



TRANSCRIPT: NIIT Technologies Ltd Q4FY2014 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 Q4 FY2014 Earnings Conference Call. As a reminder, all participant lines will be in a listen-only mode and 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 telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Abhinandan Singh, Head - Investor Relations, NIIT Technologies. Thank you. And over to you, sir.

Abhinandan Singh: Good afternoon and welcome everyone to our Q4 & FY2014 conference call. Present along with me today on this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Sudhir Chaturvedi, our Chief Operating Officer; and Ms. Pratibha Advani, our CFO. 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 and Investor Meet' in Mumbai on May 12th 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. With that I would now like to hand over the call to Mr. Arvind Thakur, our CEO.

Arvind Thakur: Thank you, Abhinandan and good evening everybody. I would like to talk about both our annual results as well as focus on our Q4 results. A few comments on our annual results; revenues for the year have grown by 14% to Rs.23,050 million. In constant currency this represents an increase of 4% during the year. Among the geographies, the US delivered robust growth which grew by 29% contributing to 42% of revenues. EMEA contributed to 37% of the revenues, and the balance that is rest of the world contributed to 21%. Among the verticals growth was significant on the BFSI space which grew 19% contributing to 34% of revenues while Travel and Transport contributed to 37% of revenues, and other segments like Manufacturing and Government contributed to 7% and 8% of the revenue mix respectively.

The year was characterized by an all-time high intake of fresh new business. During the year, the company secured \$749 million of new business and this has been on the back of some large deals. This intake is double the intake that we had in the previous year as a result of which the executable orders from the order book over the next 12-months increased to \$290 million as against \$252 million US in FY-'13, which is an increase of 15%. Operating profits during the year grew by 6.7% to Rs.3,515 million representing an operating margin of 15.2%. Margins were down 105 basis points over the previous year, primarily on account of higher purchase or resale revenues, and some increase in SG&A. Net profits for the year improved by 8.1% to Rs.2,305 million.

Let me now focus a bit on the Q4 results and its analysis. Revenues grew 0.2% sequentially to Rs.5,885 million during the quarter which represents 9.5% growth over the same period last year. The

impact of the strengthening rupee was offset by lower hedge losses resulting in flat constant currency revenues. US grew 1.8% sequentially contributing to 45% of revenues. EMEA also grew marginally contributing to 38% of revenues, but there was a decline in revenues in the rest of the world, primarily on account of reduced domestic business, and the share of revenues from the rest of the world therefore 17%. Delay in project execution at a large program that we are executing for the Airport Authority of India resulted in a major milestone slipping into the next quarter which caused this decline. This slippage and also a ramp down in a large account in the Travel space in the US resulted in a decline of 1.9% in revenues of the Travel and Transport segment which now contributes to 37% of revenues. BFSI contributes to 35% of revenues and Manufacturing to 7% of revenues. The share of the Government business has declined to 5%. Share of our Top 5 and Top 10 clients stand at 34.5% and 47.4% of revenues respectively, while the share of our Top 20 clients stand at 63%. Onsite revenues are 65% of our total revenues. Operating profits for the quarter stood at Rs.890 million which is up 0.7% y-on-y, but down 6.9% quarter-on-quarter representing 116 basis points reduction in operating margins. This is primarily on account of ramp down in the Travel and Transport account in the US, and also the milestone slippage that happened in the program for Airports Authority of India (AAI). Net profits increased 16.7% sequentially to Rs.619 million as a result of lower tax rate due to accelerated tax benefits in the UK and recognition of some DTA. Tax rate during the quarter was 7.9% of PBT.

During the quarter we had \$144 million US of fresh business that was secured. This included two large contracts of US\$25 million plus with two existing large customers in the Insurance and BFSI segment in the US. We added four new customers during the quarter – one each in every geography US, EMEA, APAC and India. And to talk a little more about the intake both in the quarter and in the year, I like to invite Sudhir Chaturvedi to share his views.

Sudhir Chaturvedi:

Thank you, Arvind. So, as we mentioned in the previous call we have a clear corporate agenda going forward, and just to recap that for you we said that we will focus on western markets for growth, focus on Infrastructure Management Services (IMS) as a new growth engine and that we would look for leadership in the TTL segment. So, our efforts have been proceeding along those lines and we have made some changes in the organization. IMS is now a new business unit within the company and it operates as a horizontal business unit.

We have new leadership in Asia Pacific. We have also made some changes in Europe, and Europe has been split between the UK and Continental Europe and we have appointed two separate leaders for each of these business units. We also have moved marketing directly under me, and the products business also reports to me.

So along with these changes, what we have ensured is that we have no loss of momentum, and that we continue to focus on order intake to drive our growth going forward, and as Arvind mentioned we had a order intake of \$749 million this year; 83% of that order intake comes from western markets, it comes from US and Europe, and we are also in the process of currently bidding for four large deals in these markets. Our overall pipeline is also in a healthier position; we are seeing an overall qualified

pipeline, which is 25% higher than the same time this year, and we are also pleased that our Infrastructure Management Service pipeline and BPO pipeline is up significantly from the same time last year. We have been diverting our marketing efforts towards sourcing advisors and this has been bearing fruit. We have had over 180 different interactions with 3rd party advisors, and this is resulting in invitations to new deals as well as leads around on deals happening in the market. We also recently won an 'Outsourcing Award' from Alsbridge which is a sourcing advisor and a client DB System for being a 'Partner of Choice.'

