



TRANSCRIPT: NIIT Technologies Ltd Q3 FY2016 Results Conference Call

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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator: Ladies and Gentlemen, Good Day and Welcome to the NIIT Technologies Q3 FY16 Results conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh, Head of Investor Relations at NIIT Technologies. Thank you and over to you Mr. Singh.

Abhinandan Singh: Good afternoon everyone and welcome to our Q3 FY16 earnings call. I am assuming by now you would have received our results. In case you have not, they are also available at our website www.niit-tech.com in the Investors section. As mentioned in the invitation and the details that we sent out for this earnings call, the note on forward-looking statements apply to this call.

We have on this call with us our Chairman Mr. R S Pawar; our CEO Mr. Arvind Thakur; our COO Mr. Sudhir Chaturvedi; and our CFO Mr. Amit Garg who has recently joined us.

As usual we will start the forum with some opening remarks from our CEO and COO and then the floor will be opened for your questions.

And with that I would like to now hand over the floor to Mr Arvind Thakur, our CEO.

Arvind Thakur: Thank you, Abhinandan, and good evening everybody. Thank you for joining us on this earnings call for our 3rd Quarter Results. Q3 was expected to be a soft quarter and consolidated revenues has grown 0.1% sequentially to Rs.6,787 million which represents 14% growth over the same period last year. There was a currency gain of 0.1% in revenues, in other words, revenues have remained flat in constant currency terms.

Growth in our international geographies remained static during the quarter due to lesser number of billable days as well as completion of some programs in our Travel vertical.

There has been marginal growth in the domestic business on account of major milestones being met in large contracts which were executed for the Maharashtra government.

Business in the US now contributes to 46% of our overall revenues; EMEA to 34%, and APAC 10%, whereas India contributes to 10% of the revenue mix.

If you look at industry segments, BFSI grew 2.1% during the quarter and contributes to 38% of total revenues. As I mentioned earlier, completion of some programs in the Travel & Transport segment led to a decline of 3.7% of revenues during the quarter resulting in a revenue share of 36%. Manufacturing contributes to 9% of revenue and the Government business now

contributes to 3% of the revenue mix, and 59% of the total revenues were represented by Onsite revenues.

Margins continued to expand during the quarter and this was mainly on account of reduced SG&A. Operating profits for the quarter at Rs.1236 million is 3.6% sequential growth and 43.4% y-on-y. Operating margins improved 60 basis points sequentially to 18.2% and the currency impact actually has been negligible as a result of lower hedge gains during the quarter. Net profits have jumped 53.9% year-on-year to Rs.742 million, which is 8.8% sequential growth and this has been basically on account of reduction in effective tax rate on account of lower domestic business and increased international business in services from the SEZ, with effective tax rate during the quarter being 21%.

So with this background on financials, I am going to request Sudhir to talk to you about our order intake and new business acquired during the quarter.

Sudhir Chaturvedi:

Thank you, Arvind. We secured a large deal from the UK regulatory body Ofcom. NIIT Technologies will help Ofcom manage its infrastructure and applications and offer a customer focused service to improve the user experience of Information Technology Services at Ofcom. The value of the contract is GBP 23 million over a 6-year period which includes an initial term of 4-years and extensions. As a strategic partner, NIIT Technologies will implement a dedicated service delivery model, new service managing process, and several tools. Key services will include Service Desk, Data Center Services, Application Management and Project Management. The award criteria for this deal and the ratings was as follows: Cultural alignment was the number one criteria with rating of 35%, transition change and innovation had rating of 20%, the solution at rating of 20% and the commercial had rating of 25%. In all we added four new logos this quarter – two in EMEA and two in APAC. These represent three new logos in Travel & Transportation, besides the Ofcom win.

Total of \$123 million of new business was acquired during the quarter resulting in an executable order book of US\$301 million over the next 12-months.

The geo wise breakup is: US is \$50 million, EMEA is \$55 million and APAC is \$18 million.

