

TRANSCRIPT: NIIT Technologies Ltd Q2FY2012 Results Conference Call

4pm IST, October 18, 2011

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Moderator

Ladies and gentlemen, good day and welcome to the NIIT Technologies Q2FY2012 Earnings Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and 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 then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Abhinandan Singh, Head-Investor Relations, NIIT Technologies. Thank you and over to you.

Abhinandan Singh

Thank you and welcome everyone to our Q2FY2012 earnings call. Present along with me today at this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Lalit Dhingra, who is President. NIIT Technologies Inc. and heads our North American business; and Ms. Pratibha Advani, our CFO. We will begin this forum today with opening remarks by Mr. Thakur and Mr. Pawar, and after that the floor will be opened for your questions. A transcript of this call will be available within a few days at our website, which is www.niit-tech.com. Now I would like to request Mr. Arvind Thakur, CEO, NIIT Technologies to initiate this call with his remarks. Thank you and over to Mr. Arvind.

Arvind Thakur

Thank you Abhinandan and good evening everybody, I would like to start this call by giving a few comments on how we see the environment. I believe the environment continues to be somewhat turbulent with rising worries over sovereign default in some euro zone countries and resulting implications. Unemployment in the US remains at high levels and the economic growth rate is still far from optimal. The macroeconomic recovery still remains quite tentative. A fewew days ago, data released in the UK suggested that the growth in the economy there too remains somewhat sluggish with the central bank, Bank of England, moving in to inject about GBP75 billion into the economy through some quantitative easing approaches.

The emerging markets such as India are doing comparatively well but rising inflation is playing spoil sport and that is contributing to increase interest rates which are somewhat slowing down at the economy. Although the macroeconomic picture still remains somewhat unclear into the future. We had so far not seen any noticeable impact on the demand environment for our business and I think that is something that you would have seen getting translated into some very significant intake of new business during the quarter in our last quarterly call I talked you about the transformation engagement with Morris communications. This had resulted in an intake of 85 million US dollars during the quarter. In addition we have secured further fresh business leading to a total of US\$200 million of new business, the highest ever that we have seen in any single quarter. This includes new business in the domestic markets from the government.

Last year, you would recollect we had a similar sized business from the Border Security Force (BSF) which we have been executing successfully. We continue our run with the government in the current year in cementing more of such business, this time to execute the prestigious CCTNS program which is the criminal records programs that individual states have to implement. And two of the states have contracted with us for this purpose. So with an order

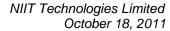


intake of US\$200 million, the orders executable over the next 12 months now stand at US\$232 million.

In all, we added seven new customers, the two I just talked about in the government, one in the travel space, one in the BFS space, one in the manufacturing space, and Morris Communication. You would have seen that our earlier quarters too had witnessed a significant increase in new business as a result of which we are seeing a strong momentum in our business. Revenues for the quarter under review stood at Rs.3711 million which is up 12.9% sequentially. This includes 75 million of revenues from an acquisition that we had done of a software services company in Spain. Even if I were to exclude the impact of this acquisition, revenues have grown 10.6% quarter-on-quarter and 12% year-on-year demonstrating strong growth on the back of consistently good order intakes. As the currency impact on revenues has been marginal 0.4% gain. So the volume growth during the quarter has been 12.5% sequentially.

Growth of business activity in the EMEA region has pushed its revenue share up to 38% of the whole the US represent 37% of business and the rest of the world 25% what is important is that there has been all around sequential growth in all the regions. There has also been all around sequential growth in every global industry segment of our focus. The travel and transport segment has exhibited maximum traction now contributing to 36% of overall revenues. BFSI contributes to 39% and the manufacturing distribution segment contributes to 8% of our revenues our top clients have also grown and business is becoming more broad based with the top five clients now contributing to 30% of revenues and the top 10 contributing to 44% and the number of million dollar clients have also been steadily increasing sequentially and in the last quarter they stand at 52.

We had share with many of you the acquisition that we did in Spain in this quarter that has been a significant transaction. This is a software services company called Proyecta which is a company which is founded in 2002 with over a 100 consultant focused in the areas of tourism airlines and financial services and it enjoys strong reputation around its technical and industry expertise in the travel and financial services segment. This acquisition has enabled us to enhance our European footprint and it basically enables us to consolidate our front end capabilities for larger European engagement and also provides a gateway to traditional Spanish speaking countries like Latin America. It would basically strengthen NIIT Tech's expertise in the travel and BFSI verticals as this organization serve industry leaders in this segment. The margins for the quarter stand at Rs.550 million which has been a decline of 9.6% quarter-onquarter. This has primarily been on account of the one-time expense which we had communicated in our last quarterly call as the advisory professional and legal expenses of Rs. 119 million leading to an operating margin for the quarter to be 14.8%. If I exclude these onetime charges operating margins would actually be 18.03% but if I look like-to-like margins excluding the transactions of Morris and Proyecta per se our margins would be 18.6% as compared to 18.5% of the last quarter. Net profits for the quarter have improved 11.19%





sequentially to Rs.458 million. We have an outstanding hedge position in US\$39.75 million at an average rate of Rs.46.98 per dollar.

