



“NIIT Technologies Q2 FY 2010 Earnings Conference Call”

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Moderator

Ladies and gentlemen good evening and welcome to the NIIT Technologies Q2 FY2010 Quarter Ending 30th September Earnings Conference Call. As a reminder all participants 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. Arvind Thakur – CEO, NIIT Technologies, thank you and over to you sir.

Arvind Thakur

Thank you and good evening everybody. Welcome to the earnings call for NIIT Technologies for the second quarter of the financial year 2010-2011. I would like to first introduce the participants. We have Mr. Pawar – Chairman, NIIT Technologies here with us. I would also like to introduce to you Pratibha Advani who is our new CFO and she will be interacting a lot more with you in the subsequent weeks and months. Also here with me is Vikas Jadhav who heads up our Investor Relations.

The quarter has seen robust growth supporting the view that we have been maintaining about a strong recovery with the industry emerging stronger from the downturn. I believe the first half of the year has benefited considerably from pent up demand arising out of a prolonged period of cutback during the slowdown. I would like to just touch upon the global environment, before I get into details of the analysis of our quarterly results. The US economy continues to be unusually uncertain. Despite massive stimulus and benchmark interest at near zero levels, the economy is grappling with lower credit flow as a result of tight lending standards and high unemployment. Unemployment is hampering household spending thereby dragging growth. The economic confidence in Europe is at its highest in two years as a decline in the Euro has helped the exported economies expand. However, **besides** elevated unemployment and tight credit there is a problem of huge government deficits, forcing cuts in spending to curb the deficit. This is more evidence in the UK where recovery is expected to be slow and patchy. The picture in Asia however is very different with economic recovery continuing unabated. This is driven by both private domestic demand and exports. Asia has had a remarkably fast recovery and private domestic demand is likely to grow despite easing in policy stimulus. Withdrawal of stimulus in these countries is expected to be calibrated so as not to impact domestic demand and hence remains the most promising market for growth.

The current economic scenario poses fresh challenges for the industry in the form of currency volatility, growing Asian economies and that includes India, we've seen the currency strengthen, rather we are seeing their currency is strengthening as the developed world continues to struggle to stimulate their economies. Further a good part of our business is to the very economies that continue to be challenged. I believe we have strong value propositions for these markets and we will continue to show growth and with increasing focus in Asia, momentum should continue. However, managing the volatility in currency is going to be an issue that we need to address going forward.

With this background, let me now discuss and analyze our second quarter performance. Revenues continue to improve with an all around growth in every geography that we are operating in and in each industry segment that we focus on. Revenues for the quarter stood at Rs. 3,246 million up 43.5% year-on-year and 11.4% quarter-on-quarter. It may be recollected that the company is executing a major turnkey project for the Border Security Force in India, the project called “Intranet Prahari” whose execution began in the last quarter is a game changing engagement for the company - involving the creation of infrastructure, building the softwares, networking almost 228 locations and rolling out these applications to all these locations, as the project requires creating infrastructure, significant bought-out components have been delivered as part of the engagement.

For the purpose of our revenue analysis, I would exclude these bought out purchases being pass through items. So, if we look at revenues excluding these BSF bought outs, which stands at Rs. 2,709 million, which is up 19.7% year-on-year and represents a sequential growth of 9.9%. All are subsequent analysis on revenues would exclude these bought out purchase cost so as to provide a comparable picture with earlier periods. The revenue share from each geography remains unchanged, representing an all round sequential growth in every major region serviced by the company.

US represents 36% of revenues, Europe including Middle East and Africa represents 35% of revenues, Asia Pacific represents 13% revenues and India has had 16% of share of these revenues. There has been also all round sequential growth in each vertical segment that we focus on. BFSI had a combined contribution of 42% of revenues, which is the same share as in the previous quarter. The travel and transport segment improved to 31% from 30% last quarter and manufacturing and distribution remained at 10%. Our top clients also had robust growth, with the top five clients contributing to 31% of revenues. The top 10 delivering 48% of revenues and the top 20 clients contributing to 64% of revenues. Offshore revenues are 41% of the overall revenues. Little analysis on margins – consolidated operating profits of the company stood at Rs.593 million which is up 29.4% year-on-year and 9.7% quarter-on-quarter. The operating profits have improved handsomely, while you would have noticed operating margins has declined to 18.3%, this is essentially on account of the increase in bought out purchases for the Intranet Prahari project of BSF.

