



NIIT Technologies Limited

Analysts / Investors Conference Call, Q2 FY 2007-08

October 25, 2007

Moderator

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

Arvind Thakur

Thank you very much. Good evening ladies and gentlemen. Thank you for joining us on this conference call where we are going to be discussing the NIIT Technologies Quarter Two results for the financial year 2007–2008. I have here with me Mr. Pawar, Chairman of NIIT Technologies, and KTS Anand, our CFO. I would like to introduce to you also our new head of investor relations, Mohit, who is also here with me on this call. Let me share with you the highlights of our second quarter performance. Our net profits are up 28% year-on-year to Rs. 344 million. Our revenues are up 5% year-on-year to Rs. 2299 million. Our operating profits are up 3% year-on-year to Rs. 426 million, and during the quarter, we had an order intake of 49 million US dollars leading to an order book executable over the next 12 months of 101 million US dollars.

Just to analyze the results of the quarter, let me first talk about the consolidated revenues. Consolidated revenues from operations stood at, as I mentioned, Rs. 2299 million, representing a 5% growth over the same period last year and are at about the same levels as the previous quarter. IT Solutions have contributed to Rs. 2178 million representing a growth of 2% quarter-on-quarter. Our BPO revenues are at Rs. 121 million, which are down 24% over the previous quarter. The decline in our BPO revenue is on account of re-construction of an existing contract, which has scaled down revenues from an existing contract. If you look at the Core IT Solutions business of the company, which excludes revenues from the BPO business as well as the recently integrated Room Solutions Business, what we see is that our Core IT Solutions business has grown 3.6% quarter-on-quarter. Room revenues have declined 8% during the quarter, and this is on account of, as I mentioned even in our last quarterly call, Room is preparing the next version of solutions which provides an enhanced user experience. This is being well received, few pilots have commenced, and once these are successful, the revenues are expected to increase from Room from the Quarter Four onwards. Looking at how the revenues have spanned out in different geographies, the revenue share of Europe is 51%, US is 31% and the rest of the world which

includes, you know, Asia and Australia including India is 18%. We saw from our different industry segments and verticals where we focus on, which are BFSI, Travel & Transport and Retail & Manufacturing, 45% of revenues came from the BFSI segments, while Travel & Transport contributed to 24%, and Retail & Manufacturing represented 12% of these revenues. There has been no change in the onsite and offshore revenue mix from the previous quarter, 62% of the revenues come from onsite activities while 38% are derived from offshore activities. The business as a whole, there was volume increase of 1% quarter-on-quarter, but there was a currency loss of 1% in the quarter resulting in a flat quarter as far as revenues are concerned.

Net profits are up 28% to Rs. 344 million. Sound hedging, I think has sustained profitability levels at 15% in spite of the appreciating rupees. The operating profits for the quarter remain at Rs. 426 million. Overall, the operating margins remained at the same level, that is 19% for the company. Doing a little analysis of our customers, our Top 5 clients account for 36% of our revenues. Our Top 10 contribute to 47%. We brought in 2 more million-dollar clients into the mix taking up the total of million dollar clients to 37 up from 35, which was the position in the last quarter. We added 6 new significant customers during the quarter, four of them in the travel space and these include some very good names in the industry. I think the quality of new customer addition has been excellent. This includes a fortune 500 travel services company, a global aviation services provider, a company engaged in airport modernization in India. As you know airport modernization is picking up in a big manner. We also signed an MSA with a top airline in the US. Fresh order intake during the quarter was 49 million US dollars, and the company has an order book of 101 million US dollars which is executable over the next 12 months. In our IT Solutions business, we added 292 people, but on the other hand, there was a decline of 57 people in our BPO business. So, total net additions during the quarter were 235 people leading to a headcount at the end of the quarter to 4789. We saw improvements in our attrition levels this quarter that is the attrition stands at 16%, which was 18% in the last quarter and has been 18%, you know, for quite some time in the earlier quarters as well.

Our cash and bank balance stand at Rs. 2242 million. Primarily, cash outflows were on account of the dividend payout as well as, you know, acquiring the balance equity in Room Solutions to make it a full 100% entity, 100% subsidiary of NIIT technology. There have been good collections during the quarter. Our sundry debtor positions improved to Rs. 1723 million which is 67 days of sales outstanding which is an improvement over last quarter when our DSO stood at 71 days. So with these brief opening remarks, I would request the moderator to open the lines for any questions. So, moderator could you open the lines for questions.

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 questions 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 Ms. Priya of Enam. Over to you ma'am.

Ms. Priya

Yeah, hi. Good evening to the management team. We just wanted to take an update on the Adecco JV. If you could give us what has been the progress now and also if you could, as you mentioned in Room Solutions you are working on, you know, there are some pilots whereby you expect Q4 FY-08 to see a revenue contribution. You know, if you could just give us some idea on where exactly is the testing process and how do you see this piloting in Q4. My third question relates to your salary cost which appeared to be flat on a QoQ basis. If you could comment on that as well, and lastly, if you could have other, you know, other income breakup into interest income and forex gain.