In this quarter in terms of Digital Services, we completed some key flagship programs in multiple clients in the Travel vertical. We also secured five new digital wins in areas like Predictive Demand Modeling, Omni Channel Commerce, Next Best Action, and migration to Amazon Web Services. We have expanded the capability of our advanced analytics platform Digital Foresight to deliver business outcome aimed at increasing sales or revenues of our customers, reducing customer churn and helping them combat fraud. We have received strong recognition from leading industry analysts on our digital capabilities across Digital Experience, Analytics and Digital Integration and we were mentioned as the Leader in the NelsonHall

Vendor Evaluation & Assessment Index which is the NEAT Index. Digital Services together comprise 15% of company revenues.

With this I will hand it back to Arvind.

Arvind Thakur:

Thanks, Sudhir. Talk to you a little bit about our headcount; we have a net decrease of 75 people during the quarter, so our headcount at the end of the quarter stands at 9,517 people. Utilization was at 78.7% and attrition was at 13.6%. Cash and bank balance during the quarter stood at Rs.3,118 million and debtors at the end of the quarter were 90-days of sales outstanding. We spent Rs.295 million in capex during the quarter, of which Rs.170 million were spent on our campus in Greater Noida.

Now, earlier this year we had shared that we would grow in line with industry average for the full year. Q3 has been a soft quarter as far as revenues are concerned. As shared with you, this is on account of some programs in the Travel space which have gone live and therefore we expect Q4 to remain soft as well. So in light of this we will see our growth for the year to be at the lower end of the industry average. At the same time, we will continue to see our margins expanding in the 4th quarter of this year as well. So with these opening remarks, we will be happy to address and answer your questions.

Moderator:

Thank you very much. We will now begin the Question-and-Answer session. We have the first question from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta:

I just want to understand about some of the deals which you suggest in Travel segment. I think we might have been well aware about the completion of those projects maybe a couple of quarters earlier. So can you help us understand how the overall market is moving considering we might have replenished those orders with the new orders and if you can help us understand overall demand environment for us?

Sudhir Chaturvedi:

The overall pipeline continues to be healthy, in fact, in the previous call I had talked to you about three large deals and as you can see we have one of those large deals and one of those deals is currently on the plate. So in addition to that the pipeline is healthy with the mix of both large deals as well as smaller Digital deals and I have remarked on some of the wins that we have had in Digital earlier in the call. So overall pipeline is good. What we are seeing is you are right in terms of project completions we had anticipated this. The transitions are happening now and the ramp ups will happen from Q1 onwards.

Dipesh Mehta:

Just to understand overall, maybe not only related to Travel, but if you can provide some color about maybe segmental wise how we are seeing growth trajectory which can help us grow in FY17. Maybe Q4 we are expecting relatively softer, but how we see overall demand which can help us to see FY17 much stronger than earlier?