So with all this in place we are focusing our efforts on our sales and marketing function and we are undergoing a transformation in this function, there are eight different strands to this, and we will discuss this further in our Analyst Meet in Mumbai, but just to give you a flavor, we are creating a sales and marketing model which is around challenger-led sales which is based around 'New Ideas – More Value.' We are investing in our top accounts for growth. There are two intentions here; one is to secure our long term future in these accounts and we are seeing some of that in terms of our order intake already; and the second is to displace competition within our top accounts so that we are the number one player in these accounts. We are also looking at white spaces very clearly, and we are seeking to improve our cross-sell ratio. We have created a focused hunting model around new logos. We have a clear list of targets around desirable logos that will lead to future growth of the entire organization. On large deal conversion, we have created a program to help us not just be invited to more large deals, but improve win ratio on these deals. Our products when I came in one of the things that I felt were one of our strengths; 9% of our revenues today come from IP-led revenues. In our Products business, we have now taken for example our Insurance products business global with deals now in the US and in the Middle East, and our endeavor is going to be to continue to expand the sales ambit of our products and really look at the global markets to drive our growth from the products perspective. We are also, in line with that, looking at alliances as a new channel of growth for us. We are making several people related investments in the sales and marketing space. With this I am going to hand over to Arvind to talk you through the rest of this.

Arvind Thakur:

Thanks, Sudhir. So I think that gives you a flavor of our sales and marketing model as we go forward which is already beginning to deliver results in terms of a strong intake that we are seeing in the business. We added 130 people during the quarter taking a total head count to 8,290. We had a slight decline in our utilization as a result of a ramp down that we have seen in the Travel account, and attrition has increased also slightly to 14.37% in this quarter. Sudhir talked about how we have reorganized ourselves in the marketplace. What has been more significant is that we have carved out Infrastructure Managed Services as a separate independent business unit; this has been done to ensure that we have integrated solutions and we are engaging in a significant manner in large deals. Arvind Mehrotra who formerly headed the Asia & Australia business would now be responsible for driving Infrastructure Managed Services business globally. Deepak Khosla who was earlier responsible for global sales and marketing would now run our Asia & Australia business. We are also mindful of the opportunity that is being presented in emerging technologies and have created a separate position to focus in the emerging digital services space.

Our outstanding hedges in US dollars are 45.81 million at an average rate of Rs.64.89 on a dollar. Cash and bank balances were up Rs.390 million and now stand at Rs.2,874 million. We spent Rs.597 million in capex. Debtors at the end of the quarter were 89 days of sales outstanding, an improvement over the last quarter.

If you look at the environment, we are beginning to see the larger economies such as the US and UK, demonstrating signs of sustained growth, while there are some pockets of sluggishness like in the Euro Zone and some inconsistency in the US we are seeing lower growth in Q1 of CY2014 as compared to Q4 of the calendar year 2013. The economy as a whole is on a growth trajectory. The emerging economy is including India and much of the Asia Pacific region has been relatively subdued, but continues to be in the growth mode. So with the foundations for a broad-based global recovery now, there is rising confidence resulting in healthier demand conditions for specialized technology players like us. We are now more focused on the western markets, particularly the US where the demand environment is much better than what it was a year ago, and so we view FY2014 as a year of consolidation, whereby we have set the base for future growth by bringing about structural changes in the organization resulting in securing large and long-term deals, build a healthy order book, reducing the reliance on India government business, moving ahead with culture change initiatives, that would be relevant as we move to address and embrace emerging technologies, and also meet the changing expectations of our customers, and transforming our sales and marketing function. So with orders executable over the next 12-months improving by 15%, as we begin the new year and the deal pipeline as Sudhir shared, also improving significantly, I think we have created a positive momentum in the organization, and look forward to a stronger FY2015. So with these remarks, I would like to now open the call for any questions that you may have.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: Just a couple of questions; first of all, I would just like some color on two important aspects; one is on how do you see the trajectory for the Insurance business going ahead because we have seen that the insurance business has underperformed quite a bit over the last 6 to 7 quarters where revenues are almost flattish? And the other thing is what is your perspective on the non-linear business going ahead; we had targets of 30-35% of non-linear business, so how exactly are we placed on that and what is the trajectory going ahead?

Arvind Thakur: I will just start by first talking about the insurance and I will also get Sudhir to add. In this quarter, one of the large engagements that we secured was in the Insurance space in the US, so I think we are seeing good traction in that segment. What had been sluggish in the past had been our business in the Commercial Insurance space which was the NITL. So I think we have done quite a few things in that business, particularly to take our products global... and I will ask Sudhir to share some of those insights with you.

Sudhir Chaturvedi: We have in fact won two deals already in terms of our global footprint in NITL – one in the US and one in the Middle East as I mentioned – and we have invested in sales in these two markets, and we are seeing a decent pipeline of deals already emerging in the US and we have also had several discussions in the Middle East. So taking the product global from beyond the London market has been one of our key strategies for growth in that market. The other aspect is that as our core products within the Insurance business. One thing that we are doing is that as we see a return to growth especially in the UK economy, we are seeing a good return to growth there, there is a demand for changes that clients were looking to make as they spend as they incur discretionary spends on various other programs. Now, this also involves effort for us from a modification of or enhancements to our product. So there are two strands of growth that we were looking forward to – one is the global sales for new logos for our products; and the second is the work that we expect in terms of enhancements on our existing client base especially in the UK market.