Arvind Thakur

Okay. Let me start with your first point, which is the Adecco JV. We operationalized the JV in the quarter and so now the JV has an offshore development center in which it has already started work on its first engagement. There are currently 35 people engaged on the project right now. So, it has just kind of taken off. I think the good news is that there is a strong pipeline building up to support the JV. We have in fact secured an Lol for some significant piece of business. Actually the Lol is with Adecco, not with the JV. We are currently in the process of translating that into a firm contract which would be our first multimillion dollar contract, so I think we have some very positive things happening in the joint venture and the purpose with which the joint venture was setup seems to be getting met because the idea was to be able to access customers of Adecco which as you know are large fortune 500 customers and this particular Lol is in fact with one of them. So, we are seeing some positive movement on the JV, but as you will appreciate there is contracting to be done and then there is execution to be done. So, I think you will begin to see traction more in Q4 and the next year from the JV than in the immediate future. That is on the JV. The second question was about Room Solutions, and you know basically these, when we acquired Room, we acquired because it had strong capability in providing solutions in the commercial insurance space which is predominantly the London and Lloyd's markets and the solutions that they have been providing have been around old technologies. These are getting moved on to newer technologies basically improving the back-end, front-end, and adding functionality that is relevant for the current market context. So, there is a road map which is laid out for this which will take us towards the end of the financial year to bring out the complete solution; however, parts of the solution are getting piloted and delivered and these are progressing well. We need to get some, you know, some of these projects completed in Q3 before we can see benefits of this initiative which again would happen from Q4 onwards. That's on Room Solutions. Your third question was

Ms. Priya

Salary cost being flat on a QoQ basis.

Arvind Thakur

Salary cost, yeah. Well as we can see our onsite to offshore ratio is, I probably didn't talk about that, but if you look at the total headcount, 22% of our people are onsite and the balance 78% are offshore which was 24% last quarter. So, our onsite headcount has reduced slightly. We know when onsite headcount reduces, salary costs also reduce.

Ms. Priya

Sir, only the function of the onsite-offshore mix changed rather? Or is it because of you know the fresher intake being higher because this quarter typically will see a high fresher intake.

Arvind Thakur

You are also right. There is fresher intake, but you know, the sensitivity of wages is more with onsite rather than offshore.

Ms. Priya

And how many percentage of people would be above, you know, in the 0- to 3-year category.

Arvind Thakur

We have 37%, are in the 0 and 3 years' category. Last quarter, it was 36%. So, there is a slight increase over there as well.

Ms. Priya

Sure. Also, you know, if you could break-up the other income into how much was it for forex gains.

Arvind Thakur

Okay. We had forex gain of Rs. 42 million, and basically, the rest was income from mutual funds and so on.

Ms. Priya

Sure. Just if I may take on one more question. You know your transportation domain seems to be yielding quite good results and you also mentioned on the airport modernization contract coming to your end, and if you could just highlight how typically is, you know, how big is the duration of these contracts and what is the additional investments, which you may need to do in terms of improving your domain knowledge over there.

Arvind Thakur

Okay, I can throw some light on that. See, as you know, airport modernization is a big activity happening in the country. What we have really done is, we have partnered with SATS. SATS is the Singapore Air Terminals Systems, which is a

subsidiary of Singapore Airlines, and we have actually built the cargo solutions for SATS and what we have done is, we have actually partnered with them to implement the solution in other airports across the world. So, we were successful in the implementation in Taiwan, we then implemented it in Beijing, our last implementation was in Hong Kong and now we are going to be doing it in Bangalore. So, I think it's a strong IP relationship that we have been able to build that is helping us, you know, bring these solutions to these airports across the world. So, since we have built the solution, we know the inside of the solutions. Although the intellectual property does not belong to us, all the implementation effort and revenues out of that happen to us. So, that gives you some idea about you know, the airport modernization project.

Ms. Priya

Sure, thanks very much and I may come back with a followup question, thank you.

Arvind Thakur

Thank you very much.

Moderator

Thank you very much ma'am. The next question comes from Mr. Pankaj Kapoor of ABN Amro. Over to you sir.

Pankaj Kapoor

Yeah, hi sir. Just wanted to get some sense on what's happening on the top-line in the IT services. You mentioned we just had a volume growth of about a percentage point, so any slower ramp-ups happening over here.

Arvind Thakur

Pankaj, I also mentioned that the volume growth, I think not the volume growth, the actual growth in the IT services core business, if I exclude Room, is 3.4%. Sorry, I beg your pardon 3.6%. So, you know what has actually brought down the 3.6 to the 2% in IT solutions has been the decline in revenues in Room Solutions. So, what has impacted us on the IT side, actually has been the, as I mentioned, the impact on account of lower revenues in Room Solutions.

