



Conference Call
October 20, 2006

Moderator

Good evening ladies and gentlemen, I am Ahmed, the moderator for this conference. Welcome to the NIIT Technologies Limited 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 Ahmed and good evening ladies and gentlemen, I would like to welcome you on this eve of Diwali to the conference call on the discussions around the second quarter results of NIIT Technologies Limited. Let me share with you first the revenue analysis of our second quarter results. Our consolidated revenues for operations are at Rs. 2199 million, which is up 15% quarter-on-quarter and 49% year-on-year. Of these revenues, IT solutions have contributed to 2060 million rupees while our BPO revenues are at 139 million rupees representing about 6% of the total revenues. Now these consolidated revenues include the revenues from Room Solutions which was an entity that we acquired in May this year, so just to share with you the organic revenues excluding revenues from Room Solutions they too represent healthy 30% growth year-on-year and 11% quarter-on-quarter growth in revenues indicating a robust all round growth in NIIT Technologies.

Give you a little break up geographically revenues from Europe now accounts for 50% of the overall revenues of the company. As you know, we have been sharply focussing our attention in this part of the world and we are seeing significant growth of revenues in Europe. In the United States, the accounts for 33% and the rest of the world including India, which is mainly Asia Pacific account for 17% of the revenue. What is particularly pleasing is that the share of revenues in the industry segments that we are focussing on is now 80% of the overall revenues of the company. As you know, we have been following a business approach and strategy of focussing on a few select industry vertical and caring our business in those verticals by bringing about strong capability and differentiation. The financial services segment, in fact, grew over 96% and now represents 42% of the total revenues. The travel and transport grew 54% year-on-year and now represents 26% of business while retail and manufacturing grew 24% and accounts for 12% of the overall business. We have also seen good growth in our top customers. Our top 5 clients now contribute to 40% of our total revenues and our top 10 clients contribute to 50% of the total revenues.

Margin, let me share with you some analysis on our margins. Operating profits during the quarter stood at 415 million rupees, which is up 14% quarter-on-quarter and up 59% year-on-year. As I had shared with you in our last quarterly results, this quarter we had to incur additional cost associated with a transitioning and integration of the acquisition that we have done for Room Solution and we were expecting margins to be stressed. However, I am pleased to report that the operating margins have remained steady at 19% despite the additional cost associated with transitions and integration. We have added 5 new international customers during the quarter and have had record order intake of 42 million dollars in the quarter. This is the highest in take we have had in NIIT Technologies ever since the spun it off from NIIT Limited in April 2004. \$87 million US of the outstanding order book is executable over the next 12 months. We also added 300 people during the quarter taking the total head count to 4148 out of which 946 are engaged in BPO activities, 25% of our direct staff are engaged in onsite activities and the balance 75% in offshore.

Our total outstanding receivables now stand at Rs. 1530 million, which represents 69 days of sales outstanding. Cash and bank balance stand at 1774 million rupees. As you are aware in Q1, we had acquired Room Solutions, which was a major move by the company to position itself firmly in the insurance space. Lot of focus in this quarter has been to transition and integrate the organizations and most of this activity has been completed but for a small residue which will carry into Q3. Further, in Q2, we signed a definitive joint venture agreement with a world leader in HR solutions and that is the Adecco which is a Fortune 500 Corporations and it is the largest staffing company in the world. This move will permit us this growth through enhanced market access. Under this agreement, that Adecco will exclusively offshore to the joint venture its internal IT requirements, as well as the requirement of the customer that it serves, so the Adecco responsibility would be to provide business volume commitment according to a jointly agreed business plan. NIIT Technologies will provide technical know how and set up the back end facility. The initial capital of the joint venture is expected to be at the tune of 3 million Euros with both the Adecco and NIIT Technologies contributing equally 50:50. You have seen a surge of good results from leading players in the industry in the quarter and our own results are consistent with the performance of the industry that we have been tracking revenues, you would have seen that they have grown consistently quarter-on-quarter throughout our financial year 2005-2006 and now that has expanded further in this particular year that is financial year 2006-2007 to a very different level, which is consistent with the leaders in the industry. With 80% of business now coming from our focus areas, I believe the transition of the company from the horizontal technology focussed organization to a vertical industry focussed organization is complete. The balance 20% may be derived out of segments of regional focus, for example, if you look at the Asia Pacific region there is a very strong focus and presence of NIIT Technologies in the government, but that is you know local to the region, we don't expect government activity to happen significantly in Europe and the US. So also margins have been maintained at a consistent level and this two with the additional burden of transition and integration cost of Room Solutions, I believe, this moment demonstrate the robustness of our business strategy what the company has embarked on, which was essentially to focus and differentiate and scale in the business areas that we are focussing on. So with these opening remarks, let me open up the session for discussion and I look forward to be taking your questions, so over to you moderator.

