



NIIT Technologies Ltd.
Analysts/Investors Conference Call
July 28, 2007

Moderator

Good evening ladies and gentlemen. I am Suresh, the moderator for this conference. Welcome to the NIIT Technologies conference call. For the duration of the presentation all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Arvind Thakur. Thank you and over to you sir.

Arvind Thakur

Thank you Suresh and good evening ladies and gentleman. Welcome to the earnings discussion of NIIT Technologies. We will be talking about the first quarter results for the financial year 2007-08. Along with me I have Mr. Pawar, Chairman of NIIT Technologies, as well as Mr. K. T. S. Anand who is our CFO. As you are already aware perhaps you would have seen the release and also our website, our net profits during the quarter increased 61% year-on-year to Rs. 351 million. Our revenues during the quarter increased 20% year-on-year to Rs. 2294 million. Operating profits were up 17% year-on-year to Rs. 425 million and operating margins were at 18.53%, which is a decline of 42 basis points over the same quarter last year.

Let me try to discuss our revenues and do some analysis. As shared earlier consolidated revenues from the operations for the quarter stood at Rs. 2294 million, which is up 20% year-on-year. IT solutions contributed to Rs. 2136 million while BPO revenues were at Rs. 158 million for this quarter.

This quarter is normally a smaller quarter due to the seasonal impact of the domestic government business. In addition we also experienced a currency loss of about 4.8% in our revenues resulting in an overall sequential decline of 5.8% in revenues during the quarter. Europe contributed to 52% of revenues, 31% came from the United States, while the rest of the world involving Asia and Australia accounted for the balance 17%.

Looking at the vertical mix, 45% of the revenues were derived from the BFSI segment of which 29% were revenues specifically from the insurance segment. Travel and transport constituted 23% of the revenue while retail and manufacturing represented 12% of the overall revenues. 62% of revenues came from onsite activities during the quarter while 38% were a result of offshore activities thereby continuing the trend of a 1% improvement in offshore revenues in each quarter over the previous quarters.

Our top 5 clients accounted for 38% of revenues while the top 10 accounted for 49%. 92% of revenues during the quarter were revenues that were repeat business from existing clients. We added six significant new customers during the quarter, two in the BFSI segment, one each insurance and the BFS Segment, while three were in the manufacturing sector, and there was one which was outside of three focused areas.

Fresh order intake during the quarter was USD \$40 million leading to an order book executable over the next 12 months of USD \$105 million. Of the USD \$40 million intake USD \$17.5 million was in the insurance vertical. An interesting development was the partnership of Room Solutions with Aspen Insurance Holdings, an international non-life insurance company based in Bermuda, and this relationship is significant because Aspen would now be going global with Room as a partner. What this essentially means is that Room will now have the potential of creating a solution for other markets, most significant being in the United States. This is an important development, as now Room will have a global presence from a predominant UK operation.

Looking at margins, the operating profit for quarter stood at Rs. 425 million, this is up 17% year-on-year. Operating margins were expected to decline during the quarter due to the planned annual increments that happened on an annual basis in this quarter. They have also increased cost on account of increased rents and the introduction of service tax on rent.

Annual increments contributed to 2% of the margin decline, whereas rent contributed to 0.4%. In addition the impact of the appreciating rupee on margins was an additional 2.4%. So, with all these impacts there was a sequential decline in operating margin, which stood at 18.53%. All this however was prevented from flowing down to the bottom line with sound hedging policies which reduced the impact of the appreciating rupee on net profit. Net profits grew by 61% year-on-year to Rs. 351 million.

During the quarter we added 106 people taking the head count to 4554. 857 of these are engaged in BPO activities, 24% of the direct resources are engaged onsite while 76% are involved in offshore activities. Attrition remained under control, improving marginally to under 18%.

Cash and bank balances stood at Rs. 2348 million during the quarter the company repaid Rs. 100 worth of its NCDs, further it added assets worth 236 million for expansion of facilities and work on the campus consumed further 90 million during the quarter. Bills receivables improved dramatically during the quarter to 71 days of sales outstanding down from 77 days from the previous quarter.