Pankaj Kapoor

And given that BPO has seen some attrition, I mean that is a net headcount decline quarter on quarter, what is the revised headcount guidance you have for the full year? Earlier you were maintaining about a 1000 addition for the full year, 50-50 spread between BPO and IT. You are still maintaining that or is there any change in that.

Arvind Thakur

No, I think that will reduce a little bit, I expect a total intake of 800-850 people in the year.

Pankaj Kapoor

And this is inclusive of BPO.

Arvind Thakur

That is inclusive of BPO.

Pankaj Kapoor

Can you split that in terms of, between BPO and IT.

Arvind Thakur

One second. In fact we have done that working. May be about 150 would be BPO or it could be 200 as well.

Pankaj Kapoor

Okay, so we are looking at a much higher growth as far as the headcount is concerned in the second half.

Arvind Thakur

That's right.

Pankaj Kapoor

Okay, fair enough, and could you give me the realized exchange rate for quarter, like what would have been our dollar term revenues.

Arvind Thakur

It appears to be 40.8.

Pankaj Kapoor

Fair enough, thank you.

Arvind Thakur

Welcome.

Moderator

Thank you very much sir. Participants are requested to ask one question in the initial round and come back with the follow-up question. The next question comes from Mr. Dipen Shah of Kotak Securities. Over to you sir.

Dipen Shah

Hi, Arvind, how are you.

Arvind Thakur

Hello Dipen one second, I think there is a little disturbance.

Moderator

Mr. Dipen, could you please use your handset.

Dipen Shah

Yeah, I am speaking from my handset only.

Arvind Thakur

Moderator, can you help us with this.

Moderator

Sir, I request you to just come up with a followup question.

Dipen Shah

Okay.

Moderator

Thank you sir.

Arvind Thakur

Seems to have gone now.

Moderator

The next question comes from Mr. Ashwin from Ambit Capital. Over to you sir.

Mr. Ashwin

Hi, sir. I just wanted to get a sense in terms of our outlook on volume growth going forward. We have seen that our utilizations have dropped for the last three quarters, our recruitments in the first half have been considerably lower than what we had last year. Our onsite employees have come down in the last three quarters. So, is there some demand slow down that you are seeing or you expect this to be better in the second half going forward?

Arvind Thakur

No, it is definitely going to be better in the second half going forward, and I just talked about, you know the very healthy intake that we had. I shared with you the, you know, quality of intake that we have had in this quarter, and I think these are all very positive signs going forward. The areas where we have experienced a little difficulty has been in our BPO business and in our Room Business, which also I explained something that we are going to be tackling in the next two quarters.

Mr. Ashwin

In terms of our Room Business as of Q4, our run rate was some where of the order of almost 31 crores. So over the last two quarters that also seems to have declined, so do we expect this to trend up to the level that we had seen in the initial times.

Arvind Thakur

Yes. In fact that is what I was trying to explain. The decline is on account of the new solutions that are getting introduced. The old ones are somewhat outdated, customers are expecting better user experience and all that is getting rolled out and, you know, that will contribute to enhanced revenues in the coming quarter.

Mr. Ashwin

Okay. Thank you sir.

Arvind Thakur

You are welcome.

Moderator

Thank you very much sir. The next question comes from Mr. Sunil Tirumalai of Credit Suisse. Over to you sir.

Sunil Tirumalai

Hi sir, I am Sunil. Sir, I have a question on the BPO, the contract that came down, just some more details on that which customer or which vertical the customer was from?

Arvind Thakur

Yeah. You know, we were actually engaged in a very interesting activity, where we were providing compliance services for the insurance space for U.K. Now, these compliance services are for, you know, checking out whether the independent financial advisors are indeed complying to the U.K regulatory authority's requirements. The regulatory authority has reduced the stringency associated with those checks. So, it is not that stringent to, you know, check out all these requirement and so the number of checks as well as the volume of checks has

reduced dramatically. As a result of this environmental change, the contract has got re-worked and now it is set at a much lower volume.

Sunil Tirumalai

And was this directly linked to the reduction in BPO headcount.

Arvind Thakur

Yes. In fact the BPO headcount has reduced on account of the reduction that has taken place on the account.

Sunil Tirumalai

Okay. Sir, just one more question. What kind of price increases are you seeing on IT services?

Arvind Thakur

Well, interestingly all our new contracts are coming in at better prices, but its very variable. It varies anywhere between 5-7%.

Sunil Tirumalai

No, if you put it in another way, would there be any contribution in terms of higher realizations on your top-line growth.

Arvind Thakur

It's very marginal in this quarter, but we anticipate a percentage increase on account of pricing improvement going forward.

Sunil Tirumalai

Okay. Sir, thank you. I will get back later with questions.