- Sudhir Chaturvedi:** Our focus verticals – BFSI, Travel, and Media – is where the bulk of the pipeline is and these will continue to be mainstream of growth, so BFSI is currently 38% of our revenue and there is good traction especially in the Insurance vertical and good traction in the US in Banking, so that will continue to be on an upward trajectory. So the overall pipeline mix is across Banking, Financial Services, Insurance, and Media.
- Arvind Thakur:** In fact, most of the fresh intake is from the US and Europe; of the \$123 million intake, 50 million is from the US and 55 million is in the EMEA region. So that is what accounts for bulk of the intake in this quarter.
- Dipesh Mehta:** What is the International business growth this quarter in constant currency?
- Arvind Thakur:** In this quarter there has been no growth in International business.
- Dipesh Mehta:** Can you help me with the numbers for Morris, GIS, Insurance, Proyecta – revenue and EBITDA margin?
- Arvind Thakur:** Morris revenues are Rs 418 million, GIS is 269 million, NIIT Insurance is 432 million, and Spain is 129 million. Margin for NIIT Insurance is 24%, Morris is 7%, Spain is -13% as we have had some separations and we have had to pay compensation for the separation, so that is the reason why it is minus; GIS is 10%.
- Dipesh Mehta:** Order book that we mention in Q3, 123 million includes Ofcom, just a clarification on that part?
- Arvind Thakur:** It includes Ofcom.
- Dipesh Mehta:** If you can help us understand how Digital business is shaping for us?
- Sudhir Chaturvedi:** Digital is currently 15% of revenues and with the new wins we are replenishing the Digital projects typically shorter duration projects and they tend to be multiple of them. So the key thing there is to keep the win rate high so that we continue to have a stream of Digital projects. What we are seeing is across Digital Experience and Digital Integration, and in previous calls we have talked about Digital Integration will be incessant to being a strong play for us, we are seeing good pipeline, this quarter we have maintained the run rate and will expect some pickup in the following quarters.
- Moderator:** Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.
- Abhishek Kumar:** If I remember right, last quarter you had said that GIS will be one of the key reasons for margin expansion in third quarter. So, GIS revenue movement both QoQ and YoY seem to be

muted and even margin it is below traditional margin levels. So has the performance been up to what we were anticipating at the beginning of the quarter or there has been some slip ups?

Arvind Thakur:

In fact, GIS business is experiencing a situation which is very recent where government procurement is requiring organizations to evaluate Open Source Software before they procure Licensed Software. So that has caused some of the deals that were to have been closed in this quarter to be pushed into the next quarter. So revenues have been slightly less than what we have expected. But nevertheless almost 30 basis points has been the margin expansion on account of the GIS growth we have seen in this quarter.

Abhishek Kumar:

My next question is on order executable. Despite strong deal wins, this number is basically stagnant at around \$300 million for the last couple of quarters. So if you could just explain why despite the order wins we are not able to increase the executable order book?

Sudhir Chaturvedi:

The executable order book is muted on account of a renewal that we have with a large existing client which is going to happen in the 1st quarter of next year and that has led to some decline in the executable for the following quarter in Q4.

Arvind Thakur:

Also, there are some renewals which are expected in subsequent months. So till the renewals happen you do not count it as part of your intake in executing over the next 12-months. So when renewals are to happen you do not get the full year benefit of executables, only when the renewal actually happens we will get that benefit. So we have some projects where renewals have to happen say in the month of September next financial year, therefore we can only take 9-months of intake as part of our executable over next 12-months.

Abhishek Kumar:

When can we expect Ofcom deal to start ramping up and if this will have any margin implications?

Sudhir Chaturvedi:

It will start ramping up in the middle of Q1 from a revenue perspective, till then we would be in transition phase. So as I explained the award criteria was such that it was really the solution and the model that we presented to them. That was the reason for the deal win. So there will be no adverse impact on margins.

Moderator:

Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja:

If you could first of all give us some sense in terms of what are you seeing in terms of overall client spending across both Travel as well as Financial Services? Second question was more in terms of medium-term margin performance. We have seen margins improve significantly over the last 4-5-quarters. Just trying to understand how do you see margins more over a medium to longer term what all levers; do you essentially see which can help you and if Ofcom deal could be essentially margin dilutive?