The business environment is challenging with the twin impact of the appreciating rupee and driving operation costs. We have in place sound approaches to deal with this both in the short term and in the long term. We will continue with sound hedging policies to protect against further appreciation of the rupee. In addition, measures are underway to protect operating margins through tight cost control, improved bill rates, increased offshoring, and move towards more

turnkey contracts as well as a gradual reorientation of the experienced profile of our work force and engagement. While these measures have been in place to support the main stream ADM business, ADM is the application, development, and maintenance business, we are also investing in new business models created to handle these external triggers for sometime we have been providing we have been actually investing in these growth engines which essentially provides the business better returns through non linear growth, some of these include businesses around managed services, which includes remote infrastructure management, asset based ADMs, whereby we are not just looking at both developments using head count but using asset created or objects and frameworks created and building a business around that and also are looking at how do we integrate our BPO services to provide integrated IT and BPO services. **Our efforts** to these challenges in the environment will be to invest in these growth engines addition to the measures being taken to manage the mainstream ADM business.

With these opening remarks I would now like to open the house for questions and further discussion. Over to you moderator for the Q&A session.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their question on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now. The first question comes from Mr. Ruchir Mehta of HSBC.

Ruchir Mehta

Hello.

Arvind Thakur

Yes.

Ruchir Mehta

Yeah, hi, good evening. Sir could you just give a sense of what was the actual dollar volume growth in this quarter?

Arvind Thakur

There was 1% decline in volume growth during this quarter.

Ruchir Mehta

Okay and any particular reason why there was a decline on a sequential basis of 1%?

Arvind Thakur

As I explained this is a smaller quarter because of the seasonality associated with our domestic business. Our domestic business includes business to the government as well as the GIS business, which also is something that we do with the government, and government business is typically the highest in Q4 which is the JFM quarter.

Ruchir Mehta

Okay, and effectively that means the dollar revenues were also been more or less down on a quarter-on-quarter basis?

Arvind Thakur

By a percentage point.

Ruchir Mehta

Okay, and out of the services revenue of about Rs. 213 crores, can you give a split of what actually was Room Solutions' contribution?

Arvind Thakur

I can do that. Room solution is 290 million.

Ruchir Mehta

Okay, and what was their EBITDA margins for the quarter?

Arvind Thakur

Their EBITDA on a standalone basis was 4% and on combined basis, which is looking at onsite and offshore, is 12%.

Ruchir Mehta

12% standalone.

Arvind Thakur

Yeah.

Ruchir Mehta

Consolidated.

Arvind Thakur

No.

Ruchir Mehta

Okay.

Arvind Thakur

And 12% on a combined basis.

Ruchir Mehta

On the combined basis. And effectively what was the dollar revenue growth for Room Solutions or that also had flattish quarter?

Arvind Thakur

Pound.

Ruchir Mehta

Sorry pound.

Arvind Thakur

Well, I do not have the pound, but I have the rupee, if you like I can give that to you.

Ruchir Mehta

That is fine, and sir just in terms of the Adecco JV, can you give us some more references to what is happening there and when do we expect something to happen in terms of revenue?

Arvind Thakur

The joint venture has been operationalized as of 1st July, so we have set up the offshore development center for the joint venture, so this will be their first quarter of operation. The good news is we have secured our first client and that work will happen in the joint venture development center.

Ruchir Mehta

Okay this is the client which is outside of the Adecco work already in place.

Arvind Thakur

That is right, this is the client outside of the Adecco.

Ruchir Mehta

Okay, and just in terms of the margins, how do we see it going forward because I mean obviously you do have a lot of levers in terms of increasing the offshore and billing rates and so on and so forth, but on a year-on-year basis what should one expect now margins to be, would they be flattish at best or would they still be down a bit at EBITDA level?

Arvind Thakur

At the EBITDA level at the year end it would be flattish.

Ruchir Mehta

Okay, year end it would be flattish, okay. And just final question, can you give us the cash and bank balance I missed that figure and also the capex for FY08?

Arvind Thakur

The cash at bank is Rs. 2348 million and the capex is..., you want the capex just for the quarter, right?

Ruchir Mehta

No, for fiscal 2008, what is the outlook I mean how much you are going to spend this year?

Arvind Thakur

Rs. 115 crores.

Ruchir Mehta

Rs. 115 crores.

Arvind Thakur

This includes the Rs. 65 crores, which is for the campus, which will be capital work in progress.

Ruchir Mehta

Okay, that is good. And just finally can you just comment on what is the hiring outlook for this year and what was the attrition level we saw in this quarter?

Arvind Thakur

In this quarter it was slightly less than 18%, 17.8% to be exact, and we intent to hire 1000 people during this year.

Ruchir Mehta

That is net.

Arvind Thakur

That is net.

Ruchir Mehta

Okay, thank you and wish you all the best.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. Mr. Arvind.

Arvind Thakur

Yes.

Moderator

Are you using a speakerphone?

Arvind Thakur

Yes.