Net Profit stood at Rs.435 million up 35.6% year-on-year and 6.7% quarter-on-quarter. There is an outstanding effective hedge position at the end of the quarter of USD 45.5 million and this is at an effective average rate of Rs.43.42 to a dollar. In addition, we also carries ineffective hedges totaling to USD 4.2 million mainly to cover Euro and Pound Sterling contracts. We have an hedge cover available against the US dollar for the next two quarters. Our hedge policy is to cover 100% of receivables for up to two quarters for the US dollar, 50% in the third quarter and 25% in the fourth quarter. We had USD 16 million of fresh orders that were secured during the quarter and we added three new significant clients, one in insurance and two clients in the travel space and our orders executable over the next 12 months stands at USD 141 million. 409 net additions of people took place during the quarter taking the total

headcount to 4,994. 22% of our direct resources are engaged in onsite activities, while 78% are involved in offshore activities. Our utilization of resources remains high at 83%.

Cash and cash equivalents stand at Rs.1,561 million – there has been a reduction in this balance, primarily on account of the dividend payout that was done during the quarter. These receivables stand at 105 days of sales outstanding. There has been an increase in the DSO mainly on account of an increase in the mix of government projects. Total CapEx consumed during the quarter was Rs.67 million. I am pleased to inform you that we have received the letter of permission to start the SEZ unit in our campus which is getting developed just outside Delhi in Greater Noida. We expect to spend Rs. 250 million over the balance year to complete the work so that it can be made operational in the first quarter of the next financial year. Approximately, Rs.400 million is the likely CapEx in total to be spent in the balance of the year. As you can see growth is back in the business as is evident from the continuous sequential growth that we have been seeing since the first quarter of the financial year '09-'10. This has become more pronounced in the first half of this financial year and we hope to continue to ride on this momentum.

However, in the third quarter of the current financial year, as a good part of the revenues in the second quarter were on account of the infrastructure delivered for BSF which would considerably reduced in quarter three. There would be a sequential decline in revenues. However, revenues excluding the BSF bought outs will continue to grow. So, with these opening remarks, I would like to open this call for discussion. So, we are happy to answer any questions that you may have.

Moderator Thank you very much sir. We will now begin the question and answer session. First question is from Dipen Shah from Kotak Securities, please go ahead.

Dipen Shah I had couple of issues. First of all more on the macro side if you could just give some more insight into how are things looking in the BFSI especially for room and also in the travel transportation segment, may be in terms of the demand trends and which segments are growing faster than the others?

Arvind Thakur Okay, like I said I think we have had all round growth in each one of our industry segments. We have had the best growth in travel and transport space as you can see from the revenue shares increase as well. I think the sequential growth in travel and transport was 13%. BFSI perhaps a tad lower, maybe 9% or 10% has being the sequential growth in BFSI.

Dipen Shah I was more referring to the sub-segments, like within BFSI even if you are seeing any trends or within travel transport any trends which you are seeing?

Arvind Thakur Yes, I think what we are seeing, as I had mentioned in my opening remarks is a lot of this growth is obviously coming from our existing customers, so we have started spending again on technology projects, so we continue to see that going forward. So, Room also had good

growth, 12% quarter-on-quarter. So, I think our concern is not so much in the short-term as in the long-term because of the uncertainty which I talked about in the economy and so there we are really more bullish – in the Asian markets as compare to the other markets in the long-term at this point in time given the uncertainty.

Dipen Shah Okay and just very briefly in terms of the revenue growth, if we exclude the ForEx loss which you have include in the revenues again, can we have some more insight on how it has been for revenue growth excluding the ForEx, I believe it will be 9.5% to 10% and whether we can break it up into volumes and realizations?

Arvind Thakur Yes, in fact Dipen this quarter we have had a currency gain because the pound and the euro strengthened over the last quarter, remember last quarter we had a huge loss of about 7%, but this time I think we have seen a gain. So, our volume growth would be 7% and currency gain would be about 3%.

Dipen Shah And realizations have been stable?

Arvind Thakur Yes.

Dipen Shah Okay that is helpful. Okay, in terms of the expenditure, has there been any one time expenditure which could be non-recurring, is there anything of that sort in the quarter?

Arvind Thakur Well, I think the BSF bought outs.

Dipen Shah Yes apart from that I think excluding the BSF bought outs.

Arvind Thakur Excluding the BSF bought outs, I do not think at the operational level there are any one time.