Moderator

Thank you very much sir. The next question comes from Mr. Ruchit Mehta of HSBC. Over to you sir.

Mr. Ruchit Mehta

Hi, good evening gentlemen. Sir, just on your Room side of the business, this has probably been the second quarter of de-growth. When do we actually see growth in the revenues for Room coming back or should we expect another tepid quarter in Q3 as well.

Arvind Thakur

I think you will see growth in Q3, but not significant.

Ruchit Mehta

Okay, and then it should be a move backended into Q4.

Arvind Thakur

Yeah.

Ruchit Mehta

Okay, so Q4 could be at least, you know, mid to high single digits.

Arvind Thakur

Q4 should be good, yeah.

Ruchit Mehta

Okay, and on the BPO side of the business, what sort of tractions were expected on that business given whatever the issues you had now and so, will again next quarter what should one expect?

Arvind Thakur

See in BPO, as I have always maintained, our BPO business is a business which supports our overall company business. We are not looking at our BPO activity as a stand-alone scalable activity. We are looking at our BPO activities to supports us in providing full services to our customers, because they are very sharply focused on a few industry segments. Our immediate aim is to ensure that the BPO business is profitable. Our aim is to make sure that there is for the year, a break-even in this business. So, we are working both on revenue generation as well as cost structures to enable that to happen.

Ruchit Mehta

Okay. So in terms of profitability for the business, you can consider suppose there is a lot of ramp-up over the period of time and actually be sort of profitable in the net level for this year. I mean obviously EBITDA might be positive still. So what should now be the expectations on the BPO front.

Arvind Thakur

The expectation should be that, you know, we have a net break-even at the profit level.

Ruchit Mehta

Okay. You still think that will be a net break even at the profit level. Okay and any outlook on what margins could be for the full year in a sense, we had about 18-1//2

for the first half, so is this the trend of margins you are looking at going forward as well?

Arvind Thakur

You know, when we were looking at margins, we were wanting to maintain our margins at 20% and you know that was a direction that we were looking at, when the rupee was at 40-40, so our aim is to try to see that still happens, but I am seeing that the rupee is still appreciating a little more, so it may be a little challenging to achieve that 20%.

Ruchit Mehta

So, for the full year probably you are trying to achieve 20% break, may not really happen, because I mean, to achieve 20% for a full year would mean significant ramp up's in margins for the next 2 quarters. So, probably unlikely to happen this time.

Arvind Thakur

Well it may be touch-and-go.

Ruchit Mehta

It might be touch-and-go. Okay and finally which is common limit on the spending environment, how you are seeing customers because lot of people are worried in terms of what U.S. might be spending or what Europe might be spending, any indications from your customers of what IT budgets are looking for next year.

Arvind Thakur

I think that there is no let down as for as the business environment is concerned. You know, I shared some examples of businesses that we got in the U.S. So, I think the outlook seems to be quite healthy.

Ruchit Mehta

So, sort of business as usual.

Arvind Thakur

Yes.

Ruchit Mehta

Okay fine, thanks.

Moderator

Thank you very much sir. The next question comes from Mr. Ruchir Desai of Pioneer. Over to you sir.

Ruchir Desai

Hi, good evening. Just a question on Room Solutions again. You mentioned that you have visibility in Room increasing traction in Q4 or maybe FY-09. You know, what gives you the confidence that it would increase traction given that you know significant part of the order book is part of Room Solutions or the order intake you are taking in for the past couples of quarters consist of Room, could you elaborate on that.

Arvind Thakur

I expect strong intakes from Room in the coming quarter, which is the current quarter.

Ruchir Desai

Alright, and also the contracts you are winning in the past couple of quarters and the order intake that you are taking in, how many vendors are you seeing? Against how many vendors are you getting these contracts?

Arvind Thakur

I didn't quite understand your question.

Ruchir Desai

You usually compete with them in the kind of contracts you have won in the past couple of quarters

Arvind Thakur

Okay, okay. I think we have had a very good conversion as far as that is concerned. To my mind perhaps there is just one contract that we lost to competition, but otherwise you know, this is a very specialized market, there aren't many players, and Room has very very strong presence as well as brand equity in that market.

Ruchir Desai

I also meant on the IT services side and the non-Room business, like travel and transportation and the other verticals and how many vendors are you seeing in the contracts right now.

Arvind Thakur

Oh...okay, you are talking about the others, the whole gamut, okay. Well, you know there is nothing unusual happening over there. Typically, we find ourselves competing with mainly the scale players, because they are all over the place. So, in all the businesses that we are in, whether it is travel or its insurance or banking, the scale players are always there. In the travel space, we have been able to very

clearly demonstrate the difference you know that we have to bring by virtue of the focus, the capability that we have and the attention that we gave to the segment and that's the reason why we saw the strong attraction in the travel space. Other area where we compete very very effectively is in the insurance space. In the third space which is retail and in BFS is where actually we come with generic competition. But these two spaces, insurance and travel are two areas where we compete very very effectively with all the players in the market.

