

## "NIIT Technologies Q3 FY'11 Results Conference Call"

January 18, 2011





MODERATORS: MR. RAJENDRA S PAWAR – CHAIRMAN, NIIT

**TECHNOLOGIES** 

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**Moderator:** 

Ladies and gentlemen, good evening and welcome to the NIIT Limited Q3 FY'11 conference call quarter ending December 31, 2010. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "\*" and "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Arvind Thakur, CEO, NIIT. Thank you and over to you, Sir.

**Arvind Thakur:** 

Thank you, very much. Good evening everybody. Many thanks for joining us on this earnings call. I do understand there are a lot of parallel earnings calls going on for the industry at this point in time. I appreciate your time and effort in engaging with us. Before we get into the results, I would like to just comment a bit on what we see in the environment. For about a year and a half we have all been seeing substantial global recovery mainly led by the high growth emerging economy. Masses and now recurring stimulus has helped the developed economies to change their markets. Growth in good measure has been supported by fiscal policies. For example, in the US they have added a lot of liquidity through extended period of both short-term borrowing cost and the continuation of fiscal support at least till 2012. In Europe support from the EU, ECG and IMF are in extended bailout to the debt ridden countries, the latest being Ireland has also been very supportive. We have also seen some weakening in the US dollar and Euro in the Europe that have helped boost exports, but more significantly the gradual credit tightening in the emerging economies has not derailed their economies.

Clearly the growth seen in the developed world is not yet still sustaining, rather it is still being supported by a lot of stimulus. In Asia we saw the first half of the year with sizzling performance particularly by small countries as well as by the large economies of India and China, but in China there appears to be an intentional slowdown largely to exit from the stimulus program launched to combat the crisis. RBI in India also for example has pushed up its key rates in what would be the fifth great hike in this year. In this new economic order while the developed markets would still dominate global business, emerging markets in general and Asia in particular will determine the fortune of global business. Building a balance legal portfolio therefore would be crucial for sustainable growth.

Specifically for the industry what we are seeing is that spending is continuing in the BSFI space with regulatory compliance acting as a catalyst as well as improve discretionary spends. For the travel and transport segment which is the other area that we focus on and industry body IATA has revised the outlook to a net profit of \$15.1 billion on account of improved passenger traffic as well as air cargos going. Passenger traffic has grown 8.9% and the air cargo by 18.5% as we have seen improved activities in the travel space. With clients slowly coming out of recession, traction in manufacturing and retail remains moderate. The nature of IT spend in these organizations are moving to the fringes rather than focusing on internal cost optimization. So the focus is on supply chain optimization as well as on the customers and on revenue focus. That is the activities happening in freight, manufacturing and distribution phase. With the passage of the healthcare



bills in the US last year, we expect to see a good demand traction in this segment with increased push on timely compliance. So this in nutshell is the sense that we get in the environment and it is with this backdrop I would like to share with you our quarterly results for the third quarter of this financial year.

The revenue for the quarter was at Rs.3006 million, which is up 30.6% year-on-year. You would recall in my last quarterly call I had advised that there would be a decline in sequential revenues due to the lower component of bought out in the large turn-key project that we are executing for BSF. Bought out last quarter were about 50 Crores. This quarter they are about 15 Crores. If I exclude the bought outs which are really pass through items, the revenues excluding bought outs is Rs.2857 million. This is a year-on-year growth of 24.2% and a sequential growth of 5.5% quarter-on-quarter. For the purpose of revenue analysis I will exclude these bought outs so as to provide a comparable picture with the earlier period. So there were all round sequential in each geography serviced by the company. In India if I include bough outs then there is a decline, but excluding the bought outs we have seen sequential growth here as well. Revenue share from the US and Europe now account for 35% of the total revenues each. So US are 35% and Europe is 35%, both equally contributing to the overall revenue. The balance 30% of the revenues is accrued from Asia and Australia. As you can see this reflects a very balanced revenue mix for our business across the world. We experience sequential growth in the BSFI and travel and transport segment, which contributed to 41% of the revenue mix for BSFI and 32% for travel and transport respectively. Manufacturing and distribution represents 9% of the mix and 10% of revenues during the quarter were generated by business with the government.

The offshore component of our revenues increased to 43% and overall utilization of the company from direct resources was at 84%. Focusing a little bit on margin, the consolidated operating profit of the company stood at Rs.622 million, which is up 22.7% year-on-year and has grown 4.9% sequentially. Operating margins sequentially by 243-basis points and our operating margin for this quarter is 20.7%. Reduced incidence of bought outs for the quarter has contributed to this margin expansion. Net profit for the quarter increased to Rs.478 million, which is up 35.3% over the same period last year and 9.8% sequentially quarter-on-quarter. Increased net profit on an account of improved operating profits as well as an increase in other income as compared to earlier period. \$50 million of fresh orders were secured during the quarter, which included four new clients, one in BSF; there were two in travel and one with the government of Singapore. This has resulted in orders executable over the next 12 months to US \$137 million.