Moderator

Thank you very much sir. Participants will be now beginning 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. To ask a question please press *1 now. First in line we have Mr. Karthik from MR Investments. Over to you, sir.

Karthik

Good evening Mr. Thakur.

Arvind Thakur

Good evening.

Karthik

And congratulations for the fantastic numbers.

Arvind Thakur

Thank you.

Karthik

I missed a little bit on that manpower additions; can you please repeat the numbers?

Arvind Thakur

We added 300 people in the quarter.

Karthik

Okay, and two specific questions on your JVs one is that Adecco JV which you have signed, do you have any idea of what the size it will be looking at 3 years down the line?

Arvind Thakur

Well, as I just explained the JV would be putting together a business plan, which it will do once the organization is formed. Currently, we are in the process of forming the company, but at this point of time, I think what I only like to mention is that when we sign the joint venture, you know, we had their entire management team, which was the Chairman, the CEO, the CFO, as well as the CIO, and you know obviously all of them would not have come here unless they felt that this was going to be something significant.

Karthik

Right, right, and other is your other JV, I think you should have mentioned today is that, is not the JV, the right to settle the Singapore portal, the E business portal?

Arvind Thakur

Okay, that is not a joint venture, that is a strategic relationship that we have build with the Singapore Government, very specifically with an agency in the government called the DSTA, which is the Defence Science And Technology Agency, which is an only agency in Singapore with whom we have developed an E government procurement portal, so now that we have built the solution for the Singapore Government and it is being deployed and used very successfully in Singapore, we are going to be doing two things, #1 supporting and enhancing that application and also productizing it and taking it to other markets in particular.

Karthik

It looks most exciting.

Arvind Thakur

Yes, that is a very exciting opportunity particularly in this part of the world and in India in particular, you know which has very, very big plans of investments in E government.

Karthik

Right, any kind of size of the market and how do you plan to correct it or something?

Arvind Thakur

You know, the size, the total spend in the national E government program was to the tune of 23,000 crores, the value the kind of spend that the government is looking at, but what we will be addressing would be an important component of that which as you know in the government is procurement, so that is the area that we will be focussing on.

Karthik

Sir when do you expect the first conversions happening?

Arvind Thakur

You know we are already in the number of discussions, but it would be premature for me to you know communicate or commit or when do you think this will converge.

Karthik

Right and what was the transition and integration cost incurred on Room Solutions, would you have any idea on that cost?

Arvind Thakur

Beg your pardon; can you just repeat your question?

Karthik

The cost rate regarding the transition and integration of room solutions, what is the amount you have spent on this quarter until now?

Arvind Thakur

In this quarter, we would have spent I will give you a very rough estimate to the tune of about 10 million rupees.

Karthik

Okay, okay, thank you very much. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Manoj from JP Morgan.

Manoj

Yeah, hello, good evening, and again congratulations on a very good performance. Actually this is probably the first quarter where we have seen double-digit growth from you on an organic basis. I think there are two questions relating to that one is obviously what has caused is there ramp up for 1 or 2 specific large clients, so this is very broad based, and secondly what is the sustainability of this kind of growth going forward?