Dipen Shah Okay in the depreciation front we had a reduction quarter-on-quarter, is it just because of some assets getting totally depreciated or should we read anything more into it?

Arvind Thakur Yes, I think it is basically that, assets are getting depreciated totally and a lot of our new assets are going to be in the campus which is still capital work in progress because we have not operationalized the campus.

Dipen Shah Okay and lastly before I can come back, I would just want to know like the hedges which we had taken over the past couple of years and because of which we have been having some marked to market losses, are those getting over in the next quarter. I think that was what was indicated last time?

Arvind Thakur No, they will get over in this year, so like I said USD 45.4 million is the current outstanding hedge position and so a good part of this will get over in the next two quarters. And we will carry on a little bit into the next two quarters, in fact I can give you the exact numbers as well,

about 18 million each in Q3 and Q4 and 6 million in Q1 of next year, 4 million in Q2 next year.

Dipen Shah Okay and lastly, what could be the tax rate for the current year as well as for the next year, the normalized tax rates?

Arvind Thakur Tax rates would be for this year is close to 16% to 17% or may be 17% would be a good number to take and next year it will probably go beyond 20%.

Dipen Shah Okay fair enough, all the best. Thank you very much and I will come back for more.

Arvind Thakur Okay thanks Dipen.

Moderator Thank you. The next question is from Sanjeev Hota from Sharekhan, please go ahead.

Sanjeev Hota Yes hi, congrats for the good set of numbers. I have couple of questions. What is the non-linear initiative revenue for this quarter?

Arvind Thakur Our non-linear initiatives includes two businesses, one is the business which is around all the IP assets that we have and the other is the managed services business and the combined revenue from these two businesses is 27% of our overall revenues.

Sanjeev Hota Right, in the last six quarters, we have grown substantially in net margin which is close to 13.5%, so what kind of margins we are getting in that kind of revenue?

Arvind Thakur Very good margin, as long as we keep growing we will get very good margins.

Sanjeev Hota Any figure on that?

Arvind Thakur We do not have a definite figure but it is better than the normal margins.

Sanjeev Hota Okay and could you get some update on your partnership with Hitachi System and Caliver and how the Cloud Computing space is panning out for the company and any recent deals in that area?

Arvind Thakur That is developing very well. In fact we have build a strong pipeline, I would say at least a dozen potential clients but obviously we need to still close them. Hopefully in this quarter we should get some real business out of that initiative. But currently, as you know our partnership with Hitachi is to use their infrastructure and our managed services to provide infrastructure as a service. But what we are currently working on with them is to get some applications on to this infrastructure so that we start offering softwares as a service as well. One area where we have started our cloud initiative and in fact we have already done two engagements is providing testing services on the cloud. In fact this is a very good area because when you do testing you suddenly require a lot of hardware only for that period where you want to test out

your applications completely and organizations need not have to invest in that infrastructure, but they can straight away engage our services to provide that on the clouds, so that is one area where we have been successful in our cloud initiative.

Sanjeev Hota Basically in the cloud competing space we are targeting the smaller companies or any bigger companies?

Arvind Thakur We are targeting both but at this point in time, what we are doing is we are going to our existing client base which is Hitachi is going to their existing client base and we are going to our existing client base because it is important to get your first few customers and they will typically come from the existing client base.

Sanjeev Hota And sir what is the GIS revenue for this quarter?

Arvind Thakur GIS revenue is Rs.220 million.

Sanjeev Hota Okay and if you could give us other income bifurcation?

Arvind Thakur Okay Pratibha will give you other income.

Pratibha Advani The various components of our other income are mutual funds, the difference in exchange and some non-operating income and of course interest.

Sanjeev Hota What are the numbers to it?

Pratibha Advani Numbers I will just share with you, income from mutual fund is Rs. 15.76 million, our loss on FX has been Rs. 23.16 million, non-operating income is Rs. 10.67 million and interest income is Rs. 13.61 million. This totals up to Rs. 16.88 million.

Sanjeev Hota Okay that is all from my side, thank you.

Arvind Thakur Okay Sanjeev Thanks.

Moderator Thank you. Next question is from Rakesh Tarve from Motilal Oswal, please go ahead.

Rakesh Tarve Yes I just wanted to have a break up of cost of revenue line in terms of personal and bought out?

Arvind Thakur Bought outs are Rs. 537 million.

