarter.
- Dipesh Mehta:** 200 crore appears to be higher than what we spend in FY'13 so can you provide the breakup between Airports Authority deal and spend on Noida facility?
- Pratibha K. Advani:** So on Greater Noida facility we would expect to incur between Rs 80 to 100 crore and Airports Authority would be about Rs 50 crore.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Sharekhan. Please go ahead.
- Vimal Gohil:** What have been the volume growth in USA and Europe and second is could you provide some details regarding your nonlinear revenue component in this particular quarter?
- Pratibha K. Advani:** So the volume growth in US has been 5.5% and our non-linear revenues are 21.5%.
- Vimal Gohil:** And your volume growth in Europe?
- Pratibha K. Advani:** Actually, Europe for us this quarter has been flattish. So we have seen robust growth in U.S.
- Moderator:** Thank you. The next question is from the line of Amar Mourya from IndiaNivesh Securities. Please go ahead.
- Amar Mourya:** My first question is what is the yearly dollar revenue number, if you can give it?
- Arvind Thakur:** We provide the growth numbers in constant currency.
- Amar Mourya:** I just wanted to know whether our dollar revenue growth was higher than the industry average or it is ...?
- Arvind Thakur:** It is much higher.
- Amar Mourya:** Secondly, primarily if we see the order intake, if I see the last 12 months executable order book and this particular year, there has been a growth of only 3.5% whereas the historical

growth is much ahead of this. So what would be the financial year 2013-14 revenue outlook or deal pipeline if you can share something of that sort?

Arvind Thakur: I can comment on that. If you look at our order executable over the next 12 months, last year was \$242 million, this year it is \$252 million. Now, if you look at the profile of intake last year, it has been varying between \$80 to 90 million in every quarter except the last quarter which is \$110 million, whereas going forward we already have \$60 million in the bag with Airports Authority and there will be much more, so we can expect to see a higher order intake in the first quarter of this new year FY2014. So now, if you want to really extrapolate, you will have to do the home work. What I would recommend you do is you look at the last 3 years and just empirically correlate orders executable over the next 12 months at the end of the year and the revenues for next year, and look at the average and then see whether you can project for your own modeling purposes, what our revenue would be for the next financial year.

Amar Mourya: And secondly, in this particular quarter, Travel & Transportation had some degrowth. Any specifics about that?

Arvind Thakur: As I shared, there were two major programs that got cut over. So when a huge program gets cut over, then the development activity comes to a halt and you start getting into support and maintenance mode. So there is a dip in that particular quarter when such a thing happens.

Amar Mourya: But then overall outlook for Travel & Transportation, can you share something of...?

Arvind Thakur: In fact, the overall outlook is quite robust because if you look at the projections that we are seeing from the industry, which is basically the industry body IATA, they are now talking about further improvement in the outlook of the industry performance in 2013 resulting from better demand. So passenger demand is forecasted to grow by 5.4% which was earlier 4.5% and cargo demand is expected to grow up by 2.7% which was earlier 1.4%. So I think what we are seeing is recovery in the industry segment as a whole. So, we can expect to see us performing well in this particular segment.

Amar Mourya: When we had acquired Proyecta, I think we were expecting a lot of cross client benefits and all those things. But then, if I see the run rate of Proyecta, I somehow feel that that is not happening. Is it likely to happen? And even the margin improvement in Proyecta is not that great. So any comments on that part?

Arvind Thakur: As you know, Europe is somewhat stressed. I think last year we did well in Europe. When I look at the situation going forward I see that the euro zone continues to be in depression, in fact, when I look at the economic projections they are talking about 0.5% decline in GDP for 2013. So that has impacted one of our key clients which is Iberia which is in Spain. And if you have been following the results of Iberia they are actually incurring huge losses and there is quite a bit of internal staff unrest because of the downsizing and other things that are taking

place in that organization. So I think till that settles down, we will see a little softness in Spain, because that is the biggest client there.

Amar Mourya: So it is likely to impact the overall Europe revenue per se?