As I mentioned earlier the currency gain in the revenues during the quarter has been only 0.4%. We had a net edition of 468 people during the quarter. This also includes addition of people that we acquired which is 105 people that we acquired in Spain. Utilization has improved to 82% during the quarter and what we have seen is that our attrition has reduced even further during the quarter to 13.4%. Cash and cash equivalents now stand at Rs.1422 million there has been a significant payout as a result of dividend of Rs.497 million which has contributed to reduction in cash-in-cash equivalents. So as we see the year started on a good note with the strong deal flows some of which have been transformation in nature. I think these major transformation deals have been secured in competition with the biggest players in the industry. The margin that you are seeing reducing in the quarter is the result of these deals coming in this upfront cost but they lead to long term annuity business and therefore we see ourselves growing this growth momentum continuing in the subsequent periods. We felt that it is important and prudent to secure the future and build a strong order book in this environment which is rather turbulent at this point in time. With these remarks I would now request Mr. Pawar to add his comments to the commentary that I just shared with you.

Rajendra S. Pawar

I think just to add-on to what Arvind said or perhaps to summarize, this has been a very strong quarter in terms of order intake, the highest ever at \$200 million. It also has been strong on Q-o-Q growth as well as people addition and I think the two important transactions, which is Morris and Proyecta, put us in a fairly good position as drivers for growth. We have added the largest number of people within in a quarter for a longtime and our attrition also is at its lowest. So overall I think it has been a very good quarter, and also the fact that order intake is a good predictor for growth going forward suggests we seem to be in a good position at this time.

Abhinandan Singh

Thank you. Operator, you can now open the line for any questions.

Moderator

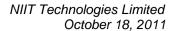
Thank you sir. Ladies and gentlemen, we will now begin with the question and answer section. We have the first question from the line of Manik Taneja from Emkay Global, thank you and go ahead sir.

Manik Taneja

Arvind congratulations for the good execution, just wanted to get a sense firstly on what are you seeing within your client especially in the European geography and wanting to clarify a couple of data points in terms of new orders wins order intake that you announced at \$200 million would that include a large chunk of Morris contribution and secondly just wanted to get a sense on the deal that you won in the domestic business and then just wanted to know the reasons for the increase in the DSO levels.

Arvind Thakur

Okay yes indeed the 200 million order intake that I talked about includes the deal that we shared with you earlier in the quarter which is the Morris communication transactions which I think we discussed in greater detail of \$85 million. And then we have similar sized as I





mentioned engagement as BSF last year contributing by these two deals that we have secured in CCTNS and I think that will contribute to about \$40 or \$45 million and the balance is various engagements both in the US as well as in Europe which have contributed to this business. So that was one part of your question and what was the other part you wanted to understand a little more on the DSO right?

Manik Taneja

DSO part and then your comments on demand environment within your European clients and just want to get a sense on when do we expect these deals to start ramping up what would the typical margin profile on these deals?

Arvind Thakur

Okay so why don't I ask Pratibha to talk about the DSO and then I will comment on the others.

Pratibha Advani

Good evening Manik, this DSO days they had primarily gone up because there has been the impact of Proyecta so while we have got revenue for only 1-1/2 months the debtors are as on date. So that has impacted us by 7 days and also because of the reevaluation of debtors at the quarter end that has had an impact of 4 days and of course you would have noticed the significant growth in our revenues and that quarter that quarter end spike has contributed to another four days. If we eliminate these 15 days, our DSO days would be 79 against 78 last quarter.

Manik Taneja

And could you breakup the other income number?

Pratibha Advani

Income from mutual funds is 15.88 million and then reevaluation of assets and liabilities has contributed 90.39 million. Other non-operating income is 6.17 million. Net interest income is 2.64 million. So that takes the other income to 115 million.

Arvind Thakur

Okay what we are seeing in Europe, I think one of the things that we saw very good growth where existing clients particularly in the travel and transport space. So they have been scaling up quite well. We have also of course opened up a whole new country as a result of our acquisition in Spain and that has been taken very well by the existing clients of this organization because now we have you know much larger organization backing them in terms of providing services. So like I mentioned in my opening remarks although the environment is turbulent we have not seen that impacting the demand for business.