Arvind Thakur

Manoj, I mean, in this year we have been consistent in growth and if you have look at our growth last quarter, you know it was also 40% Y on Y and this quarter is 49% Y on Y of course Q on Q growth also is 15% organically also if you look at our Q on Q growth, it is about 11% and I would say you know this is really emerging from our strategy, which we had made out you know ever since we spun off NIIT Technologies into an independent entity, which also remain sharply focussed and scale in the areas that we are focussing on, so I had shared with you the segments than the growth in each one of the segments and as you can see there has been good growth in every segment, what you will notice is our top 5 clients contribute 40% of our revenues and our top 10 contribute 50% of our revenues, which if you have been tracking this you see that this proportion is steadily reducing over the past couple of quarters, which is showing that our revenues are becoming more broad based in the industry segments because that we are focussing on.

Manoj

Sure, so should we expect similar growth going forward as well?

Arvind Thakur

I think you know once you have two data points you know, you can make your assumptions on what will happen going forward.

Manoj

Sure, sure, and then secondly on the margins front obviously you have done a good job of managing margins this quarter and if I was to project this out not in the near term but lets say over the 2 to 3 year horizon what is the kind of sustainable you think you can look at giving the salary pressures and obviously the cost efficiencies put together, so what is a long term sustainable margin number you are looking at?

Arvind Thakur

I think we have got only improve upon these margins, you know because we have a number of levers to play with in fact you know interesting thing that seems to be happening is that if you look at the mid size players, they seem to be improving their margins year-on-year, you know by a percentage points whereas if you look at the scale players you will find that you know their margins are coming down although there are much higher levels and that is because the mid sized players have more levers to play on you know the scale players when it comes to dealing with margins, so for example, our onsite and offshore ratios you know there is a lot of player with their to improve offshore. If you look at you know the whole pyramid structure of the organization there is a lot of play over there. In our case very specifically one of the margin drivers is you know getting our BPO operations to be comfortable and in fact in this particular quarter one of the reasons why you know our margins are healthier is because we have been able to show some operating profits in our BPO business, so there are many levers to play on.

Manoj

Sure, actually the third question is actually on the BPO business itself, the business has done pretty well this quarter and grown 14% sequentially, so one is there some inorganic stuff there, and secondly how many people have to be added in BPO and how is that business shaping up now?

Arvind Thakur

Let me just search for BPO numbers, I think 106 people in our BPO business, and as you know we have been working, we have been sharing with you a focus in our BPO business has been to really work on improving margins, which is basically means that taking on processes that deliver better gross margins and that is the trend that we will continue. We will remain focussed so that we get even the business in the company in

the areas that we are focussing on because that is how you can provide better value and get better rates and also look at scaling our business in those areas.

Manoj

Sure, just one very last stuff, I actually missed the stuff on the cash and receivables, can you just give me the numbers again and is there any debt on the balance sheet just the numbers?

Arvind Thakur

Yes, our total outstanding receivables are at Rs. 1530 million and our total cash and bank balances are Rs. 1774 million and this includes a loan of Rs. 515 million, which we have taken to leverage our Room acquisition.

Manoj

So this is net cash?

Arvind Thakur

We also have some nonconvertible debentures, which is also debt on the balance sheet.

Manoj

Sure, thank you.

Moderator

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

Dipen Shah

Hello sir and congrats on a good set of numbers.

Arvind Thakur

Thank you Dipen.

Dipen Shah

Just carrying on from the last question first of all you said the net, the cash balance was 1.77 billion and the loans were about 515 million, and you had some debenture, so what would be the net cash balance if I have to strip off the loans and the net debentures?

Arvind Thakur

Okay, give me a second. It would be 982 million.

Dipen Shah

Okay, okay, that is fine, and most yeah of the other strategic questions have been answered, but just a couple of things what was the impact of the salary increases during the quarter and what was the kind of percentage increase which you gave onsite and offshore?

Arvind Thakur

We actually gave a salary increases last quarter.

Dipen Shah

Yeah, but that was only for the part of the employees significant chunk was expected to come in this quarter if I am not wrong?

Arvind Thakur

No, no, our salary increases actually happened in the last quarter.

Dipen Shah

Okay, okay, may be I am mistaken there, and on the other hand just a couple of other data points on the depreciation charges actually reduced over the quarter any major reason for that?