Arvind Thakur: Also.

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

Ganesh Shetty: From 977 crores in FY2009, in FY2013 you have achieved 2000 crores of turnover. I have one question, which is fundamental in nature. Looking at the growth fortunes of our company, so how can we optimize our infrastructure and other resources so that you can be ready for the next phase of growth?

Arvind Thakur: Actually, when we are looking at our growth from two dimensions; fundamentally, as I keep explaining, our strategy is to remain very sharply focused. We have identified the industry segments that we are going to focus on. Looking at the economic environment, we want to grow in a balanced manner in all geographies. We do not want our business to get skewed to any one geography because then your business gets risky if something happens in that geography, that is one aspect. The second is the changing nature of client expectations as well as the emerging technologies, which are going to impact our business. So, we are looking at our business around three horizons. One is where we get our current revenue from, which is our traditional ADM and BPO business. Horizon Two is around platforms, outcome-based models and managed services which are again SLA-based, which is outcome-based. Horizon Three are around emerging technologies which are social media, mobility, analytics and the cloud and so on. So as we move forward, we are going to be seeing more and more of our revenues coming from Horizon Two and Horizon Three activities and that is the capability that we are building in the organization.

Ganesh Shetty: My next question is regarding, recently, we have launched Cloud GIS at NASSCOM. Do you see any big prospects for G-Governance especially in domestic market or APAC market?

Arvind Thakur: G-Governance is a huge, huge area which is very virgin at this point in time. Basically, it is making use of spatial technologies to do policy administration and very aptly being used by the government. You will see very big programs that are getting initiated by the government which is going to be using GIS technology. One of the programs as we have been discussing in the past was the APDRP program for the power sector. The other one is the new emerging area which is the whole Area of the national GIS. So I do not know if you have been reading about this but Sam Pitroda is the person who is conceptualizing and supporting the government and creating the policy around the national GIS where he is linking it to the UID program. Like the UID program tagging every individual in the country, he is talking about the national GIS and every asset in the country. Now, that is a program which is going to be

using a technology like GIS and the Cloud or GIS Online. So these are big, big opportunities that are there in front of us to exploit.

Ganesh Shetty: Regarding BFSI segment, recently you have been targeting mid-level financial institutions in US and other geographies. How is this going for us?

Arvind Thakur: That is going very well. In fact, the reason why we have started targeting the mid-level organizations were because the large financial institutions were cutting back on their spending and we have been able to acquire many customers in that particular space. In fact, some of them have started assuming a run rate exceeding 5 million per annum and we have also been adding more such customers in this quarter.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Tata Securities. Please go ahead.

Ashish Aggarwal: What is the reason for an increase in long-term provisions by almost 24 crores year-on-year?

Pratibha K. Advani: This is a new Schedule VI balance sheet wherein after a period of 12 months there is a movement between short-term and long-term and this pertains to our compensated absences.

Ashish Aggarwal: I was looking at long-term provisions on a year-on-year basis from 3 crores to 28 crores.

Pratibha K. Advani: Yes, this pertains to compensated absences. These are the employee leaves. These employees' leaves are valued by actuarial and this is a shift from the short-term to long-term.

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

Dipesh Mehta: Can you share what was the free cash flows generated in FY13?

Pratibha K. Advani: The free cash flow generated for the year is Rs.120 crore.

Dipesh Mehta: And second question is about DSO. If we see India business and specifically the government business is increasing for the last few quarters and considering recent win, it is likely to increase further as a percentage of revenue. Now, India business, we used to have a relatively higher DSO. Just want to understand these two specific projects and some of the other recent deal win? What kind of DSO receivable we expect to happen? We expect it to inch up further or how do you see it?

Pratibha K. Advani: Actually, we expect our DSO days to come down. This DSO that we compute also has a component of the retention money that you would know in government contracts is kept and the high numbers reflect the retention money pertaining to BFS. But for example, in the CCTNS program, we have, till now received over 40 odd crores of billed revenue. So we are not seeing too much of a challenge in our DSO days.