Moderator

Okay, so I am getting a background noise from that, and it is kind of creating a disturbance when you are speaking.

Arvind Thakur

Okay, we will have to use the speakerphone because there are three of us on the call.

Moderator

Okay.

Arvind Thakur

Let me just put it closer to me, is that sound still there?

Moderator

Yes sir, the sound is still there.

Arvind Thakur

That is the air conditioning sound.

Moderator

Correct sir, I think it is a kind of blower.

Arvind Thakur

Okay, we will get rid of that sound. Has the sound gone?

Moderator

Yes sir, it has come down.

Arvind Thakur

Yes, now we are going to be sitting in a warm room, because the AC has been switched off.

Moderator

So can I go ahead and take the next question sir?

Arvind Thakur

Yes please.

Moderator

Okay. Next in line we have Mr. Asim Gupta from DSP Merrill Lynch.

Asim Gupta

Good evening to everyone present. Sir we have 2 to 3 questions here; first of all, as per the hiring is concerned could you please give split between BPO as well as IT services? How is the net that you mentioned?

Arvind Thakur

You want the future hiring pattern?

Asim Gupta

You mentioned that you will be adding around 1000 employees this year, how many of them would be in BPO and how many of them would be in IT services?

Arvind Thakur

It will be probably half and half.

Asim Gupta

Okay sir. My second question is regarding the fresh order intake, is there anything we need to read into that, because \$40 million around this 1 year back, the incremental order book has been increasing every year, anything to read into that or any specific reason behind that?

Arvind Thakur

No, I think it is a pretty healthy order book for the first quarter.

Asim Gupta

Sir in terms of incremental additions, say an addition of \$40 million as compared to \$72 million for the last quarter, any specific reasons for that?

Arvind Thakur

Last quarter we had an excellent intake, so yeah that was unusual and very good. Going forward, besides that as I mentioned earlier Q4 is a quarter in which we do a lot of domestic business and GIS business is what peaks in that quarter, so that gives a good intake.

Asim Gupta

Some idea of how much out of this 72 for last quarter how much was because of the government, how much of it was from the government side?

Arvind Thakur

Let me just complete, so you know that one other element, the third is we got some big confirmed business as renewals from our existing client, so those were three reasons for good intake in the last quarter.

Asim Gupta

Any pricing increase you have seen in this quarter over year-on-year?

Arvind Thakur

Could you come again?

Asim Gupta

Any pricing increase you have seen over year-on-year?

Arvind Thakur

Yes, in fact we saw an improvement in pricing, I do not know about year-on-year, but quarter-on-quarter of about a percentage point.

Asim Gupta

How much sir?

Arvind Thakur

1%.

Asim Gupta

Both onsite and offshore?

Arvind Thakur

Overall.

Asim Gupta

Overall, okay fine. And just one last point, going forward, I think you have mentioned earlier, but going forward can you expect a similar kind of margin as compared to last year of 21% for the whole year?

Arvind Thakur

It is 20% last year.

Asim Gupta

So it will be round about flattish for the whole year.

Arvind Thakur

20% yeah that is what I mean by flattish.

Asim Gupta

Okay sir, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Dipen Shah from Kotak Securities.

Dipen Shah

Yeah, Dipen here. I had a couple of questions Arvind; first of all just wanted to know in terms of the volume growth in the non domestic business how it would have fared in the current quarter? And the second one is, could you just give us some more color on the Aspen business which we have contracted? Thank you.

Arvind Thakur

Okay, I can probably give you a split between what the international and domestic business is, if that can help, because I do not have....

Dipen Shah

In fact yeah, I was just doing some calculations, if I remove the domestic business from the fourth quarter of last year and the first quarter now, the international business has grown by probably about 1% in dollar terms if we remove the 4.8% impact of the rupee.

Arvind Thakur

Yes, correct.

Dipen Shah

Just wanted to know like a 1% growth do we read anything more into it or what were the reasons behind that sluggish kind of a growth?

Arvind Thakur

Okay one of the reasons you would have noticed is that there has been a decline in revenues from Room Solutions. Room Solutions was \$313 million in last quarter and it is \$290 million in this quarter, and the reason for that is that Room is preparing their next version of their solutions which provides a more enhanced user experience, so you know they expect the first pilot, once of first pilots are successful they expect to rake in revenues out of that, so that it is likely to happen more significantly in Q3 and Q4.

Dipen Shah

Okay, and how about the Aspen business if you can just may be throw some more light as to what has happened?