Manik Taneja

And sir the contribution from this Spanish acquisition this number has been consolidated for one month in the quarter.

Arvind Thakur

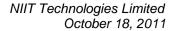
This is for since we acquired it so that will be about two months.

Pratibha Advani

No 11/2 months.

Arvind Thakur

Yes 1½ months.





Manik Taneja So essentially which means almost at Rs. 75 million revenues for 1-1/2 months you essentially

get to a run rate of \$12-13 million would that be right?

Arvind Thakur About \$10 million.

Manik Taneja Sir and you mention in your opening remarks that margins ex the cost on Morris as well as the

Spanish acquisition consolidation margins would have been 18.6% is that correct.

Arvind Thakur I think an important thing to understand is if I were to remove the one-time cost, our margins

would be little over 18%. Now, as I explained to you when we were discussing the Morris transaction, there is a transition period where we are taking over the assets of that organization to provide them services over the next five years. So that is a six month process and that six months process is a process in which we are going to get little or no margins from the Morris transaction. So I if don't take the Morris revenues into my quarter revenues and then look at

my margins, that will amount to 18.6%.

Manik Taneja And what will be the revenue contribution to Morris in the quarter.

Arvind Thakur That will also be 75 million.

Manik Taneja That will also be 75 million so all put together will be 150 million.

Arvind Thakur That is right.

Manik Taneja Okay you almost made no margins on Morris.

Arvind Thakur That's right.

Manik Taneja And we should see actually margins going in for Morris from Q4 of FY12 is that correct?

Arvind Thakur Almost Q1 of FY13.

Manik Taneja Okay and how about the domestic deal?

Arvind Thakur The domestic deals are like our BSF deal. So they will be significant component of hardware

because these are all turnkey projects that we execute. So as in the BSF deal these services element will have normal margins you know that we see in any engagement, but obviously the

hardware elements will have lesser margins.

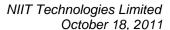
Manik Taneja Okay sir because the reason why I ask you about this is essentially if I look at working capital

intensity that is continuing to increase over the past several quarters. If I am looking back at

history over a longer timeframe six to eight quarters essentially almost become 3x.

Arvind Thakur Yes that will happen you know if your DSO days are going to increase, and they do increase

when you get into government contracts, the working capital intensity will also increase.





Manik Taneja And sir we had some debtors pending on account of BSF deal has that entire amount got...?

Arvind Thakur We have I think 36 crores pending from BSF we have collected 100 crores, we have 36 crores

pending from here.

Manik Taneja Congratulations once again and best of luck for the next few quarter.

Arvind Thakur Thank you Manik.

Moderator Thank you Mr. Taneja. Next question from the line of Ganesh Shetty an individual investor.

Thank you and over to you sir.

Ganesh Shetty Good evening sir and congratulations for the good quarter. Just one question. How is our

insurance business shaping up in the US, and secondly, is there any impact on our Lloyd

Insurance Market business due to the financial turmoil in Eurozone?

Arvind Thakur On the US, I will request our president in the US who is here with us to share the insight with

you and then I will talk about Lloyd market.

Lalit Dhingra

The US market continues to be volatile as Arvind mentioned but I don't think a double dip

right there is some dip in the life insurance segment but there is a huge upside in the P&C market. So we actually have a large pipeline from our insurance clients and also if there is a dip in the life insurance business, there is a propensity to do more outsourcing in order to reduce costs and we are seeing that trend also. So as far as the revenue of the insurance

recession is in sight. So just coming back to your question on the insurance market, you are

companies are concerned, that is coming down in life insurance but going up in the market of P&C and also we seeing some intake in the flood market. The insurance companies are getting

into a lot of stuff because lot of households are going to be insured in the flood-prone areas

because of all the weather changes.

Arvind Thakur On the Lloyd's market Ganesh, I think it has been less impacted by the economic turmoil as

compared to the natural catastrophes like the New Zealand earthquake and Tsunami in Japan and some of these other things. However we have still seen robust demand, we saw 4% growth

in our Lloyd's business in this quarter sequentially.

Ganesh Shetty Yes, one more question, are you re-thinking our hedging strategy considering volatility in

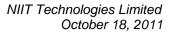
currency for the last quarter? Can you throw some light on this?

Arvind Thakur I request Pratibha to talk about our hedging policy.

Pratibha Advani Well we are very tempted to relook at out hedge policy but we believe that we are in the

business for software development and not treasury, so at this point we will go along with our

current policy, we don't envisage any change as of now.





Ganesh Shetty Are we going to change in for shorter duration period of hedging our currency requirements, is

there any strategy on that prospect?

Arvind Thakur Our current policy is to do it for shorter durations so we hedge for the next two quarters.