- Arvind Thakur:** I will take the margin question first and then Sudhir will probably give you flavor of the revenues. As far as margins are concerned, the Ofcom deal is certainly not margin-dilutive, in fact, contributes to margin improvement for the business. We have been seeing margin improve consistently for I think 6 or 7 quarters and we expect to see that continue in the 4th quarter. In the 4th quarter we also expect our Digital business proportion to improve, the GIS business to improve. So all those will also contribute to the margin expansion that we expect in the 4th quarter.
- Sudhir Chaturvedi:** In terms of the overall, you talked about the trends that we are seeing in the business, though there is sort of some jittery macro out there and what we are seeing as of now at least in terms of client spends because most people have completed their budget for what is there for their calendar year '16 is, there is room for discretionary spend in budgets as well as there is across at least our focus verticals – Banking, Insurance, Travel and Media – we are seeing good traction or budgets continue to hold in terms of both discretionary spend. There is some outsourcing activity which is a good sign, which is related to cost cutting, and one of the criteria for example the Ofcom deal was that how do we improve the user experience, even doing that in outsourcing deals. So I think those are the kind of...the nature of the deals are shifting a bit. But at least as of now we are not seeing any decline in spend.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.
- Sandeep Shah:** Just looking at the full year likely growth and if I strip out the Incessant, the growth in the dollar terms for the revenue would be low single-digit and if I also look at the order intake, the executable order, we are almost closer to what we were in the last four quarters of FY15. So it looks like at the start of the year we have aspiration to grow in line with the industry but somehow we are not able to reach and now again we have aspiration in FY17 to grow in line with the industry, but the order book and the order intake does not indicate the same. So, what is going wrong in the sales and marketing that we are not able to get consistent traction in terms of the order book? Because that would be a precursor for us to start gaining higher wallet share as well as the revenue growth on a foreseeable future on a consistent basis?
- Arvind Thakur:** Sandeep, first let me clarify; I think whenever we have indicated growth in line with the industry, it is along with Incessant. So I think we are consistent with that. Second question is around dollar growth. I am not sure how do you compute dollar growth. But you probably are aware that our dollar revenues are not of the same volume and magnitude as our industry peers because only 46% of our revenues come from the US and most of the other contracts are in the local currency of that geography. So what we really look at is growth in terms of constant currency and all our projections and all our communication is around constant currency growth.

- Sandeep Shah:** But Arvind, I agree that there would be a cross-currency headwind but my one suggestion is henceforth in the press release if we start mentioning about the dollar revenues and what is the cross currency headwind, because that will help everybody to understand and what is happening in the business would be easy to understand?
- Arvind Thakur:** We will note that suggestion, but internally we do not operate that way, internally we operate with local currencies, but if there is something that helps you, we can probably convert that and give it to you. I do not know how to compute the dollar revenue because if there is significant cross currency change, do I assume that rest of my currencies are also in dollar and what should be the growth in that currency or....
- Sandeep Shah:** I think peers also have different currencies. So what they do...
- Arvind Thakur:** Peers mostly have, a majority of their revenue is 70-75%, is in dollars, so it makes sense to do it for them, but in our case where only 50% are in dollars, to do that is to our mind force-fitting, but we will try to do it for you, if that is the way you want it.
- Sandeep Shah:** Yes, because it helps in terms of the comparison...because most of the element is the export business because our focus is also on export business because that gives a clear idea about how the growth is being moving and how is the predictability going forward because in this quarter also I think based on our calculation it looks like there would be almost like 65-70 bps kind of cross currency headwinds if we just look at the dollar numbers?
- Arvind Thakur:** So that is what I am saying. Because the rest of the industry has majority of the revenue coming in dollars, may be that is the way you like to compare, but I am saying that is not a right comparison simply because we are not like the rest of the industry having so much in terms of dollars. So I think rest of the industry also gives constant currency. So it may be appropriate for you to compare in constant currency along with the rest of the industry.
- Sandeep Shah:** The question in terms of the order intake, order book, because it looks like almost similar what we have done in the four quarters of FY15, the same things are coming in four quarters of FY16. So how we will make sure that the growth in FY17 would be industry average going forward, what makes us confident to aspire for the same?
- Arvind Thakur:** On order intake we have had this conversation on earlier calls as well. If you look at the new business that we are getting particularly in Digital Services, they are not long-term contracts, they are short projects which have to be executed rapidly. So the essential change in service mix is what is causing this discrepancy in terms of trying to compare the intake between previous periods. Having said that, order intake is important and I think we have a good pipeline on large deals which we can conclude. In the previous quarter we actually lost some deals, otherwise the situation may have been even better, but you win some, you lose some and I think I am glad to see that we have secured a large deal in this quarter and hopefully our

pipeline going forward will also get converted to generate some business. Sudhir can probably add some more flavor to that.