Arvind Thakur

Aspen, that is very interesting, because Aspen is an existing Room customer for whom they are providing services and now they are wanting to globalize and they are taking Room Solutions' solution and taking them to different markets, essentially Bermuda and the US. Now as you know insurance regulatory environments are different in different markets and so this is a great opportunity for Room to put together their solution for the US markets, which was one of the

objectives of the acquisition that we had done for Room Solutions, because as you know they predominantly providing services to the Lloyds and London market in the UK, but the bigger market actually is the US, but their solution was not really oriented for the US, so this will lead in to providing services to the US market.

Dipen Shah

Okay, and last thing is in terms of Adecco, have you started doing work for Adecco itself or it is just a new client which you have got and it is not Adecco.

Arvind Thakur

We were already doing work for Adecco, but now that the JV has been operationalized, in addition to that we have now acquired a customer which is an Adecco customer and that is the work that is happening which is in addition to the internal work that is happening with Adecco.

Dipen Shah

So, we have some work be transferred from NIIT Tech to the JV?

Arvind Thakur

Yes.

Dipen Shah

How much of that business could be?

Arvind Thakur

It is insignificant because the work that NIIT has done for Adecco is over, so all this would be more or less new work, but I think a maximum of about 200 or 300K USD would get transferred.

Dipen Shah

Okay, right, thanks very much and all the best.

Arvind Thakur

Thank you Dipen.

Moderator

Thank you very much sir. Next in line we have Mr. Ganesh Shetty an individual investor.

Ganesh Shetty

Good evening sir.

Arvind Thakur

Hello Ganesh.

Ganesh Shetty

Good evening sir and I have couple of questions for you. Sir my query is regarding our Europe business, as you know lot of big and mid tier software companies are shifting their focus to Europe geography with local acquisition on the card, will this put us in challenging situation going ahead where we can lose some of our future business or some pressure on our billing rates sir, can you please explain?

Arvind Thakur

Okay, I think as you are aware Ganesh we entered the European market also with an acquisition of a German company which had presence in Austria and Switzerland, and in fact that has given us significant advantage currently because what we now have is a local front end providing technology back end over here in India, that combination in fact has been incremental in us building a strategic relationship with DB Systems; DB Systems is the IT arm of Deutsche Bahn, Deutsche Bahn is the German Railways. So we have got a very significant entry into that market by building this exclusive offshoring relationship with that organization. So to my mind I think we are very strongly positioned in that market, yes others entering into the market of course create a greater competitive environment, but I think we are very well poised to address that competition.

Ganesh Shetty

Yeah, I have another question for you, have you short listed any of companies in travel and transport sector for acquisition, if yes can you throw some light on that sir?

Arvind Thakur

We are looking at organizations not only in the travel and transport sector but also the banking financial services and insurance spaces, these are the segments in which we are looking at opportunities and I can tell you there are discussions happening in each one of these sectors.

Ganesh Shetty

Yeah sir my next question is are we acquiring any other geographies like Middle East and Gulf where we can expand our business for future growth?

Arvind Thakur

Yes indeed, we have made some in roads in the Middle East, in the travel and transport space, and we hope to grow some relationships over there that can help us build our business in that region as well.

Ganesh Shetty

Yes sir, my next question is for our CFO, are we considering any stock split as we have announced in case of NIIT Limited sir?

K. T. S. Anand

Right now there is no such plan at this moment.

Ganesh Shetty

Yeah that is fine. Thank you very much sir and all the best sir.

Arvind Thakur

Thanks.

Moderator

Thank you very much sir. Next in line we have Ms. Shubhashini from ASK Securities.

Shubhashini

Hello, my question was regarding Room Solutions, we have been talking about cross selling and I wanted to get an update as to what is happening out here?

Arvind Thakur

Yes, I am also pleased to inform you that we have acquired our first engagement in the BPO space, which is really an effort of cross selling our BPO services into the Room clientele.

Shubhashini

And how big would this order be?

Arvind Thakur

I think at this point of time it is small, it is an entry, you know Room operates in the Lloyd in London market, which is a very small community, you know everybody knows everybody each other in that market place, and we hope that with this first experience the experience will be good for the others to also join in.

Shubhashini

Okay and as regards to Room Solutions revenue, which have actually dipped this quarter, you had mentioned the reasons, apart from that is there any seasonality which is built into the model itself, Room Solutions?

Arvind Thakur

There is a slight seasonality in Q3, which happens to be I think we have hurricane season where it is a little more activity, other than that you know there is no seasonality.

Shubhashini

Okay, and one last question, this was regarding the billings which you do I mean your revenue; I mean how much of it is like the nominated in dollar and say GBP or euro?