We added 364 people during the quarter taking our total headcount to 5358 staffs, 22% of our direct manpower is onsite. Attrition remains stable during the quarter at 18.4%, it was 18.6% last quarter and we structurally consolidated our European operations and a new head so we inducted Mr. Sunil Surya as the President of Europe. Sunil comes with enormous experience of the industry and the market and will provide sharp focus to build our business in the region. We also formulized a healthcare practice with the induction of Dhamu Narayanan as Senior Vice President and Practice Head for this newly formed practice. Dhamu is also an experienced business leader with over 25 years of experience of which the last 10 years has been in building



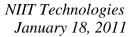
technology solutions and business in the healthcare vertical. Healthcare globally is going through major changes in most countries predominantly driven by the need for easy reach of high quality care at a low cost. For this standardization and rationalization of processes are being accelerated with the use of technology and the United States is leading these initiatives. Our focus in this vertical therefore would primarily be in the US market.

As you may be aware healthcare spend in the US is about 17% of their GDP of which the IT spend exceeds US \$50 billion. The Obama administration is introducing major reform in standardization and rationalization of the healthcare processes that effectively handles the wellness of the population. This is creating many new opportunities through discontinuities resulting from the shift in focus from the pairs to the providers where the center of activity is moving from health plan to the patient care. Our entry into this segment is around the opportunity presented by this discontinuity. As a center of patient care our Electronic Health Record based on the standardization of healthcare processes Electronic Health Records are becoming mandatory to ensure seamless transfer of data between multiple entities. Our focus is in the care management domain, which is the market expected to grow from the current US \$575 million to US \$1.6 billion in 2013

To facilitate our entry we have acquired a cloud based referral management platform. We call it "Preferr", which enables seamless collaboration between all providers namely physicians, hospitals, diagnostic facilities, and laboratories. The platform enables providers to meet the Federal guidelines for Electronic Health Record meaningful use and is deployed on the cloud with service being rendered in a fast mode. So our plan is to extend the care coordination capabilities to embrace healthcare self-service, which we believe will open up another segment of a billion US dollars through a solution called MASH, which is currently under development. Our entry into healthcare would be around solutions that are non-linear, leveraging our technology pedigree with innovations in mobile, SaaS, which is Software as a Service, and Cloud Services. So this is an exciting new area that we are entering into in the US.

Looking at our balance sheet cash and cash equivalence now stands at Rs.1298 million. We have seen our debtor days improve to 94 days of sales outstanding primarily on account of significant collections from our government engagements. The total CapEx consumed during the quarter was Rs.129 million. We had just received our second letter of provision to start in our STG unit in our campus. We expect to spend Rs.215 million in the last quarter to complete the work so as to make it operational in the first quarter of the next financial year. In all Rs.275 million would be the approximate spending in CapEx in the final quarter in this financial year.

Almost the entire infrastructure has been delivered to BSF. So the bought out component in Q4 would also considerably reduce. Consequently, we would expect only marginal sequential growth in the coming quarter even as services revenue continues to rise. We expect margins to improve further and we should end the year I would say we should full year with an industry leading growth for the full year.





So with these opening remarks I will be very happy to address your queries and listen to your comments.

Moderator: Thank you, very much Sir. The first question is from the line of Madhu Babu from Systematix

Shares. Please go ahead.

**Madhu Babu:** Sir, what is the hiring outlook for CY'11?

Arvind Thakur: Well, we do not give any specific guidance, but as you would have seen our hiring which used to

be typically about 200 per quarter has already started exceeding 300 per quarter. So you may

want to just extrapolate that trend going forward.

Madhu Babu: So would that trend continue? Can we assume that around 300 net additions per quarter would be

done?

**Arvind Thakur:** That could be an assumption that you can make.

Madhu Babu: Going into FY'12 what are the drivers for revenue growth, which are the verticals would you

expect to outperform?

Arvind Thakur: Well, as we have seen there is continuing trend happening in the BSFI space. We have seen a

very strong traction in the travel and transport space and I shared with you the industry numbers in terms of the recovery that has happened in the industry and as you know travel industry is very technology intensive, so we hope to scale and grow our business in the travel and transport space. The manufacturing distribution has been subdued. There has been slow recovery out of the recession. Hopefully in the next financial year we will see a better traction in that space and we expect faster growth in the emerging markets and the Asia region, so lot of our focus would be in putting the organization together to service those markets. Good news is that our business is balanced in terms of its revenue mix and that creates a good platform for sustainable growth

going forward.