- Dipesh Mehta:** What will be the total quantum of retention...?
- Arvind Thakur:** In government contracts, that retention money is not really due.
- Dipesh Mehta:** Just want to understand, in FY13, what would be the quantum of retention money which is part of DSO?
- Pratibha K. Advani:** So our retention money would be close to about 20 odd crores.
- Dipesh Mehta:** And 40 crores number you refer to, we received that in Q4 or post-Q4?
- Pratibha K. Advani:** No, this is against the CCTNS program during the year. So what I was trying to tell you is that for example, as on date, I do not have any money that is due to us from the CCTNS program. Whatever was billed, we have been able to collect. So we do not see this to be a challenge going forward and impacting our DSO days negatively.
- Dipesh Mehta:** So you do not expect your receivable cycle to get stretched because of recent India business increase?
- Pratibha K. Advani:** That is right.
- Moderator:** Thank you. The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.
- Abhishek Kumar:** I know you do not give out guidance but if you can just give us directionally given the two large government projects that we have won recently, plus the wage hikes that we are going to give in April, so what would be the margin outlook in FY14 and what are the levers that we have to offset some of those?
- Arvind Thakur:** Wage hikes we give every year, so that is not an issue. Because we always recover whatever wage hikes are given as normal course of our business as we go forward. What has been of concern has been the decline in margin in the last year and that, as we have been explaining, has been primarily on account of the GIS business which was a very high margin business where margin used to be in the high 20s, but are now in single-digits as a result of one of our projects which got delayed quite significantly. So that is now behind us. So that is one very significant lever that we have going forward. You have already seen margin expansion in this quarter. So I think what you can really expect going forward are better margins than what you have been seeing in the last year.
- Abhishek Kumar:** A related question would be what would be the margin profile of the two government deals, large government deal AP and AI that we have won?
- Arvind Thakur:** I think I did explain that. That is why I asked Arvind Mehrotra to share with you the nature of these projects. Government projects would be under margin pressure if they were typical application development and system integration projects. But if we look at AP Finance, it is a

very specialized implementation of SAP, PBF. So it is not even normal SAP implementation, it is very specialized implementation of SAP and therefore a program with good margins. And Airports Authority also is something which I just shared with you is a project and a program which is on par with any international program. So both these programs have good margins.

Arvind Mehrotra: Just to add, the AAI program was not just a price issue, it was quality and cost-based comparison and 80% of marks were on technical solutions and 20% marks were on price.

Moderator: Thank you. The next question is from the line of Shashi Bhusan from Prabhudas Lilladher. Please go ahead.

Shashi Bhusan: We started investing in sales and marketing in FY12 and have reaped the benefit of the same in terms of revenue momentum in FY13. But over the last 4, 5 quarters we have decelerated the pace of investment in sales and marketing. Do you think we could still maintain the revenue momentum with this investment or we need to further reaccelerate our investment in sales and marketing?

Arvind Thakur: No, this is an area where we will continue to invest. If I am not mistaken, our sales and marketing as a percentage of revenue is about 6-7%. We will be maintaining that between 6 and 7 per cent as the overall investment in sales and marketing.

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

Rahul Jain: Most of it is answered, if you could just give some specific direction on the segments where we are sort of expecting the major portion of growth to come in FY2014? There is a view that there are some business portions which are relatively soft at the moment and there are some economic issues like what you said about Iberia and client-specific things. So where do you see the biggest confidence coming from in terms of delivering growth on YoY basis?

Arvind Thakur: I will look at it from two dimensions. One is from the geography and the other is from the industry segments. From a geography perspective, I think I did share earlier that we see the Euro Zone to continue to be under stress in the coming year. In fact, even with our existing clients, we are seeing prolonged decision-making cycles. So, going forward I would expect strong growth in the US, strong growth in Asia and India, and moderate growth in Europe. From the vertical perspective, we had very high growth in Travel and Transport last year. We will of course see growth this year but perhaps not at the same levels as we saw last year, mainly because of what I just explained to you as the issues that we are seeing in Europe. We will continue to see softness in the Banking and Financial services space but we will see an uptick in revenues from the insurance space, we will see improvement in the Manufacturing space as well as, as you can see, from the business that we have been getting in the government we will see improvement in the government as well.