Arvind Thakur

So, I think that is normal retirement of assets.

Dipen Shah

Okay, so we can take the current levels as and may be work on the second quarter levels?

Arvind Thakur

Yes.

Dipen Shah

Okay, okay, and in the other income component did we have any forex gains or what did it comprise of the other income of 2.4 crores.

Arvind Thakur

Yes, we had forex gain of about 4 million rupees.

Dipen Shah

Okay, okay, it is 4 million rupees, okay, and on the Adecco front may be just looking some year there had there was some statement during that time that the potential business could be 150 million dollars over probably 4 to 5 years, so what would be your comment on that and what makes you so optimistic on this JV?

Arvind Thakur

You know, I just shared with you, it is basically you know, if you look that Adecco it is a 23 billion dollar corporation, global corporation, and you know we have been engaging at the very highest level in the organization and that is what I shared you know right in the beginning of this call for the signing and for this you know press announcements, we had the Chairman, the CEO, the CFO, and the CIO, now you know that kind of presence would not happen if it was not significant.

Dipen Shah

Yeah, I would agree to that but then figure of 150 million dollars would mean that you do have some road map and may be some plans already in place before the company has been formed?

Arvind Thakur

Yes, yes because you know we are already engaged with them, in fact, we are already doing business with them at the moment, but what is happening is currently the business that we are doing is supporting their internal IT requirement. You know, being a Fortune 500 company it has its own internal IT requirements, but the bigger opportunity is in servicing that customers you know because they deal with the Fortune 50, which we, as a mid-sized organization, don't really have accessed to, so that, is where I am, seeing the opportunity, and that is what the management team there is excited about.

Dipen Shah

Okay, okay, so may be just a question would it mean that any of the existing business which we are doing can be transferred to that JV once it is formed?

Arvind Thakur

In fact yes, the existing work that we are doing for them would get transfer to the JV.

Dipen Shah

Okay that way, but and then we will directly access any of the clients or may be there is a segregation in terms of clients where we can access and where the JV will access?

Arvind Thakur

No, no, in fact there are no restrictions on us. We are basically accessing customers where we don't have a reach, so it is really opening up a new market segment. On the other hand when they look at offshoring they are obliged to do it only in the JV.

Dipen Shah

Okay, and one last thing on the macro front any signs from any customers of some impact on the outsourcing or offshoring because of the slow down?

Arvind Thakur

You know actually my own view is that the industry is kind of is on the rise and the economic slow down in the US is unlikely to make an impact because we have been through this before and the industry has only grown when the economic slow down has happened.

Dipen Shah

Okay, and just one last thing, I don't know this has been the last 5 to 6 quarters since this NIIT Tech was spun off and we are having on the look out for a strategic partner and NIIT Limited could have off loaded their 25% stake, so what is the status if at all there is any development and what would be your comments on that?

Arvind Thakur

Okay, in the beginning of the call, I did not introduce the other participants, we have Mr. Pawar, Chairman of NIIT Technologies and also Chairman of NIIT Limited, so I will just hand over this question to him.

Dipen Shah

Okay.

Pawar

What I would say Dipen is that the strategy which we had put together we have been talking a bit for the last 6 to 7 quarters in terms of focus and differentiation it has taken a while to fall into line and you have seen that in fact if you see the last 5 quarters itself, the revenues keep ramping up from on a Y on Y basis from A to 11 to 21 to 40 to 49, and now we are above 80% of our revenues coming from the focussed verticals. So that strategy is beginning to pay off and we expect that going forward that it will express it helpfully, so right now our big pay occupation has been #1 to break the strategy work,

#2, to work on the Room integration and to get full expression, and #3 is to work on Adecco. So I think our current pre occupation is to create a much stronger position through these initiatives so that the company at least first reaches its true potential, because any discussion for anything should be done once it expresses its helpfully, so we will wait for that to happen.

Dipen Shah

Okay, right thanks very much and all the very best for your future.

Arvind Thakur

Thank you Dipen.

Moderator

Thank you very much sir. Next in line we have Mr. Ganesh from a Private Investors.

Ganesh

Congratulations sir, hello.