Ruchir Desai

Thanks and all the best.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. The next question comes from Mr. Nimish Joshi of CLSA. Over to you sir.

Nimish Joshi

Yeah. Just a couple of question, I missed the part on the volumes, what is the volume growth in IT services?

Arvind Thakur

Just plain IT services?

Nimish Joshi

That's right

Arvind Thakur

It's 2% if I include Room. It is 3.6, if I exclude Room.

Nimish Joshi

Okay, and another thing is last quarter you had mentioned that there was some seasonality associated with the domestic business because of which there was a decline in volumes, so it doesn't seem to have picked up again this quarter, what's the view on that.

Arvind Thakur

They want the seasonality associated with, yes. I think it has picked up, if I am not mistaken. Let me check the numbers. In fact it picked up quite significantly. It's almost 50% up.

Nimish Joshi

Okay.

Arvind Thakur

Yeah

Nimish Joshi

Thank you.

Moderator

Thank you very much sir. The next question comes from Mr. Nitin of IDBI capital. Over to you sir.

Mr. Nitin

Hi, good evening every one. Most of my questions were answered, so just a couple of more questions. What is the dollar effect in EBITDA margins?

Arvind Thakur

0.3%

Mr. Nitin

0.3%

Arvind Thakur

Minus

Mr. Nitin

Yeah. Negative, and what is the hedging position right now?

Arvind Thakur

We are hedged for the next 12 months, completely hedged for the next 12 months,

Mr. Nitin

How much?

Arvind Thakur

About 65, I will give you the exact number, 64 million dollars.

Mr. Nitin

64 million dollars. And at what rate?

Arvind Thakur

At 41.14

Mr. Nitin

41.14, and what is your SG&A for this quarter as well as compared to the quarter?

Arvind Thakur

It is exactly the same as the last quarter, I think it is 20%.

Mr. Nitin

20%, and you intend to bring it down, right.

Arvind Thakur

Yes, well as a percentage, it will certainly come down as revenues increase.

Mr. Nitin

Yeah. Okay, and just throw some colors on DSTA tie-up and the DB Systems

Arvind Thakur

Oh, okay. DB Systems, just for everybody's benefit is the IT arm of Deutsche Bahn. Deutsche Bahn is the German railways, and as you know, German railway is the most modern railway in the world, and through DB Systems, we have an exclusive partnership for providing offshoring services to that organization. That is ramping up extremely well. In fact we just completed a business exercise with that organization, and there are indications that it is going to increase 100% in the next financial year. So, that is a great relationship and DB Systems is getting serviced extremely well. The other is DSTA which is the Singapore government Department of Science and Technology where we have a partnership for building their e-procurement systems. The system which is used by the Singapore government is called GeBIZ. That is built and is being maintained by us and all government procurements for the Singapore government happens on-line on this portal. Now, our relationship with DSTA is to take that solution to other parts of the world where we are currently engaged in a number of discussions with various government bodies to implement e-procurement in the Indian government. So again very strong traction out of that relationship. So, its just like, you know, I explained our model with SATS in implementing cargo solutions and airports around the world, that is the relationship we have with the Singapore government to implement e-governance, specifically e-procurement in e-governance solutions for other governments. Nothing to report in terms of orders on that as of now, and I think pretty soon we should be seeing a lot of activity in that region.

Mr. Nitin

Okay, one more question. Utilization level came down from 79 to 77%. What would be the reason behind that.

Arvind Thakur

Well you know, we talked about the 0 to 3 years' proportion has increased from 36 to 37%.

Mr. Nitin

More fresher intakes.

Arvind Thakur

More fresher intakes.

Mr. Nitin

Okay, and the pricing improvement for the new contract and the old contract renewal.

Arvind Thakur

All new contracts we are getting at better prices. I don't have the exact increase, but I am seeing you know anywhere between up to 7% is an improvement we are getting our new contracts.

Mr. Nitin

And renewals?

Arvind Thakur

I don't have the number with me.

Mr. Nitin

Okay

Arvind Thakur

Let me just see if somebody has wrote that net. No, I don't think they have any number. You know our anticipation is a 1% increase in pricing.

Mr. Nitin

Okay, for the renewals?

Arvind Thakur

Yeah.

Mr. Nitin

Thanks a lot and all the best.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. The next question comes from Mr. Pankaj Kapoor of ABN AMRO.

Pankaj Kapoor

Yeah, hi sir. Just sort of followup on basically what is happening in the Room Solutions. You mentioned that there is a new version which is going to come up from third and the fourth quarter. Is this anticipated? Like this new version was going to come in and that was the reason the sales are not happening and this I guess would be as far as the product sales are concerned and my assumption was that around 30% of the sales would have been product sales. So, what exactly is happening over there in the last 2 quarters, and was this delay a delay in the versions coming in or this was totally planned in?