**Madhu Babu:** Sir, this 10% revenue growth from government does that include BSF or does it not include that?

**Arvind Thakur:** That includes BSF. It does not include the BSF bought out.

Madhu Babu: Last question, the top 10 and top 20 over the last four quarters there has been a strategic decline

in their contribution as a percentage of revenues, is there any moderation in growth in those

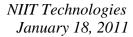
account or is there any area of concern there?

**Arvind Thakur:** They have been growth but what we are seeing is that our million dollar clients are also growing.

So in fact this quarter we have \$40 million clients, so you can see that has increased from 36 last

quarter, so it is becoming more broad based.

Madhu Babu: Thanks. That is it from my side.





Moderator: Thank you. The next question is from the line of Sanjeev from Sharekhan. Please go ahead.

Sanjeev Sanjeev: This is Sanjeev. This is pertaining to "Preferr" recent acquisition, so what are the plans and

outlook for the same? And any revenue target for this new platform?

Arvind Thakur: Well this is something, which I have been saying earlier this year we are just looking at making

an entry into the healthcare space. It is a new area for us. I think we have chosen a space, which is significant discontinuity. There are not a lot of players who are already established in this space. We have chosen a platform that is current state-of-the-art Cloud Based, would be offering these solutions in a SaaS mode. I think we will be testing out the business model in this quarter and the next quarter to get a better picture of what could be the revenue growth that we can expect around this. I've given you a sense of the market size opportunity in this very niche area it is a billion dollar, which can become \$2 billion. So to my mind it is very early at this stage to make any prediction on the kind of revenues that we can expect, but we are very optimistic that we have chosen the right platform in the right niche since we may be there with the solution at

the right time.

SanjeevSanjeev: Fair enough, and second question pertains to the cash and cash equivalence. This quarter has

declined by close to 26 Crores QoQ, so pertaining to the amount we paid to the acquisition and

CapEx during the quarter?

Arvind Thakur: Partly for that, but a significant portion is for the supplier payments for the bought outs that we

have implemented in the Border Security Force. We have already started getting money from BSF against that, which is the reason why you see our debtor days have improved from I think

104 last quarter to 94 this quarter.

Sanjeev Sanjeev: Third question is regarding during the last concall you have mentioned about the potential deal

for this in Cloud Computing space and without partnership system, so what is the update here?

**Arvind Thakur:** In fact, very encouraging. We have actually got three pilots, but since they are pilots we are not

talking about it. I think each of them have potential to scale. One thing is it will give us the experience to engage effectively in this space. The "Preferr" platform is Cloud Based that is

going to be another big foray that we will be making in the Cloud Computing area.

**Sanjeev:** How much is invested in this initiative?

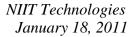
**Arvind Thakur:** In what, in "Preferr"?

**Sanjeev:** In Cloud Computing platform?

Arvind Thakur: Cloud nothing, because we are partners with Hitachi. The infrastructure is Hitachi's. So we are

leveraging that infrastructure. Hitachi owns the Cloud and we manage the Cloud. So that is the

arrangement.





**Sanjeev:** What is the ROOM solution revenue for this quarter can you give us the margins?

**Pratibha K. Advani:** Above 300 Crores.

**Arvind Thakur:** Rs.306 million in the revenues from ROOM and margins standalone is 25%.

**Sanjeev:** If you could give us DIS revenue please?

**Arvind Thakur:** DIS is Rs.237 million.

Sanjeev: In the press release you have given the non-linear revenue grew by 8% QoQ and contributed

27%, if I am not wrong last quarter also it has contributed 27% of the total revenue?

**Arvind Thakur:** Yes. It contributed the same number to total revenue.

**Sanjeev:** So if you calculate 27% of excluding the BSF it is coming at around 5.5%?

Arvind Thakur: Have you excluded BSF in the 8% growth? So that is correct. Your calculation is correct.

**Sanjeev:** I will come back for the followup. Thank you.

Moderator: Thank you. The next question is from the line of Shraddha Agrawal from B&K Securities. Please

go ahead.

Shraddha Agrawal: Firstly, just wanted to check on the forex loss, which has been booked on your revenue line?

**Arvind Thakur:** Rs.51 million.

Shraddha Agrawal: Secondly, we see strong hiring, but somehow that is not commensurate with the slowdown in the

order booking for this quarter from \$60 million of fresh order booking I think that number has come down to close to \$50 million. I mean strong hiring does not actually tally with this

slowdown in order books. So any comments there?