Arvind Thakur: So on the second part of your question around non-linear revenues, as you know, we look at revenues from our Intellectual Property as well as revenues from our Managed Services business as non-linear. So you would have seen some improvement in this current year in that as well; non-linear revenues have grown from 22% to 24% in this financial year, and now with the restructuring that we have done where we have created IMS as a separate horizontal business unit we expect growth rates of IMS to outstrip growth rate of the company, so you can see further enhancement of non-linear revenues in our business.

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

Srinivas Seshadri: The first question is around the growth profile of the clients. So if I look at what you reported this quarter the top-5 clients' revenue growth is down sequentially 5%, and outside that in the top-20 it has kind of flattish to marginal growth. So given those numbers, one is wanted to understand beyond the client which you mentioned which had an issue, are there other clients also where you are facing difficulties A) in terms of any kind of a revenue attrition or B) in terms of growth challenges in those accounts, especially in the top-5, top-10, top-20 bracket?

Arvind Thakur: No, it is primarily on account of the travel flag which actually I had also indicated in my last call which was going for an IPO and they were cutting back on their costs. So we have had the ramp down in that client which has really contributed and since it is a top-5 client it has contributed a decline in our top-5 revenues as well.

Srinivas Seshadri: So you are saying apart from that the top-5 there is no issue, basically?

Arvind Thakur: Yes.

Srinivas Seshadri: And Arvind, outside the top-5 and the top-20 again the growth pattern is very modest. So again were there issues with other clients as well or why is the overall number looking very subdued?

- Arvind Thakur:** They have not grown significantly, but there is no issue in those clients. So when there is a slowdown in the top-5 it impacts the top-10 as well.
- Srinivas Seshadri:** Why I am asking is especially given the fact that NIIT Tech has been known to grow more from a current client base, how do you see your client base being positioned in terms of budgets and your ratios in terms of growth for the next year that is what my concern was based on the numbers which had come out?
- Sudhir Chaturvedi:** Just to add to what Arvind said, one of the things that we are saying in the budget environment, most of our clients work on a calendar year, is that this year there are budgets for discretionary spend and we are beginning to see those budgets being spent starting Jan this year. So we will see some extent of discretionary spending, but however having said that cost focus remains paramount even now, and there is cost cutting happening. Therefore if you see the increase that we have had in terms of fresh orders as well as in terms of the pipeline, that is the lead indicator of the budget expansion in the market. And the other aspect is that one of the things that new discretionary spend leads to a new business actually; it typically starts small, and then results in a higher level of work around development, testing, new infrastructure and thereafter around support and maintenance. So it tends to start small and then build up over a period of time.
- Srinivas Seshadri:** The second point is on the margins; this year though we had a significant currency tailwind, we still on a normalized basis adjusting for the hedging, etc., had bit of a margin slippage which I understand due to the revenue mix, etc. So now with those issues kind of getting sorted out, I wanted to understand what is the outlook for the margins in FY15 – can we expect some kind of a margin expansion, if yes, if it is possible to quantify on that front?
- Arvind Thakur:** Yes, I think we can definitely expect margin expansion in FY15. In Q1 there would be an overhang of wage increases and also some of our projects which are the India government projects would unwind in Q1 and Q2. So I think you will see margin start picking up Q2 onwards in our business.
- Srinivas Seshadri:** On a full year basis, Arvind, any targets in terms of where you are looking at... you earlier used to state that 18% was your target margin, so can we expect it for FY15 or do you think it might take a longer for that?
- Arvind Thakur:** 17% would be a more appropriate number.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja:** A slight similar question on margins; if you could first of all talk about what were the moving parts that impacted margins in the current quarter? And secondly with regards to the wage hikes that we are expected to do in FY15, what will be the impact in Q1 and how do you see margins in the near term? And then a question with regards to the order wins that we have seen in the current quarter. If you could talk about what would be the incremental portion of those deals and how are you seeing business panning out in your key verticals?

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Arvind Thakur: I will talk about the margins, then ask Sudhir to talk about the intake. As far as margins are concerned, in this quarter the impact has been primarily on account of the business that we have in the Travel space and there are two factors which have contributed to that one has been the ramp down in a large client in the US, that was a sudden ramp down, and also has resulted in utilization reducing, so that has been one contributor; the second, we were expecting to complete a significant milestone in the Airports Authority of India program, which as you know is a very large program, that has slipped into Q1, so that has also resulted in margin impact. So these are really two prime reasons why our margins have declined in this quarter. On intake, Sudhir will probably take that.