Arvind Thakur

Okay, first of all, you know, Room is not in the products business. You know, these are actually frameworks which get implemented for different syndicates and you know brokers and customers who operate in the Lloyd's market. Each implementation gives rise to you know further refinements on the framework and that gets implemented. Now, the original version has been built on old technology. Database is old, front-end is you know Delphi and in the current context customers are expecting you know .Net, you know, a more modern environment on which they would like their solutions to get implemented. So the new versions, first step was to replace the back end which actually has happened. We moved on to SQL and those implementations are what are getting implemented right now. You see what happens you know when you are coming up with newer versions, there is normally a lull before the version actually comes. I think that is what we are experiencing right now in that business.

Pankaj Kapoor

Sir, is there any, like this was totally anticipated, you expected the revenue slowdown which happened in this quarter and the last quarter. This was known earlier or this is something which was new?

Arvind Thakur

No, we didn't really anticipate revenues to slowdown, but they actually slowed down.

Pankaj Kapoor

Okay, thank you.

Moderator

Thank you very much sir. The next is a follow-up question from Mr. Ashwin of Ambit Capital. Over to you sir.

Ashwin Mehtha

Sir, just one follow-up. In terms of the outlook that we are seeing in terms of business from our top 20 clientele which seems to have declined over the last 2 quarters, what are we seeing in terms of demand from these because our dependence on these is almost of the order of 60%.

Arvind Thakur

You know, these things happen off and on where customers as they are reorienting their businesses they slow down a bit and they scale up. So, you know just to give you an example one of our large customers actually had a management change. You know, they got acquired by private equity guys. So, till the time the organization was able to adjust to the new management, you know there is a slow down in terms of orders coming because they want to consolidate their spend. So, I think that is the normal kind of activity that happens. We do not see anything significant you know to talk about with respect to these movements. The way to mitigate that is to bring in newer accounts which have the ability to scale to the same level, and I think that is what we are focusing on at this time and get more larger accounts into the mix. One of the things that you would have seen in that now for example between the last quarter and this quarter, the number of million-dollar accounts have increased too. We have two more to come into the mix. So, you know as we go forward, it is better to be more broad-based than be concentrating on a few clients.

Ashwin Mehta

So in terms of our targets on concentration what do we see going forward in terms of say 1-1/2 kind of duration? Would our concentration be considerably lower than the 60% that we have currently or how do we see it.

Arvind Thakur

I think, you know, if we look at most companies of our size, typically the large accounts contribute to about 50% of revenue.

Aswhin Mehta

Okay. Thanks a lot sir.

Arvind Thakur

You are welcome.

Moderator

Thank you very much sir. The next is a follow-up question from Dipen Shah of Kotak Securities. Over to you sir.

Dipen Shah

Most of the questions have been answered. Just a couple of book-keeping questions. First of all at what cost was ROOM Solution stake acquired? Was it the balance 12 million dollars? And the second one is what can we expect the tax rate to be in 2008 and also if you can throw some light on 2009.

Arvind Thakur

Okay, the balance 25% was acquired at 2.6 million pound sterling, and the effective tax rate is I think we expect it to be 13%.

Dipen Shah

Okay, same for 2009 also?

Arvind Thakur

For 2009, I do not have the figure right now, but my CFO seems to be agreeing with your viewpoint. It will probably remain the same at 13%.

Dipen Shah

Lastly once again the standard question, Arvind. Any development on the stake sale or at what levels are at what levels are we. Thank you very much.

Arvind Thakur

It took a long time for that question to come. There is really nothing to report on that front.

Dipen Shah

Okay fair enough. Thanks very much.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. Next question comes from Mr. Amish Kanani of JM Fiancial. Over to you sir.

Amish Kanani

Hi. Good evening. My question pertains to a very broad sales level where you know basically at the start of the presentation you said that you have an order book un-executed at 101 million to be executable in the next 12 months whereas you know somewhere down the line you said you were hedged at 64 million for the next 12 months. So you know the top-line itself I was wondering whether you know what sort of next 12 months revenues outlook could be.

Arvind Thakur

See, hedging is against the remittances to India. As you know, we operate through subsidiaries in our geographies and you know the standalone entity NIIT Technologies then acquired services and you know through transfer pricing is you know what we recover. So, the hedging is to just ensure that those elements of revenues and receivables are covered.

Dipen Shah

Okay. So, I think to the extent of dollar exposure of the next 12 months which could be approximately 165 million dollar effect because your total sales have 50% coming from Europe, so I was wondering whether the euro exposure was more in terms of the total and whether that is hedged and stuff like that.

Arvind Thakur

It is just the dollar rating.