Sudhir Chaturvedi: So as I mentioned earlier the pipeline is healthy, in fact, if you look at even our metrics across our top 10 accounts are also up. So a combination of our top accounts and our pipeline that we have currently, the deal conversions that we have had and deals like Ofcom, some of the new Digital wins, these are all net new revenues for us. For example, if we had counted 12-months executable of one of our largest accounts, you would have seen the executable would have been a much larger number than you see now. For us this is not order book, this is order intake, this is stuff that is actually signed which is not expectations or revenues to continue on a certain trajectory. If you are looking for a correlation perhaps there isn't one. But, from our confidence in FY'17 stems from the fact of our current account base as well as the pipeline that we have, that we have already converted and that is likely to convert in Q4.

Sandeep Shah: Sudhir, I think you said three large deals were there; one has been closed and one is still in the pipeline and there are additional deals also. So the large deal which is in pipeline, is it fair to say that we could be at the advanced stage of negotiation?

Sudhir Chaturvedi: Yes, that will conclude this quarter.

Sandeep Shah: Some of the other book-keeping questions is the hedge details if we can get? Capital work-in progress has reduced significantly. Is it fair to say that most of the work for the Greater Noida Campus is now done and over and we are commercializing the same?

Arvind Thakur: Yes, I think it is fair to assume that. In fact, you would have noticed depreciation has increased and that is on account of reduction in capital work-in progress. As far as hedge positions are concerned, we have outstanding hedges in US dollars of 58.5 million at an average rate of 68.39 and in GBP we have 13.45 million at average rate of 104.55.

Sandeep Shah: How this will happen – this is over a period of four quarters or?

Arvind Thakur: Yes, this is over four quarters.

Sandeep Shah: I just missed the reply on the tax rate. So why it has declined and what is the sustainable tax rate going forward?

Arvind Thakur: As I mentioned more of our business to our Greater Noida Campus which is the SEZ, so that has contributed to the effective tax rate coming lower, and also Domestic business is lower, so that also is contributing to improved effective tax rate, and I expect it to improve little more in the fourth quarter this year.

Sandeep Shah: What would be a sustainable tax rate, maybe just for the next one year or maybe two years?

- Arvind Thakur:** I think about 21% should be sustainable.
- Moderator:** Thank you. The next question is from the line of Shradha Agrawal from Asian Market Securities. Please go ahead.
- Shradha Agrawal:** Just wanted to check as to what is the reason for a soft outlook for next quarter?
- Sudhir Chaturvedi:** This quarter as I said the wins that we have had, they are currently in transition phase and will start ramping up from Q1 onwards. Secondly, we have had some large project completions which happened in Q3 and one large project completion that is scheduled in Q4 and the pipeline ramp up will start from Q1, so hence we will see a softer Q4.
- Shradha Agrawal:** The projects which got completed this quarter, are not those getting replenished next quarter?
- Sudhir Chaturvedi:** That is what I said. In fact if you remember when I talked about the three large deals are the deals in the previous quarter, I had talked about them concluding within the quarter. Now because that has shifted to this quarter, that replenishment has moved by a quarter and hence you are seeing the softness in Q3.
- Shradha Agrawal:** Despite the kind of confidence we have on a growth trajectory in FY17, why did we see an employee headcount reduction?
- Arvind Thakur:** So basically because of the closures of these programs we have accordingly reduced our headcount, but we expect to scale up next quarter, so we will be adding at least 200 people in Q4.
- Shradha Agrawal:** Could you help me with the revenue and margins of Incessant?
- Arvind Thakur:** Revenues are Rs 351 million and margins are 27%.
- Shradha Agrawal:** How successful have we been till date in our joint go-to-market strategy with Incessant?
- Sudhir Chaturvedi:** That is proceeding well, in fact, we are seeing traction in some of our large accounts with Incessant of late, we also have achieved an important milestone if you visit the Pega site you will see that NIIT Technologies is now one of the just four SI vendors that are there for Pega, and we have been empanelled as NIIT Tech on Pega as well as Incessant has been chosen as one of the three partners for the upgrade progress, and we also concluded one of the large renewals that we have with our existing clients in Incessant and we have actually grown the footprint in the US as well. So overall on the integration side and working together, that is proceeding well.
- Shradha Agrawal:** So are we confident of 20% CAGR in Incessant in FY17 as well?