Rakesh Tarve Out of this what is the BSF component?

Arvind Thakur This includes BSF component.

Rakesh Tarve And whatever is there apart from this will be personal, right in bought out, in the cost of revenue line?

Arvind Thakur Many other things.

Rakesh Tarve Okay what is the admin cost now?

Arvind Thakur SGNA totally is 19% of revenues.

Rakesh Tarve 19% of revenues, okay. Just one thing, I missed out on this hedge position, what is the effective rate sir?

Arvind Thakur Effective rate average is 43.42.

Rakesh Tarve 43.42 for the USD – 45.4 million USD, right?

Arvind Thakur Yes average across the period.

Rakesh Tarve Okay and one more thing, in your CapEx you said that Rs. 250 million you will be spending in the rest of FY11, right?

Arvind Thakur Rs. 400 million.

Rakesh Tarve Rs. 400 million you will be spending in rest of FY11?

Arvind Thakur Yes.

Rakesh Tarve And that is the total CapEx for this SEZ?

Arvind Thakur No, Rs. 250 million is for the SEZ.

Rakesh Tarve Rs. 250 million is for the SEZ and Rs. 150 million is for other things, right?

Arvind Thakur Right.

Rakesh Tarve Okay that was the basic question, thanks a lot sir thanks.

Arvind Thakur You are welcome.

Moderator Thank you. Next question is from Srinivas Seshadri from RBS Equities, please go ahead.

Srinivas Seshadri Yes hi, congrats the management on good set of numbers.

Arvind Thakur Srini, can you speak up a little louder, I cannot hear you.

Srinivas Seshadri Yes is it better?

Arvind Thakur Yes much better, thank you.

Srinivas Seshadri Yes, sir congrats on a good set of numbers, just had a few basic data points to start with, one is if I can just get the margins for Room on a standalone basis for the past couple of quarters?

Arvind Thakur Past couple of quarters?

Srinivas Seshadri Yes this quarter and the previous one.

Arvind Thakur Okay on a standalone basis, this quarter has been 26% and last quarter has been 22%.

Srinivas Seshadri Okay, I just wanted to understand what explains this kind of fairly impressive improvement in the margin over the past couple of quarters. I believe we ended the year last year it was about 16%, so the margins are moved up quite a lot since then.

Arvind Thakur Yes, that is what I was explaining, this is non-linear. There is a good element of IP in this business and also because the IP is specialized, the services associated with the business gets you a much higher bill rate, so that is what contributes to improvement in margin.

Srinivas Seshadri Okay and so some bit of it is to do with the new platform which you launched, the sale from that is it, or there is more of the enhancements of the current platform?

Arvind Thakur It includes both.

Srinivas Seshadri Okay and what is the outlook Arvind generally in terms of the client CapEx on this particular platform for the next, at least the medium term?

Arvind Thakur I think outlook is good.

Srinivas Seshadri Okay, alright. My second question was again bit more of an accounting thing, just wanted to know the amount of ForEx items sitting in the current liabilities lying in the balance sheet?

Pratibha Advani Yes, currently we have Rs. 108 million sitting in our ForEx reserve, it is down by Rs. 167 million.

Srinivas Seshadri Okay and the amount in the current liability, is it more or less the same or is it?

Pratibha Advani That is right, the **issuance(28:30 min)** liability is more or less the same.

Srinivas Seshadri Oh I see, okay. And then Arvind as you mentioned that next quarter we might see a potential decline in revenues because of the lower bought outs, which will come, so I just wanted to understand what is management strategy, I mean to kind of counter act this on a medium term

basis. Are we looking at more such system integration deals or how would you from a long-term perspective try to mitigate the revenue volatility because of such large deals coming to the system?

Arvind Thakur

Srini I think what we are basically going to be doing is being transparent with respect to the bought out because that will be lumpy. When you get a large deal, obviously there is an element of bought out, it will boost up your revenues, so we are giving both numbers, with bought outs and also without bought outs. I think the important thing is to see whether all this is resulting in accretive earnings. And I think that is what we are trying to ensure as we go forward.

Srinivas Seshadri

Okay and how much would be the bought outs remaining now on that contract?

Arvind Thakur

About Rs. 20 crores.

Srinivas Seshadri

Okay and is that expected to come entirely in the next quarter?

Arvind Thakur

Most probably yes.