Dipen Shah

Okay. So, I think the dollar you have hedged the dollar exposure which you believe is approximately 65 million whereas overall sales potential for the next 12 months would be close to 100 million dollars if I understand the whole thing correctly.

Arvind Thakur

No. That would not be correct as you are understanding. The sales potential will probably be more. What has been communicated is from the order books. What is 100% executable over the next 12 months is 101 million.

Dipen Shah

Yeah in terms of visibility, this order book is executable in 12 months is what was asking.

Arvind Thakur

That is right.

Dipen Shah

Thanks a lot.

Moderator

Thank you very much sir. Participants are requested to ask one question in the initial round and come back with follow-up question. The next question comes from Ms. Mythili Balakrishnan of JP Morgan. Over to you madam.

Mythili Balakrishnan

Hi. This is Mythili from JP Morgan. I just had a couple of questions. The first is basically on ROOM. Could you comment a little bit about the profitability of ROOM both as a standalone entity and with the downstream business which it gives to NIIT Tech.

Arvind Thakur

Yeah. Just go ahead with your questions while I am digging out the information.

Mythili Balakrishnan

Okay. The other question was basically I wanted to check with you that how much of your revenues you would say are more annuity-based and how much is more development which could sort of see some you know delays/cutbacks in the given environment.

Arvind Thakur

Okay, the ROOM profitability in this quarter at a standalone basis is operating margin is 3% and on the combined basis is 10%, and as far as annuity-based business is concerned we do not really track it very accurately but just to give you a sense, 20% of our business will be annuity-based.

Mythili Balakrishnan

So, 20% of your business is annuity-based and most is project-based then.

Arvind Thakur

No. You see what happens is; you have the long-term MSA's, and you know projects keep coming, but you know they are basically between the partners who are servicing that client. Do you understand what I am saying?

Mythili Balakrishnan

Not really.

Arvind Thakur

So let's say you know, our customer is British Airways. So, we have a long-term relationship with them and many projects keep coming because we have an ODC for them. As and when projects mature, you know, they ask you to estimate and pick up that business. It is not a firm long-term contract, but you know that there are X number of people in the ODC and all of them are going to get engaged on these projects and will continue to grow.

Mythili Balakrishnan

In terms of the order book, it has been around flat for now the past 3 quarters odd. Any thoughts on why is that so and what does that imply for revenue growth as such?

Arvind Thakur

No. In fact, I am seeing you know there is a little seasonality in our intake. The first quarterly intake is the least. If I remember last year Q1 it was 38 million. This year it was 40 million. Q2 last year was a little more; I think 40 something; and this year it is 49. So, I think over the year you will see the intake improve gradually.

Mythili Balakrishnan

But the executable order book has now been flat for now 3 quarters right.

Arvind Thakur

That is because you know you are executing more than the intake in the initial quarters.

Ms. Mythili Balakrishnan

So in the next 2 quarters you probably expect that to sort of play catch-up.

Arvind Thakur

That is right.

Ms. Mythili Balakrishnan

Thank you. That is all from me.

Moderator

Thank you very much ma'am. Next question comes from Mr. Ganesh Shetty an individual investor. Over to you sir.

Ganesh Shetty

Good evening sir. This is Ganesh Shetty.

Arvind Thakur

Hello Ganesh.

Ganesh Shetty

Sir, I have one question regarding Room Solutions. Have we introduced our Room Solution service offering in the US market as expected. If yes, are we successful in doing that sir.

Arvind Thakur

Yes in fact in my last quarterly conference, I did mention that we have taken the solution to the US in association with one of our customers in UK. So when they wanted the solution to get implemented in the US, we are now currently building that solution for the US with this customer being the pilot site. As you know in the insurance business, each market has its own regulatory environment. So, the solutions have to be oriented to suit those regulatory requirement. So, that is currently happening right now and with that successful implementation, we will then have a base to launch the service in a significant manner in the US.

Ganesh Shetty

Sir, the second question is regarding Room Solutions itself and the integration of Room Solutions and NIIT Technologies. Have we been successful in carrying Room Solution business to NIIT Technologies BPO Services, sir. Are any of our customers being added in BPO front who are the customers of Room Solutions.

Arvind Thakur

Yes. In fact, we have secured our first business which is the business from Room customer, and in fact that is a line completely with the direction that I spoke about earlier of providing integrated IT and BPO solutions. So what is happening now is Room is providing the IT solutions and the BPO work is happening in our BPO facility.

Ganesh Shetty

Sir, have you added in Room Solutions any headcount for the quarter.

Arvind Thakur

I do not have the Room Solution headcount separately, but onsite we have not, offshore we might have because we are building that product.

Ganesh Shetty

Thank you very much sir. Best of luck, sir.

Moderator

Thank you very much sir. Next question comes from Mr. Rohit of B&K securities. Over to you, sir.