Sudhir Chaturvedi: We talked about the overall intake being up; more than double from last year, and I have also said that 83% of that intake comes from US and Europe. Another flavor that I would like to give you all is that BFSI had contributed to a majority of the intake in Q3, it was about 85% of the intake in Q3, it is more than 50% of the intake in Q4. So what we are saying is that as growth returns to the market, BFSI segment which is the largest segment in terms of spend is growing and we are growing in line with that. Even in the Travel space, which is our largest vertical, we have opened an account as we told you last quarter, I think we will see some improvement there too, because there is continuing spend especially from a digital services perspective in the Travel segment and other projects along those lines. So, our strategy is to remain focused on our verticals, we are not looking to go beyond the verticals that we are, in fact, if anything we are more sharply focusing on our existing verticals and of strength, and we will continue to in all of those verticals, government, we have already indicated that those revenues have already reduced as a percentage of our total revenues in salient's over the past four quarters, but the three verticals will be key areas of focus for us – TTL, BFSI, and Manufacturing.

Manik Taneja: Slight clarification with regard to order wins that we have seen... how much of these order wins would be incremental business, and how much would be renewal business?

Arvind Thakur: There is always a mix, because these are all engagements where there has been consolidation of vendors.

Manik Taneja: The reason I am asking you... last quarter we had a large order win, however about 90% of that order was about renewal. This quarter you have announced about two US\$25 million plus deals, how much of that would be renewal, even a rough number on that side will be helpful?

Arvind Thakur: I do not have that number, but this is basically consolidation, so basically you are taking over business that would have otherwise gone to another vendor, and also renewed your own contract, so it gives longevity as well as incremental revenues.

Manik Taneja: Prodding you slightly more on the margin front as well, what kind of wage hikes are we planning for this year and how are we looking at margins both in the near term as well as on a full year FY15 basis, I think you have indicated 17% margins for the full year, is that correct?

Arvind Thakur: That is what we are aiming for.

- Manik Taneja:** And how would you expect margins to move in Q1?
- Arvind Thakur:** Q1 would remain subdued because of wage hikes, but I do not anticipate margins to decline.
- Moderator:** Thank you. The next question is from the line of Sanjeev Hota from Sharekhan, please go ahead.
- Sanjeev Hota:** You have given for the outlook for FY15, but if you could give us some sense on how the revenue will be spread out – any indication it is going to reach double digit kind of growth in line with the NASSCOM guidance?
- Arvind Thakur:** You know we do not give specific guidance, but in order to give you visibility, what we always do is share with you what is our order book executable over the next 12 months and that is US\$290 million at the end of the last year, and it was \$252 million in the previous year. So that is a 15% increase. We are starting with confirmed order book which is 15% more than what we had last year, and so that should give you a sense of what kind of growth can you expect in this year.
- Sanjeev Hota:** Will it be spread out over the next four quarters, not likely to see any backended kind of growth?
- Arvind Thakur:** I think it will be equally spread out.
- Sanjeev Hota:** A book-keeping question- if you could share the numbers on the GIS, NITL, Morris, Proyecta and hardware revenue and margin figures?
- Pratibha K. Advani:** NITL revenue for the quarter is Rs 405 million and the margins for the quarter is 12%, GIS revenue for the quarter is Rs 312 million and the margin is 27%, Morris revenue for the quarter is Rs 382 million, and the margin is 15%, and Proyecta is Rs 195 million and the margin is 8%, hardware is Rs 22.7 crore.
- Sanjeev Hota:** For Q1 what you are going to get from hardware?
- Pratibha K. Advani:** We expect between Rs.16 crores to 20 crores.
- Sanjeev Hota:** Could you just share the capex for 2015 and tax rate for 2015?
- Pratibha K. Advani:** So in terms of capex, we are looking at between Rs 150 crore to 160 crore, and the tax rate will be around 26%.
- Moderator:** Thank you, the next question is from the line of Dipen Kapadia from Batlivala & Karani Securities, please go ahead.

Dipen Kapadia: If you could help me see the ramp ups in the Airport Authority deal, and how do you see it going ahead, because I think it has been delayed for two quarters, and with large chunk of milestones not being done in the last two quarters it has been a drag on your margins. So how do you see it shaping up in FY15?

Arvind Thakur: Yes, I think you are absolutely right... the first airport to go live would be Chennai, in fact, as we speak, we have cut over into production, it is under trial run, so that will definitely happen, and thereafter, the other airports will come in. So I think now we are back on track. It was the initial part where it took a while to get the solution in place and the infrastructure in place but all that is in place now.

Dipen Kapadia: So do we expect FY14 to have contribution throughout the year or will it be lumpy?

Arvind Thakur: No, it will be contribution throughout the year.

Dipen Kapadia: And in terms of your large client, after the slowdown in this quarter, do you expect the slowdown to flow into FY15, the Travel and Transport client where the IPO led to a slowdown?

Arvind Thakur: Yes, it slowed down, now it will start picking up.

Dipen Kapadia: So we do not expect a slowdown in FY15, is what the answer is, right?

Arvind Thakur: No, the run rate has come down, so now we will have to pick up the run rate, so to that extent there will be a slowdown.

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

Madhu Babu: What is the quantum of wage hikes and would the margins drop on a quarter-on-quarter basis? How much is that, because we are also having this currency appreciation?

Pratibha K. Advani: We are planning to give a wage hike offshore of about 7% to 8%, and onsite wage hike will be 2% to 3%, this would have approximately 200 basis points impact on the margins for the quarter.

Madhu Babu: So, sequentially there will be a drop in Q1 margins, right.

Pratibha K. Advani: We do not anticipate a drop. As Arvind mentioned earlier, we expect the margins to stabilize at Q4 levels.