- Sudhir Chaturvedi:** The opportunity in the Digital Integration space where Incessant plays is tremendous and we are seeing good traction across all the markets whether it be in Europe, APAC and the US. Incessant has appointed a new Global Sales Head recently and we have also added to the sales teams in US and Europe.
- Shradha Agrawal:** What is the component of hardware revenue this quarter?
- Arvind Thakur:** It is about I think 14 million.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.
- Rahul Jain:** First of all, this Travel vertical if you could give idea, the revenue have been sort of flattish for the last several quarters and if you could give any flavor in terms of does it macro wise support they have given the current oil prices and all because that we have been seeing that at least in the Indian context, so how does it change for the enterprise and effectively to a player like us?
- Arvind Thakur:** Sudhir will add to my comments. I think in the earlier quarters, as you are aware, we had executed a large program for the Airports Authority of India. When that program completed we had some decline in revenues in Travel, but our International business has been going strong in the Travel space. In this quarter also we had some project completions which has caused the number to decline. Otherwise, I think the situation is quite favorable for the industry particularly in light of the fact that the oil prices have come down and we are beginning to see airlines now actually moving into the black as a result of that.
- Sudhir Chaturvedi:** In our new logo additions also, order of four logo additions, three were in the travel space, so the traction is good, the ramp ups will materialize from Q1 onwards.
- Rahul Jain:** From S&M headcount perspective, this is kind of a multi-year low kind of a number excluding the GIS is 136. Is there some reclassification or is there some realignment?
- Sudhir Chaturvedi:** Yes, it was 144 last quarter, it is 136 this quarter. That is part of the normal process we go through a mid-year cycle. And of course the other point that I would like to add here is that our focus on domestic market is down, so certain parts of the domestic market that we are no longer operating in from a sales perspective. So that has also led to some reduction.
- Rahul Jain:** We have seen Proyecta revenue declining for some time and margins have also turned negative. So what are the prospects from a longer term perspective there?
- Sudhir Chaturvedi:** What we are seeing in the Spanish market is that there is some improvement in the market conditions but more importantly, we are aiming to execute other projects for European customers out of Spain because there is obviously proximity but also there are some

technology skills that are widely available in Spain that are in demand globally. So, what you will see in Projecta is a pickup in growth in the coming quarters as we broad base the business from where Projecta derives its revenues.

Rahul Jain: What is this exceptional item of 30 million related to? I missed the number on the Incessant revenue and margin and if you could give the last quarter number also?

Arvind Thakur: This number is essentially a number which you would have seen the recent government notification on payment of bonus which was a retrospective payment made from 1st April of last year. That entire expense of last year has been treated as an exceptional expense in this quarter and that is what is shown as an exceptional item. Incessant revenue for this quarter was 351, last quarter 345 and margins 27% similar for last quarter.

Moderator: Thank you. The next question is from the line of Ashish Mourya from Cholamandalam Securities. Please go ahead.

Ashish Mourya: Sir, do we further see any improvement in the margins and what are the levers for the same?

Arvind Thakur: Yes, I had answered that earlier also; we will see margin improving in Q4 and the levers for that are improved revenues of GIS in the fourth quarter, improved international business, improved Digital business in the fourth quarter. So, all these will contribute to margin improving in the fourth quarter.