Ganesh Shetty Thanks a lot sir, and all the best.

Moderator Thank you so much Mr. Shetty. Our next question will be from the line of Dipen Shah from

Kotak Securities. Thank you and over to you sir.

Dipen Shah Hi Arvind. Congrats on a good set of numbers. I have just two or three issues. My several

questions have been answered. But first of all, I just wanted to get some idea about 0.4% which you said under currency in the revenues, so if you could just explain us how is it only 0.4%?

you said under earliestey in the revenues, so it you could just explain us now is it only only .

Pratibha Advani Yes for the 0.4%, actually what we do as per our revenue policy, we recognize revenue at the

beginning of the month, first at the rate of the beginning of the month that we recognize. However, when we get our money that comes at this hedge rate, right. So that is why you don't see too much of a benefit of currency in our revenue line. And our average dollar rate recognition

has been 45.02.

Dipen Shah 45.02, that's the average which you have realized revenues in this quarter?

Arvind Thakur Yes in the quarter under review.

Dipen Shah Okay, I will get back on this. The other thing is in terms of the billing rates like how has it

moved? Any changes, which you are seeing and any like-to-like billing rate changes, which you

are experiencing from clients?

Arvind Thakur Dipen, we are not seeing any billing pressures. In fact some of the new contracts, we are getting

at even improved rates. It may not be very significant, but we are definitely getting them at an

improved rate.

Dipen Shah Okay. And coming to the non-linear revenues and they are continued to be about 27% of overall

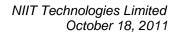
revenues. We had a target of about 30% by the yearend. Would we be standing by with this target and also if you can throw some more light on how has ROOM performed in terms of

revenues and margins?

Arvind Thakur Okay, let me just start backwards. I think ROOM has performed well. Revenues were at Rs. 398

million and as before, the healthy margins were 27%. I think here some of our large deals when they become significant like Morris as well as Eurostar then they will start contributing to the non-linear revenues. So, at this point of time, our non-linear revenues have grown. We have had a very significant growth in the quarter, 12.9%. So, we have basically grown in the almost same

levels. So I think really, as long as they are growing well at this point in time, this is a healthy growth in the quarter. They are also growing in line with that. And going forward, as now the





new deals become more significant, I think we will start seeing an improved revenue from non-linear.

Dipen Shah Have we started realizing revenues from Eurostar?

Arvind Thakur Yes we have started realizing but they are still in a transformational stage, so we are just right

now taking over.

Dipen Shah Okay. And maybe the last question, the new deals which we have got from the Police

Department, by when do you think you should start the scaling up and what could be the

hardware component in the overall project?

Arvind Thakur The hardware component will be quite significant, 65%-70% in hardware component of these

deals as from what understand of these deals and although the programs vary state-to-state between 12-18 month, just like in BSF, the significant element of the program we have delivered

in the earlier part of that whole lifecycle.

Dipen Shah Right, so when are these programs starting?

Arvind Thakur If I am not mistaken, they should have started by now, so in this current quarter they will start.

Dipen Shah So the December quarter will have a component of the hardware revenues?

Arvind Thakur Should have a component of the hardware revenue.

Dipen Shah Okay. And in terms of the last question, in terms of the profitability, we are at about 18.6% on an

organic basis, how do you see the margins moving? Do we still maintain we should be in the

18%-18.5% range or should we look at higher margin since non-linear revenues are going up?

Arvind Thakur No, I think it will be a safer to assume what you just said earlier, because a lot of these future

contracts are coming with hardware and so on, so I don't think that's going to push up margins.

Dipen Shah Okay. And Pratibha, if you can just put the expected tax rate for the next year, should we be in

that 25%-26% range?

Pratibha Advani Our endeavor would be 25-26, but it all depends on the components of our revenue as the

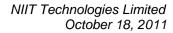
domestic portion increases, then it could have an impact on the tax rate.

Dipen Shah Okay. And once again the last one, the minority interest which we had at 2.7 crore loss, that will

be from the Morris JV?

Arvind Thakur Absolutely.

Dipen Shah Okay. So did it have 5.4 crore loss on a net basis, should we consider that?





Arvind Thakur

Yes, because the one-time expenses were actually expenses incurred by the JV, so therefore the JV had a significant loss in this quarter.

Dipen Shah

Okay, right. Thank you very much and all the very best.

Arvind Thakur

Thank you.

Moderator

Thank you so Mr. Shah. Our next question is from the line of Sonaal Kohli from AIM Capital. Thank you and over to you sir.

Sonaal Kohli

Congratulations. Considering that the currency has moved in the quarter end, do you expect now getting price increases would be difficult going forward?