Madhu Babu: Madam, if you see some of the large caps and all are having excessive focus on the rationalization of costs and all. So do we have any further scope in the G&A rationalization or any other things for margin levers for next year?

- Pratibha K. Advani:** We have done investments in reorganizing ourselves for the next phase of growth, and we have been investing in S&M and we would continue to invest, but G&A is an area where we have definitely capped and we will see improvements there.
- Madhu Babu:** And lastly on the capex, this year we have done Rs.150 crores, and next year we are getting another Rs.150 crores. Where would that be next year capex – is it on the Airports Authority, how much, and how much is on the new campus?
- Pratibha K. Advani:** Next year, there is not going to be much on Airport Authority, but if you recall last year, we had guided that we would do about 100-odd crores on our Greater Noida campus, we have not spent that entire amount this year and some of that is going to spill over to next year. So we expect about Rs.80-90 crore for Greater Noida campus phase-II and the balance is our business-as-usual capex.
- Moderator:** The next question is from the line of Amar Mourya from India Nivesh Securities, please go ahead.
- Amar Mourya:** What I am trying to understand is that based on the reorganization and restructuring and incubation of the sales forces, do we see the average size of the deal wins to increase going ahead, because that is what is visible from the last two quarters, so I just wanted to understand if you can add some more flavor for that?
- Sudhir Chaturvedi:** Actually, the answer is ‘yes,’ we classify large deals as 25 million and beyond, but the four deal wins that we have had this year and including the pipeline that I am looking at right now of four deals that are currently in play, they are all above the 25 million threshold.
- Amar Mourya:** My second question is primarily on the Travel and Transport business. I wanted to understand on a broader level... because this is probably the third or fourth quarter where we are seeing a consistent drop in the Travel and Transport business from the 40 odd per cent levels to 37 levels, earlier you mentioned that there was some issue with Europe client and now it is coming with the US clients. So, is there a specific problem in the travel and transportation industry itself or it is a client-specific issue?
- Arvind Thakur:** These are all client-specific, so the Europe client was Iberia, and as you know, they underwent a big restructuring exercise post their merger with British Airways. So the US client going for an IPO is also looking at its cost structure; it is very-very client specific, and also BFSI have bounced back, so there have been greater proportion of revenues in the BFS space, so when you look at the overall pie chart, it pushes down Travel in that context.
- Amar Mourya:** About the revenue outlook for financial year 2015, if I see the dollar terms, the dollar revenue growth during the whole year is... we do not compare it with the dollar revenue, we do with the reported one, but just wanted to understand, if I see the fresh order intake for financial year 2013 on a quarter-to-quarter comparison for end of the Q4 of financial year 2013 with the end

of the Q4 of financial 2012, it was a growth of 3.7%, and during Q4, the order growth is around 15%, and if I see the overall revenue for financial year 2014 is in dollar terms it is around 4% to 5%. So the order book increasing to 15%, we expect similar kind of double-digit revenue growth in financial year 2015?

Arvind Thakur: I think you have answered the question; you have done an analysis that we also normally do, because what is visible is the order executable over the next 12 months. That is why I said, we will share with you what the order visibility is over the next 12 months and then you can derive your own conclusions on what is likely to be the growth because we do not give specific guidance.

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

Abdul Karim: What is the outlook of pricing in traditional IT Services, because there was some buzz indicating of pricing pressure? And as the competition picks up in Infrastructure Management Services, would that reduce our growth momentum over the coming one to two years?

Sudhir Chaturvedi: On pricing, we are seeing a flat pricing environment, but what we are seeing is that the pricing expectations from clients are shifting towards fixed price, managed services, from an engagement model perspective or transaction-based pricing, they are looking for pricing models which are in line with their objectives from those projects, so what we will see is the shift in pricing models, but pricing overall remaining stable. Infrastructure Management Services, if you look at current salients of revenues in the industry, it is still around 14-15% of the revenue that is currently generated, but overall spend in infrastructure is around 40% of a client's enterprise. So this is relatively new area for spend in terms of outsourcing and offshoring, there has been significant outsourcing in this area, but outsourcing and offshoring is still picking up. So this is why we see deal generation in Infrastructure Management Services is still happening. If you look at the mid-size segment, again this segment is now looking at Infrastructure Management Services or has started looking at it much more recently. So today there is head room in the Infrastructure Management Services, there is competition but there is headroom and what we feel is that when you can bring vertical expertise even to Infrastructure Management Services deals, which is considered to be a horizontal, then at the end of the day we can help clients meet objectives. For example clients in the product or in the airline space are expecting a lot of continuous delivery, they want an environment where there is no disruption due to projects that is created. So this leads to an infrastructure which is quite unique and then you have to bring in a lot of vertical understanding. So that is the kind of flavor that we are seeing in the Infrastructure Management Services market.

Abdul Karim: My other question is head count front. Any hiring guidance for FY15?

Arvind Thakur: No, we do not give hiring guidance.