Arvind Thakur

Hello Ganesh.

Ganesh

Congratulations sir for great financial performance.

Arvind Thakur

Thank you.

Ganesh

Sir, I have few questions for you, recently you have entered into managed services business.

Arvind Thakur

Yes please.

Ganesh

Can you please tell us this contribution to top line; have you acquired any significant client in this particular area of business?

Arvind Thakur

Yes, currently managed services is a small proportion of our business, which contributes to about 5% of revenues and we have some large engagements in this space. The most significant being you know with one of the largest cement providers, which is wholesale and we have extended that relationship to domestic company in India, which is ACC, besides that we have other customers, you know like Tesco Lotus, a company in the UK, which is channel 4, so it is an activity, which is building up quite well for us.

Ganesh

Yeah, sir next question is as acquisition of Room Solutions brought any client in this sector to our BPO business sir?

Arvind Thakur

In fact that is an important element of our integration exercise. We have very recently got a large number of customers from Room to visit our BPO facility for them to appreciate the capabilities and how the activities of Room in the UK can be leveraged by integrating BPO operations, so we are currently in the early part of our sale cycle with them.

Ganesh

Going forward, the large expansion plans like setting up of SEZ, can you expect any right issue in near future so that we can directly contribute towards NIIT Technologies growth story sir?

Arvind Thakur

Okay, so let me first of all complete the introductions of all the people in the room, I should have done that right in the beginning, I have introduced Mr. Pawar to you. We also have Mr. Thadani, who is the member of our board, and K.T.S. Anand who is our Chief Financial Officer participating in this conference. I will hand over this particular question to Mr. Thadani.

Thadani

Well, as you can see our balance sheet is fairly strong. We have lot of cash and at this point of time, we do not have any plans of raising anymore funds. As and when we need to raise funds we will have all the options, we have opportunity to raise more debt, we have opportunity to look at other instruments as well, so we will examine them when the time comes.

Ganesh

Yeah, thank you sir. What is the attrition rate during this quarter, do you feel it is a cause of concern for mid size companies like our sir?

Arvind Thakur

Well, attrition is certainly a cause of concern for the industry as a whole, but I think the industry has been able to deal with this appropriately by appropriate induction and good strong HR policies, so I think everybody they have learnt to live by it.

Ganesh

Yeah, congratulations once again sir and it is a very great pleasure talking to you sir.

Arvind Thakur

Thank you, Ganesh.

Ganesh

Yeah.

Moderator

Thank you very much sir. Next in line we have Mr. Mithesh from UTI.

Shrivatsa

Yeah, hello this is Shrivatsa here from UTI. First of all congrats on a great set of numbers, I just had a couple of queries, one is in the Room Solutions, can you talk more what has been the revenue from Room Solutions as well as the margins, you said that there has been some impact on account of integration, can you just let us know the impact on the margins? And secondly, in terms of integration, I understand that there are 2 stage, 1 is to get right the margins in that particular business and second is the transition of customers, so how far we have progressed, I mean are you satisfied with your progress in Room Service as far as the margins are concerned?

Arvind Thakur

Well, no not at all, I think the Room margins are something that is pulling us down at this point of time, which also is an opportunity because there is plenty of scope for margin expansion. In this quarter Room as an independent entity had an operating margin of 4% so as you can see you know that is on the lower side, but going forward, we certainly expect that to enhance rapidly, because most of the transition it has been completed, but you know there are some integration costs, which still remain to be borne with the hope to deal with, you know, in the next quarter.

Shrivatsa

Okay, sir secondly like in terms of your capex plans you had mentioned a big SEZ and all what has been the status of that and what are your capex plans for the next 1 year?

Arvind Thakur

Well, first of all I am pleased to inform you that we have our approval for the SEZ as you know there has been a lot of discussion around the policies associated with the SEZ and finally you know when they got clarified we were able to get our approval, so there is a little delay in terms of the construction activity of the campus because that could be started only after we got the approval. Now that we have got the approvals and we have been beginning to make those investments.

Shrivatsa

Okay, sir can you just share with us what has been the revenue of Room Solutions this quarter, if possible?