Rahul Jain: Just to understand some of the efforts which we were possibly very excited about at the time when we got into them, and suddenly things perhaps not falling in place right now, do we think that somewhere we are trying to do several things but were not able to capitalize on the entire opportunity and then we are again looking into something new. I mean, like say Proyecta or Morris? Or do we see that we have fairly traveled the distance in the cases where we have been very excited about in the recent past?

Arvind Thakur: Let me take this little more systematically. I think we started on a journey where we said we will focus very sharply and build specialization and differentiate. And I think that has worked out extremely well for us because you would have seen consistent revenue growth not just last year but for the last three years. And in fact, if you look at the industry per se, companies who have been able to build that kind of specialization are the ones who are seeing consistent growth. So that is Point #1. Point #2, there has been fairly significant turbulence in the environment. Yet, we have been able to demonstrate consistent growth year-on-year, quarter-on-quarter for the last nine quarters and I would say that is attributable to the balanced revenue mix that we have in our geographies. For example, last year we had strong growth in Europe, it was weak in the US and going forward we are going to see it the other way around. So I think the balanced revenue mix is a very important platform that helps us ensure consistent and sustainable growth. The initiatives that you talked about, particularly Morris is very exciting. Because I think it has been one of the very successful engagements, driven a lot of revenue, helped us create a platform by which we have been able to acquire more customers, giving us good margins and most important, is the benefit that we are going to be seeing in the coming years is that the entire Morris contract, we have now brought it into an outcome-based mode. So far we have transitioned that business, we were working on fixed price mode, but as we move into the next financial year, that entire project and contract, is going to be on a transaction mode which means it is going to be completely non-linear and I would say this is something that is very unique because you would not find in the industry a project or a program of this size which would be in an outcome-based mode. So basically that means that as the volume of transactions increase, the volume of our business is also going to increase in this particular contract. So that is very exciting. On Proyecta, I think I already gave my comments on that. It is related to what is happening in the Euro Zone. The biggest client is Iberia and Iberia is under tremendous stress. So till the organization stabilizes in terms of the restructuring, it is going to continue to experience some stress.

Moderator: Thank you. The next question is from the line of Karan Taurani from IFCI Financial Services. Please go ahead.

Karan Taurani: Just a couple of data points. These two contracts of government which you won, what is the tenure of both of them, how are they going to flow in the revenues?

Arvind Mehrotra: AP CFMS is 18 months of build phase and 5 years of support and maintenance, which is operations, running the entire infrastructure and application. Airports Authority is 12 to 15 months of build and 84 months of operation.

- Karan Taurani:** And hardware component in both of these contracts?
- Arvind Thakur:** Airports Authority, as I said, it is a pure services contract and Pratibha had mentioned the investments that we are making, so as the airports start using the system, we will start getting 20% of our money and subsequently, it will be quarterly based on SLA.
- Karan Taurani:** And the Andhra Pradesh one, the hardware component in that?
- Pratibha K. Advani:** In the Andhra Pradesh, almost 70%-75% of the value of the contract would be hardware.
- Karan Taurani:** Just to understand the flow of hardware revenues approximately for Q1FY14 or the full year FY14. If you can help me with that?
- Pratibha K. Advani:** So for the full year, we expect PFR revenues to be around Rs 135 crores and I just stand a little corrected the earlier figure that I gave you for AP Finance that would also have the software component because of SAP, which we also put under PFR, not specifically hardware.
- Karan Taurani:** People have been asking and tracking this question, I want to know that these two contracts, they are obviously government contracts and in terms of margins, are they higher or lower than your company average as of now?
- Arvind Thakur:** Like I said that something that we cannot disclose because government contracts operate a lot on L1 and there are competitive bids.
- Moderator:** Thank you. The next question is from the line of Deepak Malhotra from Silver Streak AMC. Please go ahead.
- Deepak Malhotra:** The question is what is likely to be the capital expenditure for FY14.
- Arvind Thakur:** Rs 200 crores.
- Deepak Malhotra:** And second question, just on the margin front, say over the next 3 years, what kind of margins do you think we are likely to reach up to given that in the past the margins have been much high?
- Arvind Thakur:** I think margins are only going to improve going forward. The reason why we saw a decline in our margins has been on account of specific transactions which are behind us, and the attempt of the organization is always to improve its margin. So we hope to see margins improving in the subsequent years.
- Moderator:** Thank you. The next question is from the line of Anubhav Jain from CIMB Securities. Please go ahead.
- Srinivas Seshadri:** Srinivas from CIMB. Just had 2, 3 questions. The first one is pertaining to the margins. Over the last couple of years we have had quite a drop in the margins and next year also if I