Arvind Thakur

I don't think currency is going to impact our pricing, but let me just give this question to Lalit, because we just had a user conference and he will be able to give you a better sense of what is happening.

Lalit Dhingra

Yes, we did have our user conference in Miami last month and it was attended by all the senior executives of all existing clients and some of the prospects, whom we invited - overall around 130 people who attended that conference. And a few things came up very clearly. One, that the corporations whom we are dealing with are very upbeat about having no budget cuts, and that means that there is no price cut for us. Actually, we even talked about that we should be actually increasing our rates with some of our customers, so we will take that up in the coming quarters. And the other thing was that the only major thing which came up in the conference was that now all these corporations are not spending the budget like the way they were spending previously. That means they are very careful about who is the organization that is going to give them value. So, it is not that they all go and spend money with all the large corporations. They are going to look at the niche players and when they go and look for the niche players, I think pricing is not the major issue, it is about how we create value and increase revenue from that. So I don't see that there is any issue on the pricing front for us in the next few quarters going forward unless and until there is a big change in the environment.

Sonaal Kohli

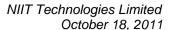
And sir, in terms of your margins, you said that excluding the one-offs and excluding the new acquisitions and contracts, your margins would have been somewhere around 18.5%, is my understanding correct?

Arvind Thakur

If we exclude, yes.

Sonaal Kohli

Considering there was 40 basis points on hedge front, so about 18% kind of margins and if I was to just remove the hedging losses from previous quarter, it was about 19% margins. So, we had Q-on-Q, like-to-like decline of about 100 basis points in margins in spite of 9%-10% growth and increase in utilization by couple of hundred basis points. Which were the factors that affected us negatively and when do you see growth actually leading to margins increasing or are there certain costs for scaling up the organization, which would lead to a revenue growth, but margins



technologies

may not grow because you need to spend more on SG&A and you need to hire more manpower to build the organization for new lag of growth?

Arvind Thakur

I think that's a very good question Sonaal and to some extent, some of the expenses that we would not have incurred but we are now beginning to incur is really coming out the rapid growth that we are seeing in our business. And one of those things is the rentals. So our earlier plan of giving up space when our SEZ was set up is now getting deferred because we are finding that we may run out of space in the SEZ and we will need to retain our existing premises. So some of these cost elements are coming in as a result of the rapid growth that we are seeing in our business.

Sonaal Kohli

And sir, do you think your margins should stabilize there at current currency run rate or would your margins trend downwards? I am talking about direction, I am talking about margins, I know you don't give a guidance on that front, but more as a trend with growth at some stage would you see margins increasing or would we see further decline in margins or would it be more like near these kinds of currency levels? I don't mean Rs. 50 currency exchange rate, I mean the currency rate at which you had your previous quarter of Rs. 45 per dollar.

Arvind Thakur

I think definitely our margins are going to be somewhat subdued for the reasons as I just explained, one has to do with the increase in our cost structure as a result of rapid growth and the other has to do with the low margins in Morris' case, no margins till we transition. So I expect our margins to be tight for the balance part of the year and we start recovering our margins from next year.

Sonaal Kohli

Then what do you expect, a downward trend to your margins incrementally from this quarter further or because our margins have already come off from what they were or when you talk about it that incremental or you are referring to last year?

Arvind Thakur

No, I am talking about going forward. So for example, at this quarter, we have only one month of Morris revenues and as I said, there is a 6-month transition. In next quarter, there will be three months of Morris revenues. So you see growth in revenues, but you see decline in margins as a result of that.

Sonaal Kohli

And for future quarters as well, do you see further growth this quarter was main growth quarter for us or would you expect because of next quarter having being a seasonally weak quarter because of holidays, would you expect a negative growth or growth to come off significantly from what we are doing now?

Arvind Thakur

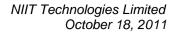
No, we will see robust growth in the subsequent quarter as well.

Sonaal Kohli

Okay thank you so much.

Moderator

Thank you so Mr. Kohli. We have the next question from the line of Neerav Dalal from Sharekhan. Thank you and over to you sir.





Neerav Dalal Thank you for the opportunity. I had one question, what is GIS revenue for the quarter?

Arvind Thakur GIS revenues were Rs. 264 million.

Neerav Dalal 264, right thanks sir.

Sanjeev Hota Hello this Sanjeev from Sharekhan. Sir, if you could share what is the managed services revenue

for this quarter?

Arvind Thakur About 13% of overall revenues is managed services.

Sanjeev 13% of the total revenue. Okay that's all from our side.

Moderator Thank you so Mr. Dalal. Our next question is from the line of Amar Maurya from India Nivesh

Securities. Thank you and over to you sir.