Srinivas Seshadri

Okay. And then the hiring was fairly impressive in this quarter like 400 people plus additions, so does that signal that be kind of volume growth which we have seen in this particular quarter that is kind of sustainable or is this like more of a strategic hiring in terms of hiring freshers or some bench-building efforts for a medium term basis?

Arvind Thakur

Well, actually you have noticed our utilization is pretty high, right so all the people hired are getting sucked in and absorbed. So, in fact we still have to build a bench because the utilization still remains to be quite high, so I think you will see hiring even in the subsequent quarters?

Srinivas Seshadri

Okay, any specific targets for the full year?

Arvind Thakur

Srini, you know we hire about 200 people per quarter, sometimes it goes up, sometimes it comes a little down, so that will be the approximate the range.

Srinivas Seshadri

I see okay. And then I also wanted to understand there are quite a lot of receivables in the system because of the BSF contract, when are we likely to see that coming down because of realization of the billing to the client?

Arvind Thakur

Yes, because it is a turnkey engagement most of the money will come after the solution is delivered, a good part of that will happen in this quarter, some of it will spill into the next quarter.

Srinivas Seshadri

I see, okay. Alright, yes that is all from my side thanks.

Moderator

Thank you. Next question is from Ganesh Shetty an individual investor, please go ahead.

- Ganesh Shetty** Sir, your non-linear business growth largely depends on success of Cloud Computing. Sir is there any security concern which is holding back the client to move to Cloud Computing, can you throw some light on it?
- Arvind Thakur** Yes in fact, the security is perhaps, I think the most important consideration when people look at engaging on the cloud, it certainly is an issue but to my mind, it is an issue which requires education to clear those perceptions more than anything else, it is something that we have to continuously do and it will take a while before those perceptions are cleared in the minds of potential customers.
- Ganesh Shetty** Sir, is it happening that we are able to convince the clients to move to Cloud Computing?
- Arvind Thakur** Well, as I mentioned we have been able to get a lot of interest, we are building a good pipeline, I think we will get a better understanding of all the issues, once we actually secure a significant engagement.
- Ganesh Shetty** Sir, my next question is regarding our Adecco joint venture, sir we have purchased the shareholdings of Adecco in JV which you have formed earlier, can you please update on the business scaling from Adecco after the purchase of shareholding from Adecco JV sir?
- Arvind Thakur** What we have done is we have converted the JV agreement into agreement between the two companies and basically, we have been made a preferred partner for Adecco for their internal IT, so as I was explaining the joint venture agreement has been converted into a partnership agreement, we are the preferred partners and that we have identified the big opportunities where we will engage with that internally, that has been socialized with the executive team in Adecco and we are hopeful for some significant business to emerge out of that activity.
- Ganesh Shetty** Sir, my last question is regarding our cash reserves, we have good cash reserves but as a matter of fact can a quality tech company make an investment purely as a financial investment by buying up small stake in these companies, so that is an off beat question, so can you please be able to answer this one?
- Arvind Thakur** Even if we take small stake it would be only strategic stake in a manner than can support our business, it is unlikely that you would make any investment just as a financial investment.
- Ganesh Shetty** And to target our healthcare acquisition or you are looking to have during one or two quarters, can you please update on this particular aspect sir?
- Arvind Thakur** Healthcare is a new segment that we are going to be addressing and I am pleased to inform you that we have just hired and taken on board the Practice Head for this segment, a person who understand this industry very well and I think over the next couple of months, we will be firming up our thoughts and ideas exactly which space within this segment would be we addressing, so most of these activity, most of the planning will happen this year and execution would happen in the next year.

Ganesh Shetty That is all from me sir, and all the best and I welcome Ms Pratibha Advani as our Chief Financial Officer, sir thank you very much sir.

Pratibha Advani Thank you Ganesh.

Moderator Thank you. Next question is from Amar Maurya from Indianivesh Securities, please go ahead.

Amar Maurya Hi thanks a lot. Congratulations for the good quarter. I wanted to know few things regarding the COGS, that is operating expenditure, now in Q1 as you had mentioned that you know bought outs include Rs. 537 million and if I exclude that the operating expenditure is round about Rs. 65 million, so can I get some breakup of last, that will give me a fair idea about what was the operating expenditure excluding the bought outs?

Arvind Thakur Yes, I can do that. Last quarter Rs. 45 crores were the bought outs in the last quarter and it only started from the last quarter.