understand correctly it appears that the domestic business may be the strongest kind of growth driver for us. From that perspective, just wanted to understand, how are we expecting a margin improvement to come in that context?

Arvind Thakur:

First of all, I have taken great pains in trying to explain to you that our large domestic contracts are not typical domestic contracts. Unfortunately, I cannot share the details of the margins with you. You can hope to see better margins from our domestic business going forward. That is point #1. Point #2, you are well aware of the specific issues which were transactional in nature, that had resulted in decline of margins in the last year. So those are behind us. I think all these things are going to contribute to our margin improvement going forward.

Srinivas Seshadri:

Arvind, maybe if I can put in a different way. In GIS, if I look at this quarter, we would have got back to somewhat of a normal shape compared to the drags which we had in the previous quarters. Even if I adjust for that, the current quarter reported margins are around 16.5% which obviously is still pretty much in the range of what you were doing in the previous quarter. So, I am wondering incrementally where is the margin expansion going to come from? I mean, is there any scope in the traditional margin levers you have in the exports side, like for example, onsite/offshore mix or employee pyramid, any of those factors which you are working on very seriously or something which gives you a lot of optimism for?

Arvind Thakur:

I think now there is a need to start tweaking the models a bit because for far too long probably we have been tracking organizations like Infosys and building models around onsite/offshore and things like that. When I look at a contract like the one with Airports Authority, it does not fit into any of those models, which has a very different margin profile. I just talked about Morris becoming completely transaction-oriented. That creates a very different margin profile. So it is a 15-17 million dollar annual run rate account which is going to become completely transaction and outcome-based. So there is a lot more that we can leverage than the traditional levers of onsite/offshore, pyramid and all those things that we have been talking about in the past.

Pratibha K. Advani:

Just to add to what Arvind mentioned, now that the GIS business is getting back into shape, in the current quarter we just had a mid-single digit margin. As it improves the margins will start improving and as NITL takes off we shall start to see margin improvement.

Arvind Thakur:

Again, coming back to the Airports Authority deal, we were competing with Indra Sistemas which is one of the largest European system integrators. You can imagine what kind of pricing you are talking about when we get into those kinds of deals.

Srinivas Seshadri:

And the second question is on the client growth profile, I understand that and appreciate that the top clients are growing very well but when I look at the non-top 20 clients especially, I find that the revenues are pretty much flattish in constant currency terms. So is this a conscious strategy of maybe churning the tail accounts, is that a strategic focus or is this something we can do better from hereonwards, what exactly should I read it as?

Arvind Thakur: There are a couple of things. I think I did share with you that there are some of our top 10 clients for example were degrown, ING for example. So, while the top 5 may have grown, when we look at the top 10 and the top 20, if there is anyone which degrows it has an overall impact amongst those customers, particularly if it is a large account like ING. Now, if you look at our million dollar clients, they have improved, they were 61 last year, they have increased to 68. So it shows that smaller customers are becoming large quite rapidly. I talked about two second tier banks that we are addressing. They started small but now they are growing to 5 million run rate pretty rapidly. So I think things are happening, but when a large Tier-I account scales down, it requires many more small accounts to cover that gap.