Arvind Thakur

Room's revenue on this quarter is 278 million.

Shrivatsa

Okay, fine, sir in terms of your focussed vertical, I think the strategy is paying off in the last 4 to 5 quarters, but I just wanted to understand and each of your key areas, how do you stack with the leading players, for example, in Insurance or in Transportation and are we seeing some incremental clients win against those I mean the top offshore players in those spaces?

Arvind Thakur

Yes, indeed, in fact I think in the travel and transport space, we are among the leaders, in fact, if you look at our revenue, we are among the top 3 in the IT services space and we compete very, very effectively and we have been winning business against the top players globally. Now with the acquisition of Room, we are now a very significant player in the insurance space and again you know we compete very, very effectively with them in this space as well.

Shrivatsa

Okay and in retail?

Arvind Thakur

I think in retail, I would not say we have that kind of distinctive edge as we have in travel and insurance, so we compete, but you know we compete more effectively in travel and financial services.

Shrivatsa

Okay, fine, sir in terms of your customers, can you give us a color as how many would be 1 million dollar plus or you know, is it possible to provide some figures on that account or how much of Fortune 500 or Global 1000 customers in your total customer list?

Arvind Thakur

I can at this point of time just share with you the million dollar clients that we have which are 31.

Shrivatsa

Okay, and how much was this figure a year back?

Arvind Thakur

Year back it was in the 20s, you know something like 23, 24, or 25.

Shrivatsa

Sir in terms of people are we having a larger intake of freshers, I mean like what would be the composition of freshers in the total intake and do we see some room of improvement as far as this matrix is concerned?

Arvind Thakur

Yes, I don't have the figure of freshers, but yes, you know when you are comparing with the scale players, I think there is a definite scope of improvement, which is why I said in the earlier part of the call that that is one of the drivers that are still available for us to leverage to improve our margins.

Shrivatsa

Okay, sir just one final clarification, I mean how is this Adecco JV proposed to be accounted, will it be part of the top line or it will come and share of profits and associates?

Arvind Thakur

I don't know the exact accounting standards, but I think, but what will happen is that line by line there would be 50% allocation to NTL.

Shrivatsa

Okay, fine, okay, thank you, and wish you all the best.

Arvind Thakur

Thank you.

Moderator

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

Gaurav Dua

Yeah sir, sir how many was the SG&A?

Arvind Thakur

Our SG&A is 20%.

Gaurav Dua

20%, so it was this thing largely this is flat right as this percentage of sales?

Arvind Thakur

I think improved a percentage point when I look at it, half a percentage it has improved.

Gaurav Dua

Half a percentage it is improved.

Arvind Thakur

Yeah.

Gaurav Dua

Okay, okay sir, fine, thanks.

Arvind Thakur

You are welcome.

Moderator

Thank you very much sir. Next in line we have Mr. Prateesh Krishnan from DSP Merrill Lynch.

Prateesh Krishnan

Just to understand on the top line growth again, what is the benefit in the rupee at this point of time?

Arvind Thakur

I am sure there would have been some benefit because as you know 50% of our revenues come from Europe, 33% from the US, so there would have been I think a pound was appreciated about 2% and the dollar depreciated about 1.2%, so I think there is a marginal benefit which we would have got from the overall appreciation.

Prateesh Krishnan

Is this possible to quantify I mean in terms of the volume?

Arvind Thakur

You can do a quick calculation, I don't have it immediately with me, but you know you assume that the pound appreciated 2% and the dollar depreciated 1.2.

Prateesh Krishnan

Okay, second in terms of the order book I mean you are finding this quarter, I mean is it possible to give some sense of which verticals were they, whether some alliance, banking and financial.

Arvind Thakur

Yeah, actually, we had one in the airline space, one in the financial services space, one in the insurance space, and two out of.

Prateesh Krishnan

Could you also share the overall order book, I mean going beyond the 12 months time frame?

Arvind Thakur

No, because you know what we have been requested for by the analysts is to share with us what is executable over the 12 months.