Arvind Thakur

I can tell you, about 31% of our revenues comes from US geography, so those are dollar denominated, and if I look at GBP and euros..., so we will have to get back to you on that breakup.

Shubhashini

Okay, thank you sir.

Moderator

Thank you very much mam. Next in line we have Mr. Zubair Ali from DSG.

Zubair

Hi guys, quick question on the annual sort of growth that you are expecting given the first quarter performance, and if you could just talk in terms of I guess industry growth versus how guys sort of see yourselves measuring up by the end of the year?

Arvind Thakur

Zubair, I think we had planned our growth to be in line with the industry growth, our first quarter typically is about a fifth of the whole year.

Zubair

How much.

Arvind Thakur

A fifth. So that can give you a sense of what the picture might be towards the end of the year.

Zubair

Okay and in terms of the Adecco JV, any color on how you sort of see this ramping up, really is a big opportunity for you guys, but just some sense around how you guys have sort of structured your business line going forward on that business?

Arvind Thakur

Well, this is going to be the first year of operation, where I think there would be more feeling that is happening in the market place, and as I mentioned we have acquired our first customer and that is good news because then now we have a reference point to scale up this business. As you know in the software business the first two engagements are small and it is the relationships that you build through those engagements that lead to scaling up of business and operations. So I would expect this financial year to be moderate in terms of business with very significant scaling happening from the next year.

Zubair

Okay, and in terms of as you mentioned that you guys had I guess wage increases overall which led to about a percent increase in wage for the quarter actually sequentially. Is that something that sort of completely done now or do you expect it sort of going forward as well, is there sort of some contracts that have come up for renewal and that is where you have got the increases and now there is going to be more and we are evenly spread out in that rate?

Arvind Thakur

I expect that there would be more serious conversation around pricing as we go through the year, because that is what the entire industry is doing and we seem to have some successes with those conversations. So I would guess that this would continue.

Zubair

So you would expect this to continue basically?

Arvind Thakur

Yes.

Zubair

Okay, and in terms of, I guess the bigger guys have spoken a 3-5% sort of price increases that they are looking for on re-negotiations or on sort of new

contracts. Are you guys sort of thinking of the same range or is there sort of competitive disadvantages that you feel given smaller scale?

Arvind Thakur

That is the favorable environment which is getting created by the scale players. So, when you also get back for increases you can expect similar kind of increases with existing customers.

Zubair

Okay, and one last question, just in terms of margins, I guess you gave some guidance in terms of margins being flat with last year given sort of all of those things that have happened in Q1, just you know on a sequential basis when we think about it I guess your wage increases are now behind you and you mentioned rent was an impact as well, sort of sequentially is there any cost item that we think about other than sort of volume growth in terms of manpower on the cost side of things?

Arvind Thakur

No, the wage increase is behind us and we had anticipated a fall in margins on account of that as well as the rent increases. So those things are now factored. I think the only thing now we have to guard against is the impact of the currency.

Zubair

Okay, but assuming that it is sort of moderates at a level it is at right now, I guess, it is more a question of incremental margins being higher given that you have absorbed all the other costs.

Arvind Thakur

That is true.

Zubair

Okay, alright. Thanks so much guys.

Moderator

Thank you very much sir. Next in line we have Mr. Ashwin Mehta from Ambit Capital.

Ashwin Mehta

Yeah sir, I just had a few questions regarding the demand. In terms of our top 20 clients we have seen a sequential decline of almost 8.7%, even after considering the rupee appreciation there has been a decline, similarly our onsite

people have come down in absolute numbers over the last two quarter, similarly transportation seems to be on a muted growth path, so is there something to read in this in terms of our growth outlook or these could be mainly quarterly aberrations?

Arvind Thakur

I think what you have been seeing us doing steadily over the last couple of quarters is board basing our customers and reducing the dependence on the top 5 and top 10 clients. So I think you are seeing the impact of that. We have also been working towards increasing the offshore component of our business which is the reason why you will see the head count onsite as a proportion reducing comparatively. So I think these are initiatives that have been taken proactively to deal with the triggers that are being created in the market place.

Ashwin Mehta

Okay, and in terms of the onsite people, there has been absolute decline in terms of the number of people that we have had onsite over the last two quarters. Is it mainly substitution of onsite work offshore or there is some reasons where we are seeing some slow down?

Arvind Thakur

No, I think engagements typically start onsite and then they start moving offshore.

Ashwin Mehta

Okay.

Arvind Thakur

I think that is what we are experiencing.