Amar Maurya Because this company I am covering it for first time, so I am sorry you know I am asking this kind of questions. Okay, secondly I wanted to know few things, what is like half year's CapEx? What was the first half CapEx?

Arvind Thakur Last quarter was Rs. 97 million and this quarter is Rs. 67 million.

Amar Maurya And another second half you were targeting Rs. 400 million, right?

Arvind Thakur Yes.

Amar Maurya So out of the Rs. 400 million Rs. 250 million is for the SEZ?

Arvind Thakur Rs. 250 million is for the campus, yes SEZ.

Amar Maurya Yes, so I just wanted to know when this SEZ will be in full fledged operations?

Arvind Thakur First quarter of the next financial year.

Amar Maurya Okay, so for that hirings are done or still there could be...

Arvind Thakur No, we will talk about it a little later, we have just got a permission to set it up.

Amar Maurya Okay.

Arvind Thakur So, as you know in the SEZ you can only put new business, so we will have to identify which business we have to put over there and the hiring for that – because we have to make sure we have the right skill sets and mainly in the last quarter of this year.

Amar Maurya So, hiring for SEZ, I can see in the last quarter of Q4?

Arvind Thakur Yes.

Amar Maurya Yes, okay. Secondly, now what was the operating cash flow for the first half?

Amar Maurya That is cash flow from operations.

Arvind Thakur Cash flow from operations, Rs. 355 million this is for the first half.

Amar Maurya Thanks a lot from my side, this is what is I was looking for, thank you for answering my questions.

Arvind Thakur You are welcome.

Moderator Thank you. Next question is from Bikram Mahajan from Bay Capital, please go ahead.

Bikram Mahajan Europe saw a strong rebound in the quarter, so can we assume that uncertainty in business from Europe is abated now and we are going to witness some more business incrementally?

Arvind Thakur As I mentioned, as we have been discussing earlier as well, Europe typically lags behind the US, we saw recovery in US slightly earlier and now we are seeing recovery in Europe as well.

Bikram Mahajan My next question was on new order intake, are we witnessing any long-term initiatives from clients?

Arvind Thakur Absolutely, in fact, basically clients are looking at engagements which provides them with support and maintenance services and typically those horizons are three years and that is the kind of horizon over which they want to engage.

Bikram Mahajan And on the pricing front, are new orders coming in at incrementally higher rates?

Arvind Thakur Well, let us go this way, they are coming at lower rates.

Bikram Mahajan Okay, let us say what would be the margin differential or pricing differential between new non-linear services and traditional services?

Arvind Thakur We do not have that number but as I have explained you earlier we have seen significant expansion in margins of our Room business and that is really because of the non-linearity of that business.

Bikram Mahajan Right, so but what would be the targeted contribution from this segment in the medium term, let us say FY12 target?

- Arvind Thakur** We are looking at 35% of our business to come from non-linear business.
- Bikram Mahajan** Okay and on the supply side, we had 409 net additions, so how much was in the wake of expected attrition and how much in wake of expected volumes growth?
- Arvind Thakur** Well, we have not computed it like that as you would have seen our utilization remains high, so we have been hiring against specific engagements and engagements that we see in our pipeline – that has been the major criteria for hiring and that is what is now relaxed a bit to see whether we can now start hiring to the bench as well.
- Bikram Mahajan** Okay so what is the targeted utilization rate for full year?
- Arvind Thakur** Well, are doing 82%, 83% so we would like to keep it above 80%.
- Bikram Mahajan** Okay and lastly how do I interpret your last remarks on revenues from BSF segment declining in Q3, I would like to know let us say on your revised guidance on operating margins for the full year?
- Arvind Thakur** We do not give specific guidance but I can explain to you
- Bikram Mahajan** How it will pan out for rest of the year?
- Arvind Thakur** So, as I had explained earlier, this quarter we had Rs. 54 crores of bought outs. Next quarter it is likely to be around Rs. 20 crores, so to that extent there will be a decline in revenues from the bought outs.
- Bikram Mahajan** And what was the revenue from or let us say profitability from implementation of BSF in this quarter?
- Arvind Thakur** We do not have specifics on project wise profitability, what you need to understand is that BSF has got two elements, there is a bought out element which is a pass through and there is a services element. The profitability in the services element and is an equivalent to the profitability of our normal projects.
- Bikram Mahajan** Okay, alright thank you so much.
- Moderator** Thank you. Next question is from Raunak Onkar from Parag Parikh Financial, please go ahead.
- Raunak Onkar** Yes good evening, thank you for taking my questions. I wanted to know about the air line industry basically. Lately we have seen that some top IT players have been coming in and taking airline clients for their services. So are you seeing from competition from them as well and how do you stand in front of them basically?