Prateesh Krishnan

Lastly, in terms of the BPO, I mean how do you see the margins standing in this next two to three quarters?

Arvind Thakur

What we like to see is for the full financial year, we like to see operating margins, you know in the first quarter we had a minor negative, at this time we have minor positive, but overall for the year, we will have a positive operating margin.

Prateesh Krishnan

So but can it you know probably improve towards may be in year double digits kind of levels?

Arvind Thakur

Unlikely, this year certainly not.

Prateesh Krishnan

Okay, thank you.

Arvind Thakur

And this year certainly not.

Prateesh Krishnan

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Anuj Sharma from ASK Raymonds.

Sanjay Parikh

Yeah, this is Sanjay Parikh, congratulations on a great set of results.

Arvind Thakur

Thanks Sanjay.

Sanjay Parikh

First of all, I was just trying to segregate your revenues between Room Solutions and other revenues, and just if I am wrong please let me know, you know last quarter you had Room Solutions for 2 months.

Arvind Thakur

That is right.

Sanjay Parikh

If I remove that, your overall top line growth was 10.6% is that right?

Arvind Thakur

11% yeah.

Sanjay Parikh

Okay, secondly, you know what would be the volume growth this quarter?

Arvind Thakur

I think that was what the earlier participant was asking me, I don't exactly have it but if you just assume a 2% improvement in GBP and 1.2 reductions in dollar terms you will get to understand the price element and the rest is volume.

Sanjay Parikh

Okay, fine, so largely it is driven by volumes?

Arvind Thakur

Absolutely.

Sanjay Parikh

Okay, secondly, in terms of your renegotiations and new contracts that you are getting, can you just throw some light on the pricing?

Arvind Thakur

There is actually no pricing pressure, there is a marginal improvement in the new contracts that we are getting.

Sanjay Parikh

And even the existing renegotiations?

Arvind Thakur

In fact in many cases and even in existing customers, we have been able to get a better rate.

Sanjay Parikh

By what magnitude is the same as industry is getting it?

Arvind Thakur

About 2 to 3%.

Sanjay Parikh

One more thing just you know when you have so much of cash then why to raise debt and you know using leverage as a help, so why not just reduce the cash and not raise debt?

Arvind Thakur

That is because you know we are on growth phase and there are two things, one is you know inorganic initiatives are an important component of our overall strategy, and the

other is you know we are building this huge campus for which we needed funds, it is just that it got delayed because of you know issues pertaining to the SEZ policy.

Sanjay Parikh

Okay, if I take even plan there of 100 crores you know your accruals this year and next year would be in excess of 300 crores put together, so you don't have and I am just roughly so even if you take a stable, so if it is that sort of numbers, if you take accruals for 2006-2007, and 2007-2008 then why is this cash when you have got so much of cash flows coming in?

Arvind Thakur

See there is always a possibility of repaying the loans, but I think what as I mentioned to you we have fairly aggressive inorganic programs you know also to support because you know our overall strategy is in line to building strong capability in the areas that we are focusing on, so we don't want to land up in a situation where you know we are strapped to cash to be able to prove some of these initiatives. There is also you know, we have only acquired 51% of Room Solutions, the balance too has to be funded, so for all that cash is required.

Sanjay Parikh

That 50 you will do it in step or one go straight?

Arvind Thakur

It will be in two more steps, we will do 24% in this quarter, coming quarter, and then another 24% earlier next year.

Sanjay Parikh

How will be the valuation based on?

Arvind Thakur

Well you can say it roughly little less than 1% revenues which is about 24 million dollars.

Sanjay Parikh

Okay, just one more thing you know, though Room is a very small part now, but if I take the last year fourth quarter, this year first quarter and this year second quarter and considering Room Solutions' margin of 8%, then you have actually increased your margins better.

Arvind Thakur

Organically yes, in fact organically we expanded our margin, the way it actually got depressed because Room's margins were less.

Sanjay Parikh

Okay, fine, so going ahead your levers like onsite offshore or Room Solution increasing or even BPO turning around and all this could trigger you know overall margin being definitely better right?

Arvind Thakur

Yeah, exactly, that is what I had mentioned earlier.