Amar Maurya Thanks a lot for this opportunity and congratulations for a good set of numbers. Sir, first I want

to have some flair on the recent acquisition which we did in Spain. In terms of revenue, I mean what kind of revenue are we expecting say going forward from this and in current quarter what is

the revenue contribution from this Spain acquisition?

Arvind Thakur In the quarter under review, it is Rs. 74 million. So I think if you are looking at quarterly

revenues, it should be about 130 million per quarter.

Amar Maurya Okay so this is the kind of run rate you are talking about 130 million?

Arvind Thakur Yes.

Amar Maurya And secondly sir, about these 7 clients, which we had won in this quarter, can you share some

flavor about in terms of the service mix or vertical mix?

Arvind Thakur Like I mentioned, of the seven, 2 are India government, one is in travel space, this is also a

managed services client in the US where we are acquiring the infrastructure. And there is one in the BFS space, and there is one in the manufacturing space. And of course I talked about Morris

Communication.

Amar Maurya Yes that is one. Okay sir, thanks a lot.

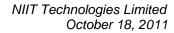
Moderator Thank you so much Mr. Maurya. Our next question is from the line of Vimal Gohil from Asit C.

Mehta Investments. Thank you and over to you sir.

Vimal Gohil Thank very much. I would just like to come back to the one-time expense that we see in this

quarter. Arvind if I am not wrong, you had also incurred some expenses in the Eurostar deal?

Arvind Thakur Those are not part of this.





Vimal Gohil Okay, so when would we be incurring those revenues, when do we see those costs coming into

the P&L, which quarter?

Arvind Thakur They are already happening, those are the transition expenses, but this is different. In Eurostar,

those are transition expenses. We are talking about legal, professional fees, and advisory

expenses.

Vimal Gohil Right, okay. And in terms of volume from US and Europe separately, can we provide that data

point please?

Arvind Thakur Yes in fact, Europe is 38% of our revenues.

Vimal Gohil No, the volumes from US and Europe, volume growth from US and Europe separately.

Arvind Thakur Sure, I can do that. Volume growth in the US is 11% and Europe is 16%.

Vimal Gohil That's great. Coming back to the pricing part, correct me if I am wrong, if the non-linear part of

your revenue is increasing, shouldn't we automatically be expecting a pricing uptick in the

coming quarters?

Arvind Thakur Well that's the nature of the non-linear business, we don't talk about pricing but you have things

like for example, license sale or something else. So one of the reasons why you see very good margins in our ROOM business is because there is a lot of IP, which is built into the solution. So then you are not talking pricing, you are talking about structuring the deal. The pricing issue comes in your ADM business when you are providing application development and maintenance

service.

Vimal Gohil Right. From your non-linear businesses, what kind of margins are we looking at in your non-

linear business?

Arvind Thakur Well, it's normally higher than the normal business.

Vimal Gohil Okay right. That's all from my side gentlemen, thank you.

Moderator Thank you so much Mr. Gohil. Our next question is from the line Rahul Jain from Dolat Capital.

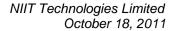
Thank you and over to you sir.

Rahul Jain I was just trying to understand what is the absolute amount of loss for the Morris for the quarter?

Arvind Thakur Rs. 98 million.

Rahul Jain Okay and 50% is pertaining to our share?

Arvind Thakur It's 60%.





Rahul Jain 60% of this?

Arvind Thakur Yes.

Rahul Jain So if I adjust this, so what could be the JV profit for GIS?

Arvind Thakur No, this is not GIS, this is managed services and BPO deal.

Rahul Jain No that is fair enough, I am trying to get the other component of minority interest, which could

be...

Arvind Thakur Okay. That will be profit.

Pratibha Advani That will be 45 million.

Rahul Jain Profit?

Arvind Thakur Yes.

Rahul Jain 45 million. I am little confused because 98 million are the Morris thing, so our share, if I reverse

the loss of the other part then I could come close to 40 and the net which we have shown is 27,

so the balance has to be 53. Is that the GIS profit?

Pratibha Advani So the JV loss is 81 million and the GIS profit is 45 million.

Rahul Jain Okay GIS is 45 million?

Pratibha Advani That's right.

Rahul Jain So I mean if I look at the previous thing it would come close to 54 as a run rate and this 54

million profit has become 45 million profit despite 30% growth in the GIS revenue QoQ. I am

trying to understand the margin of GIS for this quarter.

Arvind Thakur We can tell you the margin, the margin is 25%.

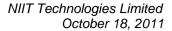
Rahul Jain And in previous quarter?

Arvind Thakur It was 27% in the previous quarter.

Rahul Jain Still not getting....okay I will take it off line. That's it from my side, thanks.