Arvind Thakur: Actually, one very significant order, which was to have closed in December has slipped into

January and so that is now in our bag, so basically you hire against your pipelines and it is just

going to support that.

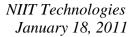
Shraddha Agrawal: Thirdly on BSF, last quarter if I am not wrong, probably we had indicated revenue to close to

Rs.23 Crores to be booked for this quarter, and we have booked something like Rs.15 Crores and we are also not guiding towards the very strong BSF booking in the Q4. So what has actually

happened on the hardware side of the BSF?

Arvind Thakur: Rs.15 Crores is the hardware part, the bought out, besides that there are services and many other

things.





**Shraddha Agrawal:** But last quarter you were talking about Rs.23 Crores of bought out itself.

**Arvind Thakur:** So that is only Rs.15 Crores so the balance would slip over to the next quarter.

**Shraddha Agrawal:** So what would be the total quantum of bought out, which we are indicating for 4Q?

Pratibha K. Advani: 10 Crores.

Shraddha Agrawal: 10 Crores of bought out and secondly, Pratibha would it be possible for you to share the break-up

of other income?

Pratibha K. Advani: Income from mutual funds is Rs.13 million, income from exchange is a negative of Rs.8.9

million and non-operating income is Rs.9 million, and the interest income is Rs.13.4 million.

Shraddha Agrawal: And on margins if I am not wrong probably we also had some staggered impact of salary hike. I

do understand that there was an improvement on utilization and secondly probably due to a strong margins coming in from ROOM solution but despite salary hike we have been able to

better our margins, so any colour there, what has really gone into margin improvement?

Arvind Thakur: Margin improvement again as I explained earlier it is contributed because of less bought out. So

the lesser bought out, the better margin will be.

**Shraddha Agrawal:** Sir, what is the quantum of cost of bought out in this quarter?

**Arvind Thakur:** About Rs.50 Crores that is what I said.

**Shraddha Agrawal:** Sorry. I missed out. That is it from me. Thank you.

Moderator: Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go

ahead.

**Dipen Shah:** Just a couple of things, first of all on the non-linear initiatives which contribute about 27% could

you just throw some more light on which are the major areas and which are the major platforms,

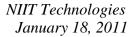
products, which are leading to this 27% of revenues?

Arvind Thakur: Yes, I will do that. So there are two components to it. One is the managed services component

which is about 13% of our revenue and the other are the platforms around which we offer solutions, which contributes to 14% of our revenue. The third is Cloud services where it is very insignificant at this point in time. These are the three components. Platforms that we are talking about are the platforms that we provide out of the ROOM solution, platforms that we provide through our airline solution, which are our revenue accounting platform and the platforms where

we are partnered with our clients to provide solutions like our cargo ground handling solution.

These are the platforms around which linear and non-linear.





Dipen Shah: Fair enough. In terms of the salary increments and attrition rates how do you see them going

ahead and whether you see any pressure coming from this area anymore?

Arvind Thakur: Yes, I think, there will be continued pressure as far as both these elements are concerned salary

increase as well as attrition, but I think, we have been able to manage attrition well. Our attrition is at 18.4%, which to my mind is very, very manageable because these were attrition levels at which we were operating before the recession/slowdown. As far as compensation increase is concerned we did one increase in the third quarter and I think we will definitely have to do an increase in April. So those pressures will continue to be there, but I believe these are all issues,

which are business as usual, and we should be able to manage them.

**Dipen Shah:** We had one salary increase for offshore employees in the second quarter. So what was the

increase in the third quarter and was it for onsite employees?

**Arvind Thakur:** No we had salary increase in the first quarter for offshore. We had salary increase for onsite in

the second quarter. We had salary increase offshore again in the third quarter.

**Dipen Shah:** How much was that?

**Arvind Thakur:** I believe it was 5% or 6%.

**Dipen Shah:** 5% for all offshore employees in the third quarter. In the fourth quarter any increments for the

onsite people expected?

**Arvind Thakur:** Not onsite, but we may give to a certain section where we are seeing higher attrition.

**Dipen Shah:** Fair enough. Thank you, very much. I will come back for more later.

Moderator: Thank you. The next question is from the line of Premchand Rao from Axis Bank. Please go

ahead.

**Premchand Rao:** You mentioned that healthcare is going to be your focus area going forward. What about other

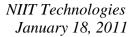
areas? You are looking at inorganic growth in other areas as well?