- Abdul Karim:** Every quarter utilization rate has been ramping down; it stands at 77% mark. How do you think for the next couple of quarters?
- Arvind Thakur:** No, that as I explained to you, has been because of the ramp down in a client, so we will get back to our normal levels of utilization as we go forward.
- Moderator:** Thank you. The next question is from the line of Ravi Menon from Centrum Broking, please go ahead.
- Ravi Menon:** A couple of questions here, one is, I wanted to understand the Airports Authority of India (AAI) project where I assume that you would have recognized the costs, where the margins are down a little bit. So if your milestone is recognized based on the percentage of completion, why could not we do that and put that as deferred revenue? That is the first one.
- Pratibha K. Advani:** Revenue is getting recognized as per PCM but this is not strictly linked to the traditional accounting of Percentage Completion Method (PCM), but is based on completed service contract method, because the revenue is getting recognized as and when each airport is going live. So in Q4 we were to recognize revenue for the Chennai Airport, that has got deferred to Q1.
- Ravi Menon:** Secondly, normally for other fixed price contracts, is that how you recognize revenue in the used percentage completion or all milestones based is it the same way as you explain for the AAI project?
- Pratibha K. Advani:** No, we do use percentage completion method, but if the milestones are very explicitly defined and are significantly linked to revenue then we have to recognize on that basis as we had done in Airport Authority of India.
- Ravi Menon:** The insurance product revenues, which regions do you think you see traction from, who would be the possible clients, still the P&C space of commercial interest?
- Sudhir Chaturvedi:** Yes, we have an insurance suite of products, and under those we have a product for policy administration, for exposure management, specially link to catastrophe risk, and the third is we have an analytics product which sits on top of policy admin systems other underwriting systems and provides real-time analytics to underwriters. So, these three products comprise the suite. In terms of what we are seeing in the market, the US is the market where we are seeing more traction, especially related to the exposure management product as well as the analytics product. So these are the two products that we see traction in, and similarly, the same in the Middle East, so these are the two markets that we are targeting from a global perspective with products from our exposure management suite and our analytics suite.

Ravi Menon: Are you trying to get access to clients through product suite – is there any possibility of cross selling them other services, would you not do that, or you think other existing vendors are pretty strong?

Sudhir Chaturvedi: Yes, in fact, we are doing both, we are cross selling, but actually both of these accounts that we have, one in the US, one in the Middle East are new logos, but the pipeline includes existing customers that we have especially in the US as well as new clients. Remember, the product buying cycles tend to come with economic growth cycles. So this is where we see a pickup and which is why we are investing in these markets.

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

Shivam Gupta: First question I have is, if you could share with us the involuntary attrition percentage for this quarter?

Pratibha K. Advani: The attrition percentage is 14.4%.

Shivam Gupta: Does that include involuntary part?

Pratibha K. Advani: We really do not share that, but it is not significant.

Shivam Gupta: Hedge, how will it affect over the next 4 quarters, the maturity and the price breakup?

Pratibha K. Advani: For Q1 the cover is \$13.37 million, the rate is 60.87, for Q2 it is \$12.36, and 66.35, for Q3 it is 10.82 million and the rate is 66.65, and for Q4 it is 9.27 million and the rate is 66.71.

Shivam Gupta: The other question I have is for the management in general, that on the IMS now we have a new leader who is going to head this, but then we do not see any ramp up on your S&M headcount. So is that deferred – is it going to happen over the next few quarters as you target IMS clients?

Sudhir Chaturvedi: Our SG&A spend is 19.5%.

Shivam Gupta: I am actually talking about the headcount, you do not need any further head count to do, that is what I infer.

Sudhir Chaturvedi: Our SG&A is at 19.5% this quarter, and we are continuing to invest in sales and marketing, but we will keep the overall number the same, and we will make savings from a G&A perspective, and expand sales and marketing, but the overall number will expect to remain around the same.

Shivam Gupta: Another point in your selling strategy, you just mentioned that you have invested in some of the sourcing advisors, ... please correct me if I am wrong over there, in the past is it not that

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generally for the TCV values that we look at, the sourcing partner has not been a de facto route for companies, generally gives advice on north of 50 million kind of deals?

Sudhir Chaturvedi: You are right, I think there are two things to note here, one is that we are being invited to more of towards north of \$50 million deals, this is what we see in our pipeline, and the second aspect is that as I mentioned earlier, some of the mid-size players that are looking at doing outsourcing deals, especially in Infrastructure Management space or the BPO space, their deal sizes will be between 25, for us around the \$25 million to \$50 million range. Short answer is that we are seeing traction beyond the \$50 million dollar range as well as sourcing advisors also constituting a new market for themselves, the deal sizes tend to be around \$25 million to \$50 million mark.

Shivam Gupta: There are two points in the results I have seen; one obviously is in the GIS exceedingly well, and I think you have seen a fair bit of margin expansion over there, you have added headcount in sales also over there. So one, part is that if you could just share over the renewed confidence that you have over here and also while there is a huge growth on the SI and PI?

Arvind Thakur: So that growth in the SI & PI is really PI which is the GIS business, so PI is Package Implementation.

Shivam Gupta: But is it not this GIS counted in your others?

Arvind Thakur: Counted in others as a vertical, but as a service, it is counted in SI & PI.

Shivam Gupta: The reason why it has grown this way? Because I think you have some issues with the deficit, with the government not allowing this business to grow?

Arvind Thakur: There had been some slowdown, because of the elections and model code of conduct, and so on and so forth, but Q4 is typically a good quarter for the GIS business, and that is the growth that you have seen in this business.

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

Rahul Jain: If you could just give some clarity more on the DTA part, why it was low?