Sanjay Parikh

Okay, and last year your utilization level has gone up substantially this time.

Arvind Thakur

Yes.

Sanjay Parikh

You are planning to ramp up now aggressively because I think it is 81 is slightly higher number I suppose?

Arvind Thakur

Yes, 81 is actually fairly optimal, so now if you look at our intake last year, you know they were in the 100 to 150 range, and you know this year it is in the 300 range every quarter.

Sanjay Parikh

Okay, and on the BPO next year do you expect margins may be you know going up to say 8 to 10% or you will not do want to hazard a guess?

Arvind Thakur

I think, yeah, let me just tell you our goals. Our goal is to have an operating profit in this year and net profit next year, so you know that would require margins to be about 17%.

Sanjay Parikh

Net level still it would take time, I mean it would definitely be equal to at the net level next year.

Arvind Thakur

Yes, that is our goal next year.

Sanjay Parikh

Okay, great, great set of numbers.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Shekar Singh from ICICI Securities.

Shekar Singh

Sir, congratulations on a very good set of numbers, just one data point which I missed last quarter was like how much was Room Solution's revenue and profits in the previous quarter that is in April-June 2006 quarter just to compare it with what is the growth?

Arvind Thakur

Okay, now you must remember that previous quarter you know we acquired the company.

Shekar Singh

Yeah, it was only for 2 months consolidated.

Arvind Thakur

Yeah, 54 days.

Shekar Singh

54 days, okay.

Arvind Thakur

Okay, so the revenues there were 174 million.

Shekar Singh

Okay and what was the profit margin at that time.

Arvind Thakur

Profit I don't have.

Shekar Singh

Okay, this quarter it is 278 million and 4% margins.

Arvind Thakur

That is right.

Shekar Singh

Okay, secondly sir, can you just give me what is the total amount of NCDs that is outstanding right now, nonconvertible debenture?

Arvind Thakur

Yeah, just a second.

Shekar Singh

Yeah.

Arvind Thakur

250 million.

Shekar Singh

Okay, yeah. So basically, there has been some repayment of around 150 million.

Arvind Thakur

150, yes there is a repayment.

Shekar Singh

Sir, lastly like on as far as Adecco is concerned when do we when can we start seeing revenues coming from Adecco?

Arvind Thakur

See revenue is already happening from Adecco, but the revenues from the JV will perhaps start happening from the next financial year.

Shekar Singh

Next financial year?

Arvind Thakur

Yeah.

Shekar Singh

Okay, yeah, thanks a lot sir, and congratulations on a very good set of numbers.

Arvind Thakur

Thank you.

Moderator

Thank you very much Sir. Participants who wish to ask questions please press *1 on your telephone keypad. Next in line we have Mr. Manoj Shroff from Prague.

Manoj Shroff

Hello sir.

Arvind Thakur

Hello, Manoj.

Manoj Shroff

Congratulations.

Arvind Thakur

Thank you.

Manoj Shroff

Sir, I just want to get something which is repeated, I just wanted to know did I hear correctly of the potential of the Adecco JV to be 150 million in 4 to 5 years?

Arvind Thakur

No, I did not say that somebody posed that question to me.

Manoj Shroff

Okay, so we don't have a view on what the potential will be going forward?

Arvind Thakur

Very high potential is what I can say.

Manoj Shroff

Okay, and sir the depreciation has come down is there a reason I think you mentioned the reason for that?

Arvind Thakur

Yes, we have retired, In the normal due course, we have retired a lot of assets.

Manoj Shroff

Okay, thank you so much.

Arvind Thakur

You are welcome Manoj.

Manoj Shroff

All the best for future.

Arvind Thakur

Thank you.

Moderator

Thank you very much sir. At this moment there are no further questions from the participants. I would like to hand over the floor back to Mr. Arvind for final remarks.

Arvind Thakur

Okay, thank you very much for your views, suggestions, and all the encouragement that you have given us, and being with us on this call just before Diwali, and let me just wrap this whole conversation up by wishing you all a very happy Diwali both to yourself and your families. Thank you very much.

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 and have a wonderful evening.