Srinivas Seshadri: Arvind, actually, my question was not between top 5 to top 20. I was talking more about outside the top 20. There the growth, if I calculate correctly, has been flattish or rather the base has been flattish year-on-year. So ...

Arvind Thakur: What happens is when you enter into an account, you normally enter small; so typically you will enter with 25 million, 50 million and then you scale it up. And if you look at the profile of any services company, 90% of the revenues come from their existing clients. So what really makes a difference is how much of your smaller base can you make them into million dollar clients and how do you scale those million into 5 million and those 5 million into 10 million and so on.

Srinivas Seshadri: The final question is on the large deal profile, if I look at the success over the last 2 or 3 quarters, a lot of it is coming from a single geography, and as you said, one needs to have some kind of balance across the way one does business. So I was just looking for some kind of commentary on what is happening in say some of the large deals we are bidding for outside India or outside Asia? Is there any real problem in terms of deal closure or win ratios?

Arvind Thakur: Not at all. In fact, we have been securing business across the globe. I talked about Virgin, that was a large deal and a large cut off. A lot of those large deals happen with our existing clients which is also what we have been talking about. The fact that all our top clients now have a revenue run rate of greater than 20 million shows that we are engaged in large deals with each one of them. Sometimes, we are not able to quantify that because it is just an increase in revenue run rate and that is a problem in the international clients. Also the reason why you have been seeing larger number of large deals let us say in India and Asia is because of the turbulence that we have been seeing in the western markets. So, one has to adapt business models and approach those markets in a manner. When we go after Tier-II financial institutions, we cannot expect a large deal but definitely you enter into those clients and because they are mostly first time outsourcers, you scale up rapidly and start having revenue run rates of 5 million per annum. So it is a different approach in different markets.

Srinivas Seshadri: Last question on Travel. Last year was basically a very, very strong year, also driven by some of the transformational programs that you are working on. So for next year what is the outlook with respect to the business we have been doing especially on the large transformational

engagement, is the visibility similar to last year or is there much lower visibility this year and hence on the growth prospects on travel?

Arvind Thakur: Are you talking only on Travel or are you talking of business as a whole?

Srinivas Seshadri: Specific to the Travel vertical.

Arvind Thakur: For the Travel vertical, actually while we have been doing a large number of deals, there are specific areas where we have been able to establish ourselves as key contenders for business. And one is in the whole area of cargo management. So there are a number of large deals that we are involved with in this particular space. The other is in passenger service systems. And the third which is a new emerging area where we are in some large situation, maybe in the \$10 million range, not the 20 million range, is in the area of catering. So I think there are many such specialized opportunities that we have opened up where we are going to be seeing some traction.

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

Deepan Kapadia: I just wanted some outlook on the SG&A because this quarter the SG&A cost has gone down and going ahead how do you plan to see the SG&A, I mean, some part of the commentary suggested that we will see increased expenditure in SG&A, am I right in my thought process?

Arvind Thakur: No, I think we have been managing our SG&A pretty well and basically what we are seeing is that our SG&A is being able to drive larger revenue. So, I do not see that percentage changing as we go forward.

Deepan Kapadia: One book-keeping question, you said it will be hardware component from CCTNS of 28 crores, but what is from MPIGRS?

Pratibha K. Advani: Rs 14 crores.

Deepan Kapadia: So you put about 42 crores this quarter from hardware, right?

Pratibha K. Advani: Yes, but I would like to clarify, in case you think that our entire revenue growth has come from hardware that would be incorrect because last quarter also, we had PFR component of Rs 35 crores.

Arvind Thakur: Let me just conclude then and thank you for participating in this call. Those of you who are in Mumbai, I look forward to meeting you at our conference at "Trident" at Bandra Kurla Complex; we will be starting at 4 o'clock and I look forward to interacting with you. Thank you very much.

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

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