Ashwin Mehta

Okay and just a few balance sheet related questions. In terms of our depreciation, when would we start to see the hit because of the spending we are doing on our campus?

Arvind Thakur

Campus would be in the financial year 08-09.

Ashwin Mehta

Okay and what was our exact forex gain this quarter?

Arvind Thakur

Forex gain was 1.6%.

Ashwin Mehta

Okay and in terms of debt what is our debt as of now?

Arvind Thakur

Debt is 656 million.

Ashwin Mehta

Okay, thanks a lot sir, and all the best.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ajay from India Capitals.

Ajay

Most of my questions have been answered, thanks.

Moderator

Thank you very much sir. Next in line we have Mr. Deependu from Kotak PMS.

Deependu

Most of my questions have been answered, just a couple of question more. What sort of hedge do you have on your revenues in terms of dollars and as to what extent and what rate?

Arvind Thakur

We have hedge of about 60% of our revenues.

Deependu

And this is for 3 months, would be it?

Arvind Thakur

Rolling 12 months.

Deependu

Rolling 12 months. Okay and at what price have we hedged it at?

Arvind Thakur

The current average would be 42.7.

Deependu

Okay, thank you. Also from your share holding record it says that the lock in period for the NIIT Limited shares is getting over in August, so are we seeing some sort of development on that side in terms of stake sale which has been pending some time and you have been giving insight.

Arvind Thakur

Just come again with that question.

Deependu

The lock in period for the NIIT Limited stock share holding in the company is getting over in late August this year and management has been dropping some hints as to they are looking for a partner to offload that, any development on that side. Can we look something in the next quarter?

Arvind Thakur

May be I will ask Mr. Pawar to address that question.

Pawar

I think right from the time we did the demerger we had specifically said that this will be part of the game plan. So there had been a number of ideas that we have been developing and there are some discussions going on but I guess it is early to say.

Deependu

Thank you gentlemen. Thank you for you answers.

Moderator

Thank you very much sir. Next in like we have Mr. Pankaj Kapoor from ABN Amro.

Pankaj Kapoor

Yeah hi sir. Just a few questions, first, what was the average wage hike we gave out this quarter?

Arvind Thakur

Offshore was 16%.

Pankaj Kapoor

And onsite hike is also has been given or is due sometime?

Arvind Thakur

Yes that also been given, that is about 4%.

Pankaj Kapoor

Okay, and second is that when we are speaking about a flattish margin on a year-on-year basis, what is the currency which you have factored-in in that and what is the assumption there about rupee appreciation or rupee depreciation, and if we look at a structural trend for the rupee appreciation, what are the potential margins levers that we are looking to guide for a flattish margin?

Arvind Thakur

Yeah I think first of all when we talk about it right now, we are talking about the current exchange rate, which would be in the range of 40.40. So assuming that it remains at these levels and there is no other further steep decline, I think we should be able to meet those margin numbers. The levers are many. We discussed a few of them. Firstly, of course working on the pricing, which is very much reality. Second is improving further the offshore mix. Third is improving the profile in favor of lower cost resources in our engagements that can help improve the cost structure. So these are some of the levers that are available that we are exercising.

Pankaj Kapoor

Okay. Can you give me some sense on what would be the share of the fixed price contracts in our revenue mix?

Arvind Thakur

40% of our contracts are fixed price contracts.

Pankaj Kapoor

Okay and sir one last thing. We are looking at a pricing scenario being fairly favorable this year. Any sense on like how many of our top 5 or top 10 customers the MSAs will be coming for renewal this year?

Arvind Thakur

MSAs, I don't think, I don't know, just trying to rack my brains, because we don't have the contract readily available, because typically, let me just think, even within the MSAs one is able to get a pricing increase because some of them you are bidding as fixed priced engagements. So while we have master service agreement and some rates for T&M, you end up providing services on a fixed price basis. There you can play your bill rates.

Pankaj Kapoor

Fair enough. I was just wondering if any our large customers' MSAs are also due, so that while renegotiating we can ask for a typically 2-3% type, which most of the larger players have been reporter in the sector.

Arvind Thakur

Well you know we have been asking for the rate even with the existing MSAs.

Pankaj Kapoor

Okay and have we been asking for these rate increases largely on back of the currency, have you been able to push through rates hike because of currency appreciation in to any of these existing clients?

Arvind Thakur

It is not currency appreciation. I think currency appreciation is a recent phenomenon. But discussions about rate increases have been going on irrespective of currency appreciation more on looking at what are the cost escalation that are likely to take place and are taking place. So customers are aware that there are significant wage increases that do take place and on the strength of that itself one can have conversation. And one can have these conversations because the whole industry is having these conversations.