Moderator: Thank you. The next question is from the line of Pallav Shah from Pi Square Investment. Please go ahead.

Pallav Shah: Sir, what is the customer retention rate for NIIT Tech for this quarter, means existing clients that are continuing same orders or adding up new orders going from Phase-1 to Phase-2?

Arvind Thakur: Repeat orders, okay, 90% is repeat business.

Pallav Shah: Top-10 or the top-15 clients that have been with the NIIT Tech – have you seen a proper growth going forward with them or is it like they are not spending so much because of the global slowdown or something?

Arvind Thakur: In fact, we have seen our top-10 clients combined revenues have grown sequentially in this quarter.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Fund. Please go ahead.

Ashish Aggarwal: There has been some news about unions opposing outsourcing in one of your large accounts. Do you see any potential impact of that in your business going forward?

- Sudhir Chaturvedi:** That is the deal actually won by one of our competitors where there is an impact on the client's employee base. So the union discussion is really around the redundancy terms of the employee base. So there is no impact on us.
- Moderator:** Thank you. The next question is from the line of Raj Kantawala from Equirus Securities. Please go ahead.
- Raj Kantawala:** What proportion of our executable order book currently contains the renewal deals and what was that last quarter and previous year same quarter?
- Arvind Thakur:** I am afraid we would not have that number for you right now.
- Moderator:** Thank you. The next question is from the line of Ganesh Shetty. Please go ahead.
- Ganesh Shetty:** My question is regarding this Ofcom deal. Whether this deal is in two sizes, like this is the first part of it and the second part of it may be coming to us or some other outsourcer, that is what it is in some press release and this deal can be further renovated?
- Sudhir Chaturvedi:** In fact, you are right, there were three lots in this deal; lot-1, lot-2 and lot-3. So lot-1 and lot-2 have been awarded to us; lot-3 is the smallest lot actually and that has in fact not been awarded at this stage.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.
- Dipesh Mehta:** Two questions; first is can you help us understand 9-months constant currency YoY growth what we have, including Incessant and excluding? Second is about the exceptional item. I am not very clear about the payment of bonus because it might have passed through P&L earlier also. So if you can provide some clarity on the accounting part?
- Arvind Thakur:** The first part I think we will have to do separately because we do not have the 9-months number computed. But as far as the payment of bonus is concerned, this was a recent notification which came on 1st Jan, which required us to pay bonus to a certain category of people which were earlier not been paid bonus and this was retrospective with effect from 1st April 2014. So it is a previous period expense, not related to this period because it is a one-off retrospective ordinance which has been made by the government and that is the reason why it has been treated as an exceptional item.
- Dipesh Mehta:** Sir, then from 1st April 2015 till December, 9-month's impact is also there in that number or it is part of employee expenses?
- Arvind Thakur:** That is not that, the one which is of the previous year is below the line.

- Dipesh Mehta:** For the current year, it is part of employees. So next quarter that number would be one-third kind of a thing?
- Arvind Thakur:** Yes, that is correct.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.
- Sandeep Shah:** The order book of \$123 million, is it possible to break down what could be the renewals and what could be the new business? As we earlier said I think this time there are many new business which has been booked. So, one of them would be Ofcom?
- Arvind Thakur:** That breakup is not available.
- Sandeep Shah:** But like some renewals got delayed, so this time the percentage of new business booking would be higher within the order book?
- Sudhir Chaturvedi:** Yes, that is a correct assumption.
- Sandeep Shah:** The capex going forward, is it fair to say that may reduce and what could be the range like?
- Arvind Thakur:** For the year total capex would be in the range of Rs.150 crore.
- Sandeep Shah:** This would be the last year of Greater Noida capex, next year onwards this could be significantly lower?
- Arvind Thakur:** That is right; it will be lower next year.
- Sandeep Shah:** On margins, I think that was a great execution in the year of FY 2016. So entering into FY 2017, with growth also coming back, do you still believe we have levers that there is a headroom for us to go for higher margins even entering FY17? I am just not asking for guidance but directionally still we believe that is possible?
- Arvind Thakur:** Let us look at our exit margin in Q4 which as I had earlier once mentioned would be in the range of about 18.5% and we should certainly be looking at margins better than that in the next year.
- Sandeep Shah:** So even above 18.5% what we are targeting for 4QFY16, we can achieve higher than that in FY17?
- Arvind Thakur:** It is possible.