Arvind Thakur: You see, the whole approach that we are taking to our business is to build strong specialization

and so you will notice that we are very sharply focused only on a few industry segment and so it is not that we want to broad base ourselves, in any industry segment that we chose we want to build strong specialization. So I think we will just stay with healthcare for sometime. There is enough headroom. We are identifying a lot of discontinuities, which are big opportunities and this Cloud it is a level playing field, and we believe we can take advantage of that and scale our

business rapidly.

**Premchand Rao:** You are looking at inorganic growth in this healthcare space or it is going to be organic?





Arvind Thakur: Well to some extent we have done a little inorganic activity by acquiring the platform around

which we are going to be providing these services. So to my mind we have to invest in that platform to be able to deliver more services, so that would be the primary focus as far as

healthcare is concerned.

**Premchand Rao:** Thank you, Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Karan Torani from Pinc Research. Please go

ahead.

**Karan Torani:** Can I have the average realized exchange rate for this quarter?

**Arvind Thakur:** 45.17.

**Karan Torani:** Sir that means in USD revenue if you see excluding the hardware it is a 9% growth, 45.17, it was

2857 million is your revenue excluding the hardware. So 9% downturn growth can you give the

break-up of this across currency, pricing and volume?

Pratibha K. Advani: Our volume growth in Europe has been 1%, in America it has been 5% and in the APAC region

it has been 8% and the contribution from dollars is 42%, from Euro it is 7% and from Sterling's it

is 21% and from INR it is 16%.

**Karan Torani:** Any pricing improvement in this quarter?

**Arvind Thakur:** No pricing pressures in this quarter.

**Karan Torani:** But going forward do you see price improvement?

**Arvind Thakur:** It is probably likely to happen.

**Karan Torani:** But in Europe the constant currency can you give the number?

**Arvind Thakur:** May be we can take it offline. We may not have that number immediately.

Karan Torani: Sure, Sir. The deal pipeline going forward for the next year for the budgeting pipeline can you

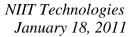
give any colour on that?

**Arvind Thakur:** Pipeline is evolving very well. We have a number of deals in the tune to \$50 million range,

which are good size deals for us that we are pursuing. So we are seeing a lot of traction in the managed services area, which is one of the areas of focus because it is a non-linear business activity, so we hope that could be one space in which we would have much better traction going

forward.

**Karan Torani:** Thanks Sir. That is all from my side.





Moderator: Thank you. The next question is from the line of Amar Maurya from India Nivesh Securities.

Please go ahead.

Amar Maurya: I want to know particularly on the bought out, I missed out that particular thing. What is it for

this quarter? What is the bought out number?

**Arvind Thakur:** It is about 15 Crores.

**Amar Maurya:** In Q2?

**Arvind Thakur:** About 50 Crores.

**Amar Maurya:** So if I exclude that then there is a sequential growth in revenue, right?

**Arvind Thakur:** 5.5%.

Amar Maurya: Second thing is can you put some color on this deals particularly the deal in terms of business

segments you have the deals right now, the 137 Crores of this order particularly in which all

segments?

**Arvind Thakur:** You are talking about the executable over the next 12 months?

Amar Maurya: Yes, current deals, 60 Crores of deal win, particularly in which all segment?

**Arvind Thakur:** I do not think we immediately would have that break-up. We will have to take it offline.

**Amar Maurya:** Fine. That is all. Rest is all answered for me.

**Moderator:** Thank you. The next question is from the line of Srinivas Sheshadri from RBS. Please go ahead.

Srinivas Sheshadri: Firstly on the order book, again just to persist on the previous question. If I look at the numbers

primarily from the US, the order book intake for the nine month period for this year has been significantly below what we have been trending for the previous year. Just wanted to understand is there some weakness pertaining to the US geography that you see or what exactly is driving

this number?

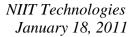
**Arvind Thakur:** We have not seen any weakness. I think in the US there are many orders, but these orders are

coming from our existing clients and they have followed orders. So the big deals that we used to see in the past are becoming less frequent so probably that is the reason why you are not seeing intake in the US, but if you see our revenue growth there has been sequential growth happening

through the years in the US, so I do not think there is anything to be concerned about.

Srinivas Sheshadri: So Arvind, in case of a normal ramp up of existing project that is not accounted in this order

intake, that is what you are saying?





**Arvind Thakur:** Yes, only if there is normal ramp up then you just take the revenues of the quarter as intake.

Srinivas Sheshadri: Right. Just to understand you mentioned that there was one order, which kind of slipped into the

next quarter because of which the overall numbers look a little weak. Would you be able to quantify what would be the order intake this quarter if we were to include that order in this

quarter?

**Arvind Thakur:** Unfortunately, we still do not have permission to disclose, but just to tell you it would have taken

our intake beyond last quarter numbers.