Mr. Rohit

Hi. I just want to know how much you have lost due to the reduced contract in the BPO services which we have faced this year.

Arvind Thakur

I do not have the exact number and neither I think I am in a position to disclose that.

Mr. Rohit

How much average dollar rate for this quarter?

Arvind Thakur

I gave that number, 40.8.

Mr. Rohit

Sir, I just want to clarify some numbers from you that total volume growth is increased by 1% I think included with Room Solution that would be around 2%, and if you exclude the Room Solution, volume growth would be 3.6. I think that are the numbers you have given.

Arvind Thakur

Okay, let me just clarify. Not volume growth, actual growth; actual growth without BPO is 2%; actual growth without BPO and Room is 3.6%.

Mr. Rohit

Volume overall is 1%.

Arvind Thakur

Volume overall is 1%. So you know if you want volume growth you may probably need to add a percentage point on each one of these because there will be dollar impact on that.

Mr. Rohit

Sir, what we expect from Room Solutions in the fourth quarter as we are having a new version.

Arvind Thakur

Expect in terms of?

Mr. Rohit

Sir, revenues; how much the revenue will increase from these levels; what would be the next level.

Arvind Thakur

I do not have that level of details with me.

Mr. Rohit

Sir, why the utilization has gone down to 77% from 79%.

Arvind Thakur

That is because of the intake of freshers in this quarter.

Mr. Rohit

Okay, thank you sir.

Moderator

Thank you very much sir. The next question comes from Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta

Yeah Hi. Sir, just in terms of the margin trend for Room Solutions per sale. Earlier, we were expecting outsourcing some work to India as well as cross-selling margins will over a period of time start improving on a consolidated basis. How do you think that will now pan out given whatever has happened up till now.

Arvind Thakur

You know if you look at the margin trends in the last year, you will have seen a steady improvement quarter-on-quarter. At that time, we were working with the older version. Now, their margins are down are down because there are more resources supporting the newer version. Once that is out in the market, you can only see an improvement in margins.

Ruchit Mehta

One of the core IT services improved on a sequential basis. So, do you think about 22-22-1/2% is a reasonable number going forward as well.

Arvind Thakur

For the core IT business?

Ruchit Mehta

Yeah.

Arvind Thakur

Definitely.

Ruchit Mehta

Just on our depreciation front, you have been investing into Capex for a new campus, but it was expected to improve sharply going forward. So, how should one expect depreciation movement.

Arvind Thakur

See, depreciation to my mind would be between 4.5% to 5% of sales.

Ruchit Mehta

In a sense year-on-year it seems to be looking a flattish kind of numbers.

Arvind Thakur

That is right.

Ruchit Mehta

Any reason; because you described the Capex will still be flattish.

Arvind Thakur

That is right; because we retiring a lot of Capex.

Ruchit Mehta

Okay. Old assets are being retired? Tax rate you mentioned will be about 13% for the full year.

Arvind Thakur

Tax, yes.

Ruchit Mehta

Could you give a sense of what decomposition of the other income is actually?

Arvind Thakur

I gave that earlier, but let me just repeat that again, if I can just pull out the page. It is 42 million for exchange gain, and the rest is you know income from mutual funds and other non-operating.

Ruchit Mehta

Okay. No problem. Thanks

Arvind Thakur

You are welcome.

Moderator

Thank you very much, sir. Next we have a follow-up question from Mr. Sunil Tirumalai of Credit Suisse. Over to you, sir.

Sunil Tirumalai

My question has been answered. Thank you very much.

Arvind Thakur

Thank you.

Moderator

Thank you very much, sir. The next question comes from Mr. Nitin of IDBI Capital. Over to you, sir.

Mr. Nitin

Hi. I would like to know the revenue guidance for the full year.

Arvind Thakur

We do not provide any revenue guidance. We provide all the information for you to do analysis.

Mr. Nitin

Any prospective acquisitions you would like to intent to probably in the near future.

Arvind Thakur

Nothing to report on acquisitions. All I can say is that we have a strong program and independent group which is constantly looking for the right opportunity, but there is nothing to report at this point in time.

Mr. Nitin

Okay. Thanks a lot and all the best.

Moderator

Thank you very much, sir. Participants who wish to ask questions, may kindly press *1.

Arvind Thakur

I think, we can try and take a question from Dipen who could not get on, or was is somebody else?

Moderator

Sir, Mr. Dipen has not come up for the question queue.

Arvind Thakur

Somebody who has caused the disturbance.

Moderator

I repeat. Participants who wish to ask questions may kindly press*1. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Arvind Thakur for final remarks.

Arvind Thakur

Thank you ladies and gentlemen. Thank you for being on the call and asking questions and giving your suggestions. As always, me and my team over here including Mohit who has now joined us as the head of investor relations would be available to you to address any other queries that you may have. Thank you very much once again for being on the call and have a good day.

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.