- Arvind Thakur** Well, we compete very effectively, simply because this is an area where we have strong domain capability, intellectual property, and it contributes to 31% of our business and so customers understand that we are totally committed to the industry. Even during the period of the slow down when there was a lot of consolidation of vendors, our clients consolidated the business with us. So, we compete very effectively and the reason why we compete effectively is that the airline industry has some very special and unique technology and domain requirements which is not easily available and so only those companies which are investing in those technologies, for example TPF or USAS and things like that can compete effectively within the segment and everybody does not have that capability.
- Raunak Onkar** Okay that is all from my side, thank you.
- Arvind Thakur** You are welcome.
- Moderator** Thank you. Next question is from the Deepak Radha Krishnan from UNIFI please go ahead.
- Deepak Radha Krishnan** Thanks a lot, most of my questions are answered thanks.
- Moderator** Thank you. Next question is from Nihar Shah from Enam Holdings, please go ahead.
- Nihar Shah** My questions have been answered too, thank you.
- Moderator** Thank you. The next question is from Sangam Iyer from ALF Accurate Advisors, please go ahead.
- Sangam Iyer** Good afternoon, good evening sir, in regards to the bought out that you mentioned that in Q3 we would have around Rs. 23 crores of bought out component, would it be fair to assume that if services component of the deal would commence in Q3 itself or would it take a couple of more quarters before the services component begin?
- Arvind Thakur** No, services component is already there, but different elements of services will start kicking in. For example, networking services or implementation services or training services, these are the new components of services which will start kicking in.
- Sangam Iyer** Okay so sir, I mean considering that the new component which was not there in the previous quarter that comes in along with the regular growth that we are seeing in the normal course of the business, would it be fair to assume that the volume growth that we saw this quarter is something that is sustainable considering these kind of incremental kicking that are coming in?
- Arvind Thakur** I do not think it is related because the volume that we are talking about is excluding the BSF bought outs?
- Sangam Iyer** Yes true, but when the services components start kicking, that would add to the normal services volume of the business right?

Arvind Thakur No, you are missing on point. There are some services which are already got consumed, right so when you implement hardware, there is site separation, there are many other things that you have to do including testing, those are services which are also getting consumed right now. So, services are getting consumed, the only thing that is going to happen is that the hardware element will come down.

Sangam Iyer Okay, so I mean we are currently maintaining kind of core EBIT margin or EBITDA margin of around 21 odd percentage, do you see any expansion in the margins from that level going forward?

Arvind Thakur You know it depends upon what happened in the quarter. There is one thing which I had shared with you in my last earnings, which is that our salary increases, we had spread across the quarters, so we had not given our salary increases all in the first quarters, so some of that is going to kick in into Q3 as well. Therefore while there will be margin expansion I do not know to what extent will it expand.

Sangam Iyer Okay sir, congratulations, and all the best sir.

Moderator Thank you. Next question is from Ritesh Rathod from UTI Mutual Funds, please go ahead.

Ritesh Rathod Just one question, what is the ForEx gain in the top-line that you mentioned?

Arvind Thakur 3%.

Ritesh Rathod 3%, so what would be like in absolute sense?

Arvind Thakur 3% is about Rs. 9 crores.

Ritesh Rathod Okay, how much is the absolute receivables from BSF order in crores, currently outstanding, because you have booked revenues of about how much, your book revenues of some Rs.90 crores from BSF, Rs. 90-100 crores?

Arvind Thakur Yes it should be to the tune of that.

Ritesh Rathod Okay, so we have not received anything from BSF order, we will receive in one shot in next quarters?

Arvind Thakur No, we will start receiving it from next quarter.

Ritesh Rathod Okay but it would be in tranches, not in one?

Arvind Thakur Yes.