**Srinivas Sheshadri:** You mean last year or last quarter?

**Arvind Thakur:** Last year and last quarter.

Srinivas Sheshadri: Secondly, on the utilization that appears like you have been fairly aggressive in driving

utilization over the past couple of quarters. Just wanted to understand, is this a sustainable utilization level or should this kind of come down once you have a more of a training mix in your hiring? Also on your forward guidance of say 300 additions per quarter what will be the likely

training of some lateral mix?

Arvind Thakur: I think this is pretty much optimal. I do not think we can go beyond these levels in terms of

utilization. But if you look at the past we have been hovering about between 80 and 84.

**Srinivas Sheshadri:** So we would look to be somewhere in that range?

**Arvind Thakur:** Yes.

**Srinivas Sheshadri:** Regarding the hiring pattern of freshers versus laterals going forward?

Arvind Thakur: I think we will be adding more freshers. We have been focusing a lot on laterals, but going

forward we would definitely be adding more freshers because we have to continuously keep

improving the cost structure of the business.

**Srinivas Sheshadri:** So would it be like a 50:50 mix or would it still be more predominantly laterals?

**Arvind Thakur:** No, it would probably be a 50:50 mix.

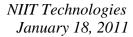
Srinivas Sheshadri: Then the other question I had is in terms of ROOMS solution. It seems to be doing very well both

in terms of the revenues as well as the operating margins. So just wanted to understand where is the growth coming from. Is it like your licensed revenues are picking up or is it like you are

acquiring new clients. If you can just throw more light on what is happening?

Arvind Thakur: Yes, both. This is what we truly call non-linear business. So there is an element of licensed

revenue and there is an element of services and there is an element of continuous maintenance.





All three factors are contributing to the growth. We have been acquiring new customers. Our existing customers have acquired new organizations and we are moving our platform into the new organization. So we are benefiting from post-merger consolidation and I think that is also contributing significantly to our ROOM revenues.

Srinivas Sheshadri: Should this kind of quarter-on-quarter growth rate, which you have seen recently, sustain going

forward as well?

**Arvind Thakur:** Well that is our hope, Srini, but you know, if licenses do not happen then there could be a dip.

Srinivas Sheshadri: Any sense on you can get on how much would be the license revenues in current kind of business

in the last quarter?

**Arvind Thakur:** We do not segregate the license fee. It is built into the complete package. So the license fee also

is spread across the duration of the contract.

Srinivas Sheshadri: Then also on your GIS business there again we have seen a fairly good growth happening

through the nine months of this year, so just wanted some sense on that as well because when as I understand there is a fairly good traction of the APDRP contracts, which would probably sustain till the time the contracts have been awarded, but just wanted to understand till what period you see this kind of very high traction in the business and when do you see kind of growth rates

normalizing?

Arvind Thakur: GIS is a high growth area. But lot of our focus in GIS is in the domestic market and I think we

are beginning to see much greater adoption of this technology. APDRP is just one example, but there are many, many government departments, which are investing in GIS. I think this is a high growth area for us, and by virtue of the fact that this is strong specialization for us as a company;

we are going to benefit a lot from this traction that we see in this area.

Srinivas Sheshadri: Arvind, also just wanted to get some sense on the attrition; attrition numbers seems to have

stabilized quarter-on-quarter, but if you could share also the number of people who have left the

company this quarter as well as last quarter?

Arvind Thakur: What number I gave you was net additions. So let me just see if there is a simple calculation,

which is available. So gross additions are 908 and 544 have left.

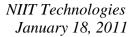
**Srinivas Sheshadri:** And similar number for the last quarter as well?

**Arvind Thakur:** 1004 joined and 595 left.

Srinivas Sheshadri: Great, and finally just wanted your outlook on the tax rate for FY'12 after the STPI benefits go

off?

**Arvind Thakur:** It would be pretty high.





**Srinivas Sheshadri:** Any number you can quote now?

**Arvind Thakur:** I would say upwards of 25%.

**Srinivas Sheshadri:** Thanks. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Sangam Iyer from Alfa Accurate Advisors.

Please go ahead.

Sangam Iyer: Just one; in terms of our margins for the core business, if we remove the bought outs from the

current quarter and assuming after say 5% EBITDA for the same we see that the margins have expanded by almost 60-basis points during the quarter. Could you just run through the levers for

the same? What helped us in this expansion?

**Arvind Thakur:** I think the most significant element is if you look at the offshore component of our business that

has increased to 43%. It was 41% last quarter. So that would have contributed to the margin

expansion because offshore margins are always better than onsite.