Pratibha K. Advani: We have recognized some deferred tax assets in some of our subsidiary companies, so it is on account of that and accelerated depreciation. So in UK if you do new projects, you can get accelerated depreciation there and that is what we have taken in this quarter and it also includes the impact for the full year. That is how you see a higher impact in this quarter.

Rahul Jain: Any merit for doing accelerated as such?

Pratibha K. Advani: As per UK laws if you do new projects, for example if your spend is say 100% they allow you to take tax benefit up to 130%. So these are some new projects that we have done, where we have been able to take this benefit.

Rahul Jain: Also, on the growth part, we know that we do not share a specific number, but just trying to understand from the fact that the government sector where we have consciously taken down our total efforts, and we have already seen a 3% kind of run rate impact going into FY15, so one place we are seeing there is a 15% growth in the order pipeline, but if you look in the actual revenue front there is a 3% difference only from the government segment run rate basis. So do you see this would actually impact the overall growth for this particular?

Arvind Thakur: The order executable over the next 12 months is on the basis of the total intake across all geographies, and as Sudhir has been sharing, we have been focusing on the western geographies, and 83% of the new intake in the last year has been in the western geographies. So the decline that you are seeing in the government business is getting more than made up by the fresh business that we are securing in those western geographies.

Rahul Jain: No, that I completely understand, my point here is that anyways the bulk of or maybe say 30% to 35% of the revenue which we would have to win during the year and sort of deliver in the same year to come to the number which we have right now, plus there is a growth number which we have to add over and above that, and we have a exit downtick in the government sector, does it make us confident despite of all these facts for us to do a strong growth, maybe like industry kind of growth this year?

Sudhir Chaturvedi: Just to add to that, we are seeing a decrease in the share of our government revenue, but that is on account of projects at different stages. What we are doing on the government business and we have mentioned this previously too, is being more focused in terms of the deals that we go after, and we are using the experience that we have from our current deals in terms of expertise as well as in terms of pricing and contract management, so that is really what we are focused on... obviously, due to the elections there is a slowdown also in the deal flow activity, but we will continue to look at the government business, but be focused in terms of the kind of deals that we look into it.

Rahul Jain: Is there profitability threshold which we have defined for this task and if you could share that.

Sudhir Chaturvedi: Yes, for us, we expect the deals, there is a margin threshold that we have for all verticals, what we believe is that in the Government business there is a combination of deal structure, commercial structure, and a contract structure, and all of those elements need to be done appropriately for generating the company expected margins, and that is what we are focused on.

Rahul Jain: But this number has it increased from the number which we were putting as a threshold mark earlier? Why I am asking this in particular is that because in the past where the growth was

largely government driven, the revenue growth was well ahead of the earnings growth, and now we are at a point where the government is declining, and we may see growth from the emerging or developed market, so which maybe margin accretive for us, but if we keep on adding government projects on the kind of percentage profitability which has been in the past, then it does not hold true for margin uptick hereon.

Arvind Thakur: No, I think that is exactly what Sudhir is explaining – when he says that we will chase focused deals it will be only deals that ensure a certain threshold of margin.

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

Ganesh Shetty: My one question is regarding our Healthcare business investor market, we had taken over a company a few years back, how is the progress over there? And second thing is regarding Proyecta, how is that going?

Arvind Thakur: In Healthcare since we have not made too much progress, we are looking at seeing how do we exit out of that particular platform that we had acquired, and look at I would say related business in Health Insurance, based on our expertise in the Insurance business to address the Healthcare segment. And on Proyecta, given that one of the key accounts was Iberia which was under a little bit of stress, but despite that I think we have seen growth in that business, and so that is doing well.

Moderator: Thank you. The next question is a followup from the line of Srinivas Seshadri from CIMB, please go ahead.

Srinivas Seshadri: The first question is on the large deals which you have announced during the quarter. Wanted some sense in terms of whether the large proportion of the deal is due to renewal or is it a new business? And also if you can give some comment around the tenure of these deals – like are these three years, five years, or ten years kind of tenures?

Arvind Thakur: One of them is a 10-year deal and the other one is a 5-year deal, and the larger proportion would be a renewal.

Srinivas Seshadri: For the new business that you have won in these deals, what is the timeframe in terms of the ramp up – is it a couple of quarters away or are there immediate ramp up potential there?

Arvind Thakur: There is immediate ramp up potential. In fact, the transitions in some cases have already started.

Srinivas Seshadri: The second question is if I look at the revenue mix, a lot of the growth this quarter seems to have come outside your three focused verticals – which is BFSI, Travel and Manufacturing. So

just wondering what kind of client profile growth you saw in that and what is the potential in that?

Arvind Thakur: One, of course is GIS, you would have seen that growth, and the other has been in our media accounts.

Srinivas Seshadri: That is basically Morris, or have you added ...?

Arvind Thakur: Morris, and we also have another account in the UK, which is Channel 4.

Srinivas Seshadri: This is a new account?

Arvind Thakur: No, these are old existing accounts.

Srinivas Seshadri: On the pipeline, which Sudhir talked about, just wondering what is the progress particularly on the IMS front? One of the opportunities you highlighted was that there is a possibility addressing the IMS spends of the existing clients plus of course looking at the new deal space. So just wanted to understand how the progress has been on both the fronts particularly on the IMS?