Moderator Thank you so much Mr. Jain. Our next question is from the line of Ambrish Kanani from JM

Financial. Thank you and over to you sir.





Ambrish Kanani

Hello, I want to understand the current deal pipeline and kind of order that you are discussing with your clients, whether you are getting same kind of traction that you have seen in last 6-9 months. So my question is vis-à-vis what you have been discussing with your client, six months or 12 months before and right now, how do you sense and whether a traction that you have seen in your ordering intake do you see that continuing or kind of some tapering down of that?

Lalit Dhingra

I think we are seeing a lot good traction and similar kind of deals in the US. In the insurance, we have seen four or five discussions, which are going on right now which are fairly large in nature. And we are also discussing few large deals in the travel segment and we are also discussing one or two in the banking and finance sector. So we hope that some of them will materialize in the next six months.

Ambrish Kanani

Okay. The question is, the kind of run rate that we have seen in last six to nine months based on these transformational deals, do you see that kind of continuing or there will be little bit tapering down of that from this highway or it will be kind of difficult to put some number there?

Arvind Thakur

I need to say that because these transformational deals happen one-off, but I think the normal deal pipeline seems to be quite robust.

Ambrish Kanani

Okay my second question is based on this utilization levels of 82% based on the actual order intake that you have, how do you see the hiring plans for the remaining part of the year and also going forward?

Arvind Thakur

I think we have been having a very robust rate of hiring in the last couple of quarters and to my mind, we need to now start focusing on their productivity.

Ambrish Kanani

Okay so, what you are saying is despite 82% utilization based on the hiring that you have for these two quarters which is averaging at 450, I think you should able to manage your order intake that you have right?

Arvind Thakur

Obviously, we will continue to hire going forward, but my own personal view here is that we should now look at more in terms of improving productivity of the people then hiring.

Ambrish Kanani

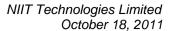
Okay. Moving to the Morris JV and your potential additional business from the media vertical that you thought you would be kind of getting, is there any traction there in terms of discussing with clients beyond Morris in the media vertical? So my question is how is that looking, so what is the status?

Arvind Thakur

As I explained earlier, currently our major energies are in taking over the existing infrastructure. At the same time, we have opened some dialogues and I will request Lalit to share some thoughts on that.

Lalit Dhingra

I think is very important to understand that we did this JV because we wanted to come across as a different organization providing a complete service below in a print and publishing media. So





now with the IT and BPO background, we are actually coming up in the transition phase of a transactional pricing for this kind of organization. So we did our first level of discussions, we have been talking to few of the other newspapers and the private equity firms who hold those newspapers. And there is a lot of interest, but actually it is right now, we are holding on to it till we have a clear understanding of how we are going to price these services for the other newspapers, because we want to do it as a service organization not generally as the time and material base services. So the pricing there is the key, so till we take over the complete Morris transaction which will be another six months, we will not have those pricing ready for us. But there is a pipeline which is getting built on the interest shown by those people to do the outsourcing with us. So I think we see a fairly good traction in the market once we go on full hog in the marketplace.

Ambrish Kanani

After six months from now maybe the deals will be much more visible?

Lalit Dhingra

Yes and right now there is a lot of traction in the market, we see that they are interested, so we will have a solid pipeline after six months.

Ambrish Kanani

Okay and the last question, in India you have deals on the criminal records side that you were mentioning. You said you have done it with two states, is there a huge pipeline of other states that you have on this, so can you replicate this or its kind of revenue where few states which are wanting this and it's kind of very few states? So my question rather is about the potential of just replicating in other places?

Arvind Thakur

This is actually mandated for all states, so there is a central piece of software that has been created which has to be modified to suit all the states. So it's a big process, every state is going to be wanting to implement this. We are participating in a lot of RFPs and bids but as you know in the government business ultimately the contracting is done with the party which is the lowest price. So we are going to win some that we have done, we are going to lose some, but I think ultimately it will be a good piece of business to execute.

Ambrish Kanani

Okay so how many states are already over, one or two states, is there any number there, can you name those states?

Arvind Thakur

Unfortunately, since the states themselves have not taken out their press releases, we cannot name them but at least half a dozen states have already gone ahead.

Ambrish Kanani

Okay they close it and you won two out of it is that what you are saying?

Arvind Thakur

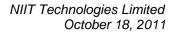
Yes.

Ambrish Kanani

Okay thanks a lot and all the best.

Moderator

Thank you so much Mr. Kanani. Our next question is from the line of Rakesh Tarway from Motilal Oswal. Thank you and over to you sir.





Rakesh Tarway I just wanted to understand this rationale of extra debt in this quarter and apart from that would

you be able to quantity this new government deal, which is the total amount.