Sangam Iyer: So would it be fair to say that this is the kind of a more steady state level of margins that one

should be looking at going forward?

Arvind Thakur: Yes.

Sangam Iyer: Last quarter if I remember when we were discussing you said that around \$35 million is the

bought out component to mean actually in this financial year and if you look at the first nine months we have done around \$25-odd million of revenue from the bought out. Madam during the call you indicated that there would be further 10 Crores which would be possibly be around \$2-\$2.2 million of revenues to be factored in the last quarter. So is there any change, is the balance going to be services component. I thought that 35 million was the equipment part of the contract?

**Arvind Thakur:** Yes, it is not adding up.

Sangam Iver: No.

**Arvind Thakur:** It is almost adding up. So there may be few variations here and there.

Sangam Iyer: Because if we look at \$35 million at around say Rs.45 it comes to around 158-odd Crores of

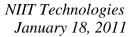
revenue from the bought out. While if you look at the first nine months we are at around 113-odd

Crores. So are we looking at another 40-odd Crores in the last quarter coming in?

Arvind Thakur: No. You must understand a lot of these bought outs are passive components. When you do the

final measurement cables and various other things it may not be what you have really estimated.

So to that extent there may be slight variation.





Sangam Iyer: Sir, the services component would start kicking in from Q1 of next financial year?

**Arvind Thakur:** No. The services component is also kicking in as you are delivering the projects.

Sangam Iyer: So the next year numbers will have anything as a separate component from the government

order, which is the bought out part?

**Arvind Thakur:** Unless we have another big contract like this.

**Sangam Iyer:** From this particular contract.

**Arvind Thakur:** That is right.

**Sangam Iyer:** Thanks a lot for that.

Moderator: Thank you. The next question is from the line of Ganesh Shetty an Individual Investor. Please go

ahead.

Ganesh Shetty: I am fine. Just want to know about our GIS business. Are we seeing greater volume of business

particularly in the APAC regions, in the Asia Pacific region particularly for the government of

Singapore and all?

Arvind Thakur: Yes. In fact we have just implemented a very innovative solution for the government of

Singapore using GIS, which is called OneMap. OneMap, maps whole of Singapore all the major assets and is now being used by citizens in Singapore, it is being used like Google Map in the city of Singapore. So that is a big implementation. Now we are using our experience of implementing OneMap and talking to the other countries and other cities in the Asia region to

leverage the same solution. So it is a tremendous traction.

Ganesh Shetty: Sir, my next question is regarding our airline business. If the airlines seeing greater business

outlook can we expect better pricing and better business in this sector going forward?

Arvind Thakur: That is our hope, because we are seeing a strong comeback of the segment, but there are some

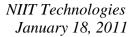
deferring views because apparently the oil prices have started increasing. So while revenue maybe coming back the industry is still experiencing issues of margins. If you look at the profitability of the airlines it is not as much determined by how efficiently they run the airline as

by how well they have hedged against oil. So that could be a concern area.

Ganesh Shetty: Sir, my third question is regarding your attrition rate as per industry average of 18 to 18.5 to

counter this are we planning to recruit from non IT like Graduates, Pharma Graduates, from Science graduates, I think some big companies are trying to recruit nowadays, can you please

throw some light on this Sir?





**Arvind Thakur:** Our people requirement is 200-300 people per quarter. I mean we do not have a same problem as

scale players who are hiring, 15000-20000 people. So for us to get 200 or 300 people is not a

problem.

**Ganesh Shetty:** That is all from me. Thank you very much and all the best.

Moderator: Thank you. The next question is a follow-up question from the line of Nirav Dalal from

Sharekhan. Please go ahead.

Sanjeev: If you could some light on the number of sales people we have hired during the last nine months

and what is the number it was last year?

Arvind Thakur: I think we are having a little difficulty on this because we are just trying to remove our domestic

sales force, which is quite significant for GIS, so may be we can take this question offline?

Sanjeev: No problem. My second question pertains to currently you have said during this quarter you have

given a sterling hike of 5% to 6% for entire offshore employees, but if I am not wrong during the last concall you have said the remaining employee of 5% to 6% are only going to get the salary

hike. So any change in plan?

Arvind Thakur: No, in fact if you recollect in the first quarter I have said we are going to distribute our salary

increases across the quarter. So we gave partly in Q1, we committed to increase in Q3, which is

what we gave right now.

**Sanjeev:** Entire offshore?

**Arvind Thakur:** Everybody.

Sanjeev: One book keeping question. What are the effective and non-effective hedges for this quarter?

**Arvind Thakur:** Our US dollar we have US \$34.5 million as effective hedges and we do not have any ineffective

hedges.