Pankaj Kapoor

And just one last thing, have we build in any kind of a appreciation when we are looking at a flattish margin, that is already build in or could that be a potential upside to the whole thing?

Arvind Thakur

I think that could be an upside.

Pankaj Kapoor

Okay so when we are talking about a flattish margin, essentially we are not looking at any pricing increase?

Arvind Thakur

We are looking at some pricing increase as well.

Pankaj Kapoor

Okay fair enough. Thank you and all the best.

Moderator

Thank you very much sir. Next in line we have Mr. Gaurav from Share Khan Limited.

Gaurav

Hi sir. How much was the SG&A cost sir?

Arvind Thakur

Our SG&A in fact was the same as last quarter.

Gaurav

How much was that.

Arvind Thakur

It is 20.2% is the regime.

Gaurav

Okay, 20.2%. How much you feel that you have got leverage in this?

Arvind Thakur

SG&A as a percentage is linked to revenue growth, so when revenues increase they automatically become less as a percentage.

Gaurav

Okay, and sir we have lost a client, the Cordia, how big was this client?

Arvind Thakur

This was a new engagement that had started, we were expecting to scale it up, but then they brought it inside in to their Philippines operations and they discontinued their service with us. So it has no immediate impact except that it has an impact on the BPO revenues going forward.

Gaurav

Okay, how big will be that impact, I mean were we like counting on them to scale up sharply?

Arvind Thakur

Yes, in fact for example we grew 4% QOQ in BPO in this quarter, we may not see that kind of growth in the next quarter.

Gaurav

Okay sir it will be flat.

Arvind Thakur

Yeah, it will be less than this.

Gaurav

Okay sir, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Anju Sharma from ASK Investment.

Anju Sharma

Thanks my questions have been answered.

Moderator

Thank you very much sir. Next in line we have Mr. Kashyap Desai from Enam Securities.

Kashyap Desai

I just wanted to enquire on your depreciation rate, it has been going down QOQ for quite a while now. So, as you were saying last time the normalized might be approximately 6% of sales. So how do we see it going forward?

Arvind Thakur

I think it will normalize at 5% of sales. At the moment I think it is 4% of sales. It will probably normalize at about 5% of sales.

Kashyap Desai

So does it means this is probably due to a long live assets and things like that?

Arvind Thakur

Yes. There are lot of assets have been retired, but now we are acquiring some assets.

Kashyap Desai

So from next quarter onwards it should kind of start normalizing.

Arvind Thakur

May be after a year.

Kashyap Desai

Okay, and your tax rate has also been choppy in the last two quarters. How do we see it going forward?

Arvind Thakur

I think what we are saying is that our tax rate should be around 13% of PBT for the year.

Kashyap Desai

Okay, for this year. Just one more question on your hiring this quarter, generally, first quarter has been very strong for you for the last 2-3 years, so this quarter it was pretty quiet. So what happened this time?

Arvind Thakur

Nothing in particular, I think we will pick up our hiring as we strong forward, we have a strong pipeline and we will hire against the opportunity that we see in our pipeline. The other thing is BPO hiring actually has been somewhat more subdued. We were anticipating an increase in the BPO hiring in this quarter which did not happen because as we just talked about there was an engagement which was to scale which we are now not going to be working on.

Kashyap Desai

Okay, so these 1000 odd people that you saying this year that will include the Adecco JV as well?

Arvind Thakur

No, I am not talking about the Adecco JV.

Kashyap Desai

So, this 1000 people is just NIIT Tech?

Arvind Thakur

That is right.

Kashyap Desai

Okay thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Nitin Jain from IDBI Capital.

Nitin Jain

Hi guys, just want some clarifications on the acquisition plans, like in terms of what is your target size and what are you willing to pay in terms of times EBITDA or times revenues.

Arvind Thakur

You have asked us a fairly simple question but it is complicated to answer. As far as acquisition targets are concerned, I think the most important criteria is the fit. Depending on the fit, what we decide what value it brings to the organization, and thereby it determines what price you are willing pay for it. So it is absolutely open, it has to do with what are the multiples that exist in the market place for that kind of a particular target, but it would be in the area that we are focusing on.

Nitin Jain

Okay, and my second question is like in terms of BPO margins, are you looking at any improvement and is it one of the levers to actually perk up the margins?

Arvind Thakur

Certainly yes, one of the levers to support the margins. What we are trying to do it to get our BPO business at an operating net breakeven in this year.