Sudhir Chaturvedi: I mentioned that both our IMS and BPO pipelines are up significant from the last year, in fact our IMS pipeline is up more than 40% over last year, and a significant amount of that traction is being seen in existing accounts. The last two quarters had a clear cross sales strategy in terms of filling the white spaces within the existing accounts and that is beginning to pay some dividends now. We are also having focused vertical with its own sales force; so the IMS business, has its own dedicated sales force that is also leading to the growth.

Srinivas Seshadri: Sudhir in terms of the conversion, since these are typically longer duration contracts, do you see the cycle time to close these contracts being a little stretched out, or do you think there are opportunities which may kind of materialize within a quarter or so, like what is your sense on the speed of the conversion of some of these opportunities?

Sudhir Chaturvedi: Depending on the deal size, because it goes through almost all deals, largely it will go through a certain process, will take between 3 and 6 months from a deal cycle perspective. The other thing in Infrastructure Management is that depending on the need for consolidation of infrastructure globally, the transition periods could be quite long, especially, if you are looking at global consolidation of infrastructure. But the good thing about this is annuity business, as you know, multiyear deals. So it is not that the deal characteristics themselves are changing too much, but what clients are looking for is, as I said there is a pick up in the interest for outsourcing and offshoring Infrastructure Management Services, and also doing it in a tower-based approach, which gives them more value.

Srinivas Seshadri: Especially for the potential deals with the existing accounts, are we in situations where it is looking like more of a whole-sourced or are these also largely competitive situations? And secondly, on the aspect of asset-heavy versus asset-light model, what is the kind of deal structuring that you are offering to the client in order to ensure that you also end up with the right margins and return on capital?

Sudhir Chaturvedi: Let me take the second question first – when I talked about tower-based approach, what we see is, especially in the IMS deals in the western markets, increasingly, the component of asset is being dealt as a tower, there is a lot of interest, or the services part are being evaluated separately. So if there could be deals where there is asset requirement, but that goes through a certain deal structure, they are no longer the old style lift and shift deals, some of them will still happen, but in general, they tend to be tower-based, and what could happen is, you could win all the towers, but the bidding happens on a tower-based approach and that is something that also plays in our sweet spot. So overall we do not go into a deal saying we will do asset heavy, asset light, it depends on the nature of the deal, the kind of deal, and the construct that the customer has created, we are open to both types of deals, provided as I said, deal structure and construct is mutually beneficial. To your other question, in existing accounts, because the nature of IMS deals tend to be larger size, and multi-year, even in existing clients, where we are incumbent or anybody else is, there will be some level of sourcing process that will be there, so we expect to see competition, but what we are finding where we are proactively doing this within our existing client base or proposing this, we are in a better position, because we know the landscape well, we understand end-to-end, specially for example I talked to you about dev ops continuous delivery, for that to happen, you need a good understanding of their current infrastructure and application. So it puts us in a better position, but we expect to see competition in all of these deals.

Moderator: The next question is from the line of Subramaniam Yadav from Subhkam Ventures, please go ahead.

Subramaniam Yadav: Sir, can you please share the bid pipeline in value terms and how do we see this inflow of \$144 million continuing in the next maybe two to three quarters, can you throw some light on it?

Arvind Thakur: I do not think we disclose the bid pipeline, but what we are seeing is that if you look at our previous years, our intake used to be \$80 to 100 million, so now we have moved into the range which is \$100 million plus and I think we would like to run in that range.

Subramaniam Yadav: And we are fairly comfortable in continuing this run rate of \$140 million?

Arvind Thakur: There may be ups and downs, but that is our intent.

Moderator: We have one person in the queue, from the line of Sharadh Ruparel, an individual investor, please go ahead.

Sharadh Ruparel: Good evening, what I wanted to know is that how currency fluctuations will affect us, now that rupee has come down to 60, from 66 where we have got our outstanding hedges, if rupee appreciates hereon, will we be affected?

Pratibha K. Advani: If the rupee appreciates, we should see some hedge gain coming to us.

Sharadh Ruparel: That will be only for two, three or four quarters. On a longer term basis, if you will be hedging for next year, that is 2016, we will be hedging at around Rs 60, we have got for four quarters, you have given the hedges at 62, 66, 66, 66; now we will be hedging at 60, that is the price today. So, will not our realization go down and as a result our margins?

Pratibha K. Advani: That is a rather speculative question at this point because nobody knows where the currency would move, but historically if you look at data, whenever the rupee has appreciated there has always been a forward premium.

Sharadh Ruparel: So, you think it can take care of itself?

Pratibha K. Advani: As I said, it is a speculative question, I would not be in a position to give you a definitive answer.

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

Arvind Thakur: Thank you very much everybody for participating in this call. I think we ran a little over time, but we are happy to engage with you and pleased to see all the questions and comments during the call. Of course, to discuss in more detail we would be there in Mumbai, as Abhinandan pointed out, for the Investor Meet which will happen at 4 p.m. in the Trident Hotel that is on Monday. I would like to invite all of you to be with us at that conference. So look forward to seeing as many of you over there to continue our discussion. Thank you very much.

Moderator: Thank you gentlemen of the management, ladies and gentlemen on behalf of NIIT Technologies Limited that concludes this conference call, thank you for joining us and you may now disconnect your lines.

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