- Sandeep Shah:** On 4QFY'16 when we are saying it should be soft, will it be as flattish like 3Q? Because we have the tailwinds coming through GIS plus there are some Digital deals of short duration, so the growth could be better than 3Q?
- Arvind Thakur:** As I mentioned, we were planning for growth in line with the industry and we will end up at a lower end of that industry range. So that is the best what we can predict at this point in time.
- Moderator:** Thank you. The next question is from the line of Aniket Pande from Karvy Stock Broking. Please go ahead.
- Aniket Pande:** Sir, I wanted your guidance for FY17? How are you planning more to penetrate in Digital Services?
- Arvind Thakur:** There is a very strong focus on Digital Services, in fact, we are looking at four areas where we are going to focus on; one is the whole area of Digital Experience, which we have already got good traction in the Travel space; the other is in Analytics where we are getting very good traction in the Insurance space, a lot of our engagements are in the area of Predictive Analytics; third is on the Cloud where we are helping our clients migrate their infrastructure on to the Cloud; and the fourth is the whole area of Digital Integration where our acquisition of Incessant Technologies, is what is the torchbearer for this business. So these are the areas we are very sharply focused on. If I look at our business right now, we are strong in Digital Experience, in Travel, in Analytics and Insurance, Cloud, there is a lot of work is happening in our manufacturing distribution space and Digital Integration is very strong for us in the BFS space. We are now looking at cross leveraging that experience and taking one industry experience with the other, which is really helping us in positioning ourselves strongly in these areas. So we see very good traction in the Digital Services space and that is really going to help us in our growth trajectory for FY17.
- Moderator:** Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Fund. Please go ahead.
- Ashish Aggarwal:** Just a couple of questions; first of all, a data point I needed. What could be the constant currency year-on-year growth in our executable order book if you could provide that? Secondly, given the fact that a lot of our deals are expected to start ramping up from Q1 onwards, is it fair to assume that FY17 will be better than FY16?
- Arvind Thakur:** Our executable order book is always given in dollar terms. It is difficult to translate that into constant currency. So, I think that number is always available to you. We definitely see improvement in FY17 over FY16. FY16 has been a year of transition where we have moved our business from the Government business that we used to do in earlier years to International business, I think that is now reaching a steady state. As I mentioned earlier, strong traction that

we are getting in Digital Services, coupled with, as Sudhir mentioned, good pipeline and closure of large deals, will help us propel our business in FY17.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: Just one clarification; so when you mention 15% revenues from Digital, does this include the revenues from these four areas of Analytics, Experience, Migration and Integration or is there something else as well that would be contributing to that number?

Arvind Thakur: No, revenues from these four areas is what is 15%.

Sudhir Chaturvedi: Just to clarify; we do not count things like BI, BW or some of the other sort of additions that people tend to make, we keep them out. This is where we are leveraging Digital Technologies to deliver services and those are the revenues that we count in.

Moderator: Thank you. I would now like to hand the floor over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments. Over to you, sir.

Arvind Thakur: Thank you very much for joining us on this call. As shared with you, we see the intake, business and pipeline supporting us in our business going forward. So even though transitions and ramp ups in Q4 may lead to growth being delivered in Q1, we expect FY17 to be a stronger year than FY16.

Moderator: Thank you very much, members of the management. On behalf of NIIT Technologies, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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