Nitin Jain

Okay, thanks guys.

Moderator

Thank you very much sir. Next in line we have Mr. Ajay from India Capital.

Ajay

Hi, I have couple of questions. How large is sales force in Europe?

Arvind Thakur

European sales force, I am just doing a quick head count, will be about 20 people.

Ajay

Okay, it seems like half our mid cap peers are seeing some churn in the European sales force, have you guys seen any such phenomenon?

Arvind Thakur

The normal churn that you have and usually the churn is linked to performance.

Ajay

I am just looking at European revenues seem to have declined, your US and APAC revenues have done fairly well, but the European revenues seems to have declined. It seems like some of the larger European companies are trying to hire people with India selling experience, and that is what sort of seems to happen at some of the other mid cap peers, so I am wondering if that is something that is hitting you guys as well?

Arvind Thakur

Nothing to be concerned about. Yes, in the past we have had some movement to European multinationals but that is an insignificant movement.

Ajay

And what is your head count at the end of Q1?

Arvind Thakur

4554.

Ajay

4554 and you expect to end at roughly 5500.

Arvind Thakur

That is right.

Ajay

Okay, thanks so much.

Moderator

Thank you very much sir. Next in line we have Mr. Ashwin Mehta from Ambit Capital.

Ashwin Mehta

Sir just a followup in terms of our margin levers, are we maintaining the 1% improvement per quarter in terms of offshoring?

Arvind Thakur

Well it has been happening now for the last four quarters, so I think the momentum seems to be there.

Ashwin Mehta

Okay and in terms of the profile, what is current ratio in terms of freshers is to lateral that we take and how do we think that would move going forward, a ballpark would do.

Arvind Thakur

Just a second, I am just trying to dig out some data over here. Okay, let me just give you a sense, at this point of time 36% of our direct staff in services would be 0-3 years.

Ashwin Mehta

Okay, fine. I think that is helpful. Thanks a lot.

Moderator

Thank you very much sir. Next in line Mr. Ritesh Rathod from UTI Mutual Fund.

Ritesh Rathod

Hello sir. Sir in case of your Adecco JV can you just share with us what is your plan from 2 years onwards, like what number of head count you see in this Adecco JV, and what is for the year end head count?

Arvind Thakur

We don't have that number right now.

Ritesh Rathod

But how big would you take it, like what kind of plans you have in terms of?

Arvind Thakur

Plans are very big, but I think both the partners are being a little cautious. I think there are two things that needs to be done, #1 is where the Adecco sales force needs to see strong success as reference, which is what we will demonstrate in our first engagement, and I think based on that the JV will evolve its plan and the investment that we plan to make to take advantage of these relationships.

Ritesh Rathod

So when is that reference time line like pilot time line, would it be like it wold take 3 months or 6 months for that reference to act?

Arvind Thakur

Yeah, 3-6 months.

Ritesh Rathod

Okay sir. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ruchir Mehta from HSBC.

Ruchir Mehta

Hi sir. It is correct the BPO may be flat on the quarter on quarter basis?

Arvind Thakur

For the next quarter yeah, it would be less than what growth we have seen in the last quarter.

Ruchir Mehta

There wouldn't be an absolute decline, but the growth may be slower in this quarter?

Arvind Thakur

Yes.

Ruchir Mehta

Okay fine. Thanks a lot.

Moderator

Thank you very much sir. Participants who wish to ask questions please press *1. Sir next in line Mr. Nirav Dalal from Capital Market.

Nirav Dalal

Hello good evening sir. I just wanted to know the hedge position as of June. Sorry to repeat it again.

Arvind Thakur

As of June we have hedged \$36 million at 42.7.

Nirav Dalal

And sir you said you will be able to maintain the OPM over the year.

Arvind Thakur

That is right.

Nirav Dalal

So that would be 18.5% or...

Arvind Thakur

No, I am talking about the same OPM that we had last year, which is 20%.

Nirav Dalal

Okay, right, thank you,

Moderator

Thank you very much sir. Participants who wish to ask question please press *1. I repeat, participants who wish to ask question please press *1. At this moment there are no further question from participants. I would like to hand over the floor back to Mr. Arvind Thakur for the final remarks.

Arvind Thakur

Thank you very much and thank you once again for your insightful questions and the discussion. As we all know the environment is fairly challenging, I hope we have been able to communicate with you how we are dealing with the challenges in the environment both in the short-term as well as in the long-term. Thank you very much for participating in this call and I wish you very good weekend.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.