- Ritesh Rathod** And how about the US order book - order book from US has been more or less muted because if you see this quarter the order intake has been more from Asia Pacific, so what is driving this thing?
- Arvind Thakur** Well not muted, but Asia Pacific I think it would be much better, as I had said in the opening remarks, this is really a growth market and we are seeing a lot of activity in Asia.
- Ritesh Rathod** But most of the other IT companies are also showing a decent growth from US, so I was just wondering?
- Arvind Thakur** No, our growth in the US has also been decent, it is not that it has not been decent but Asia has been much better.
- Ritesh Rathod** Okay thanks, that is it from side.
- Arvind Thakur** Thank you.
- Moderator** Thank you. Next question is from Mr. Dipen Shah from Kotak Securities, please go ahead.
- Dipen Shah** Just a couple of follow ups, first is in terms of the salary hikes be happened in this quarter, where the onsite employees given the salary hikes during the second quarter, would that be right?
- Arvind Thakur** Right.
- Dipen Shah** And the second part of the offshore increments will happen in the third quarter?
- Arvind Thakur** Yes.
- Dipen Shah** Okay so that is it. And the other thing on the revenue front, which you mentioned that you have Rs. 9 crores ForEx gain that will probably be the impact of the currency but obviously you also have hedging losses which you account for in the revenues, so would that also be in equal amount?
- Arvind Thakur** No that was Rs. 9.6 crore of hedging loss.
- Dipen Shah** Yes, so Rs. 9.6 crores loss is also include in the revenues and there has been 8 to 9 crores of currency impact also?
- Arvind Thakur** Yes.
- Dipen Shah** Okay, fair enough thank you very much.
- Moderator** Thank you. The next question is from Neeraj Toshniwal from SKS Capital, please go ahead.

Neeraj Toshniwal Yes sir, I just wanted to know what is the debt component standing in our books?

Arvind Thakur Debt would be pretty negligible, Rs. 16 crores.

Neeraj Toshniwal So, we have cash surplus of around Rs. 140 crores?

Arvind Thakur That is right.

Neeraj Toshniwal So, are we planning to actually use it?

Arvind Thakur Yes in fact...

Neeraj Toshniwal As you are saying you have around Rs. 40 crores of CapEx standing up in the coming year with the rest of the year fiscal year, so Rs. 120 crores is still surplus?

Arvind Thakur Yes.

Neeraj Toshniwal So, are we planning to increase in dividends or something like that?

Arvind Thakur No, it will be used for supporting the business and particularly if you we looking at some acquisitions.

Neeraj Toshniwal Okay, you said your operating margins I have been hurt due to some bought outs in the government projects, so in the next month, in the next quarter you are seeing the BSF bought outs will be lower, so can we see any improvement in margins?

Arvind Thakur Yes you will see improvement in margins.

Neeraj Toshniwal Alright, then how is the PAT looking up?

Arvind Thakur You will see improvement in PAT as well.

Neeraj Toshniwal Okay because you said that there would be a reduction in revenue overall, so which side you are seeing revenue, PAT margin going up?

Arvind Thakur See revenues will reduce only because of the bought out components will reduce, bought out components do not contribute to margins, so therefore the margins come from the services revenue and that is going to increase and that is going to contribute to increasing profits as well as net profit.

Neeraj Toshniwal Okay, so how do we consider bought outs, what is the accounting process for that?

Arvind Thakur There is no accounting process, it just shares with you how much is the element of bought out, bought outs are part of the revenues.

Neeraj Toshniwal Okay thanks a lot, that was just I was requiring, thank you.

Moderator Thank you. The next question is from Sanjeev Hota from Sharekhan, please go ahead.

Sanjeev Hota Yes, thanks for taking my question, I have missed on, how much is attrition rate for this quarter?

Arvind Thakur 18.6%.

Sanjeev Hota And what is the realized repeat order rate for the quarter?

Arvind Thakur 46.69%.

Sanjeev Hota And sir, last quarter you mentioned about the salary increase will be done in this quarter, so what is the revenue percentage of the offshore employee that is going to be there in the third quarter?

Arvind Thakur About 5% to 6%.

Sanjeev Hota Okay and are you getting any feelers for any salary increase coming in the later part of the year?

Arvind Thakur Not as yet.

Sanjeev Hota Okay that is all from my side, thank you.

Moderator Thank you. There are no further questions at this time, Mr. Thakur would you like to add a few closing comments?

Arvind Thakur Yes. Thank you very much and my sincere apologies for the disruption we had in the communication. I appreciate your questions and your comments and your thoughts and look forward to your support in the coming quarters. Thank you very much for joining the call.

Moderator Thank you Mr. Thakur, thank you gentlemen of the management. On behalf of NIIT Technologies that concludes this conference call. Thank you for joining us and you may now disconnect your lines.