**Sanjeev:** That is all from my side. All the best.

Moderator: Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go

ahead.

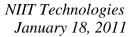
**Dipen Shah:** Just one thing, you said for the next five-year tax rate could be in excess of 25%. Would that be

correct?

**Arvind Thakur:** Yes, because assuming that STPI there is no extension and it will take a while before our SEZs

give us tax benefit, because it was only new business will be tax exempt. So I am just assuming

that tax burden is going to increase.





**Dipen Shah:** So as compared to our 16% to 17% current year, next year it could be about 25%?

Arvind Thakur: Yes. One thing, Dipen over here I think this is going to be a problem for the whole industry. I

think it is going to have an impact for one financial year where we will see a pressure of taxation.

Beyond that it we will be okay.

**Dipen Shah:** The other thing is on the depreciation front last two quarters we have seen that the depreciation

has come down as compared to the first quarter. Any further take on that like how is the CapEx

going to pan out in the next year?

Arvind Thakur: So what is happening is that depreciation coming down because assets are reaching the end of

life and all the new assets are in the SEZ, which is currently work-in-progress. So when we move

to the SEZ next year all that capital work-in-progress will be part of depreciation.

**Dipen Shah:** Thank you, very much and all the best.

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

Rahul Jain: My question pertains to what are the kinds of trends we are seeing in terms of the IT spends

across vertical, because some of the spends are pertaining to one time in nature, may be related to holiday sales or something like that, maybe specific to certain vertical, what are our trends which

we are observing?

**Arvind Thakur:** We are focused only in a few industry segments. So our largest segment is BSFI. I think industry

spend is continuing over here and we are seeing improved discretionary spend. There is also increase spending around this risk compliance and that is really acting as a catalyst to invest in

information technology. The other area we focus on is travel and transport. This is a segment,

which is information intensive, and invests a lot of modern technology. We are seeing spends

happening over here and also we are seeing recovery in the industry, so we hope to see the

spends continue. Large programs are getting implemented in this particular space. The area

where spending has been slow is in manufacturing and distribution where just coming out of the

recession what we need to look at in as I mentioned earlier from the fringes, which means not

incur cost optimization, but in supply chain optimization as well as customer access. We are going to see that happening going forward. The fourth area that we are not focusing on is

healthcare. This we see as a big opportunity area. There is going to be a lot of spend in that

particular space, because at least in the markets that we are trying to address there are big

accounts getting implemented in a time bound manner and to implement that you need

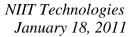
technology. So that is the overall picture. Of course the fifth area is government that we do only

in the domestic market and you are probably aware that there are very, very large IT programs

that are getting rolled out by the government and we would like to participate in that.

**Rahul Jain:** So all in all we are quite optimistic with the things that are moving on, right?

**Arvind Thakur:** That is right.





**Rahul Jain:** That is it from my side. Thanks a lot.

Moderator: Thank you. The next question is a followup question from the line of Srinivas Sheshadri from

RBS. Please go ahead.

Srinivas Sheshadri: Hi, Arvind. Just had one question. This year we had a fairly good revenue growth because of the

BSF contract, but currently to us we do not have any other announced order of a similar scale. So just wanted your thoughts on how one should look at in terms of revenues for next year. I mean, if we assume that there is no follow-up order of this scale then probably we are looking at a very subdued revenue growth. So just wanted your thoughts on what are the probabilities around

getting larger orders as a follow, which can get executed quite well?

**Arvind Thakur:** Well as I mentioned earlier, we have a pretty good pipeline of business in the \$10 to \$15 million

range, one of which we have already closed. So I think things are happening.

**Srinivas Sheshadri:** So this is a similar deal with a lot of hardware?

**Arvind Thakur:** No, this is a global deal. This is not domestic.

**Srinivas Sheshadri:** This was the one in the current quarter?

Arvind Thakur: It was supposed to be in last quarter, but it has been closed before this call. That is why I am

talking about it.

**Srinivas Sheshadri:** Which vertical would it be in?

**Arvind Thakur:** It is in the travel space.

**Srinivas Sheshadri:** Thanks Arvind.

**Moderator:** Thank you. Sir at this moment we do not have any further questions.

Arvind Thakur: Wonderful. Thank you very much everybody for joining us on this call. As I said, there were I

think many contending calls as many results are being declared today from IT companies we appreciate your interactions, your comments and your useful insights. Look forward to talking to

you through the quarter and in the next quarterly call as well. Thank you and good-bye.

Moderator: Thank you very much Sir. Thank you members at the management. On behalf of NIIT

Technologies that concludes this conference. Thank you for joining us and you may now

disconnect your lines.