Arvind Thakur I did mention around \$45 million.

Rakesh Tarway Okay. \$45 million and what is the rationale for the debt and what is the cost you are paying for

the debt.

Pratibha Advani The rationale for debt is, we have funded both strategic partnership with Morris models and the

Proyecta deals, partly through debt and partly through our internal accruals, average cost of debt

and this has been taken in UK and US is about 3.15%.

Rakesh Tarway 3.15%.

Pratibha Advani This is thea blended rate for both the debts.

Rakesh Tarway These are basically foreign currency debts?

Pratibha Advani That's right.

Rakesh Tarway Okay and the repayment cycle is?

Pratibha Advani So, one is 3 years and one is 1 year, which is actually really a working capital limit that we have

taken.

take the next question from Srinivas Seshadri from RBS.

Srinivas Seshadri This is Srinivas from RBS. Actually, I was not quite clear about the margin commentary. If you

could explain, I mean when you mentioned that we expecting margins to dip next quarter as well.

Are you referring to the reported margins of 14 odd percent or are you referring to the adjusted

margins excluding that one time of 18%.

Arvind Thakur Yes, the adjusted margin, Srini.

Srinivas Seshadri Okay and just to understand this Morris deal bit more clearly. If I understand correctly, I mean

we had about \$1.7 million of revenue and on a quarterly basis; this will ramp up to 5 million

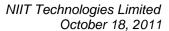
dollars next quarter. Is that understanding correct?

Arvind Thakur Yes. More or less.

Srinivas Seshadri Okay and we will not be making any margins on Morris on till 4th quarter or how should one

model it.

Arvind Thakur Yes that is the way to model this, because that is the transition period.





Srinivas Seshadri Okay and after that how does the margin trajectory look? I mean

Arvind Thakur Then you start offshoring, then the margins starts improving

Srinivas Seshadri Okay and when are you expecting to achieve steady state margins from this project?

Arvind Thakur I think after 6 months we should start, but let me just to ask Lalit to comment.

Srinivas Seshadri Yes sure. 6 months after the end of FY12?

Arvind Thakur No, 6 months on the beginning from today.

Srinivas Seshadri Okay, so 8 months from today, we should be looking at, so that like, I mean by basically the end

of this quarter

Arvind Thakur End of the fourth quarter.

Srinivas Seshadri Okay, so within quarter you expect margins to move from zero to normalized, is it?

Arvind Thakur That's right, because you know we would have offshore.

Srinivas Seshadri Within a quarter?

Arvind Thakur Yes. So let me explain to you. We have taken 100, and 120 are still there.

Srinivas Seshadri Okay.

Arvind Thakur Because we are taking 100, 120 cannot be let go. So we are using them in a professional service

mode at salary cost. Balance 120 will then once start offshoring, those balance 120 will go away.

Srinivas Seshadri Okay, so there is a kind of a definite period till when they would be employed and after that one

would be using, understood. So one should see a ramp up of the margins immediately after the

first quarter.

Arvind Thakur Exactly.

Srinivas Seshadri Right sir, and what is the status of execution on Eurostar? Were there any revenues booked in the

quarter and what do you expect for the current quarter.

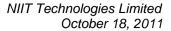
Arvind Thakur We are still in transition. We have delivered the first milestone that's been signed off and now I

think we are awaiting sign off for the second milestone. Once that happens, then you take over

these service.

Srinivas Seshadri Okay, so only after the second milestone you will start billing. So when do you expect that will

happen in the third quarter?





Arvind Thakur It will happen in the third quarter.

Srinivas Seshadri Okay, this current quarter and by fourth quarter it should be fully ramped up and when you are

mentioned that you won this \$45 million worth of contracts on the domestic side and also that 65 to 70% kind of hardware component. It appears to me that there will be fairly big hit on the margins on this particular contract, but is it likely to be staggered or I mean how much would it

be executed in a FY12 itself of this 45 million?

Arvind Thakur I would assume half of it will happen in this year and half of it will happen in the next year.

Srinivas Seshadri Okay, so this quarter itself one should see a build in significant revenues from this contract?

Arvind Thakur Some hardware will get delivered, so we should build in some revenues

Srinivas Seshadri Okay without much margins and may be the other part was BFSI- revenues in dollar basis

appeared to be flattish quarter on quarter, so just wanted to check it I mean what are the reasons

for the same.

Arvind Thakur No, I think BFSI is 7%, Srini in FX there are no gains.

Srinivas Seshadri So it is. I will recheck my numbers and so may be a few data point, one is revenue of room and

what are the margins.

Arvind Thakur Room is 398 million at 27% margins.

Srinivas Seshadri What is the outlook in that segment. Are you seeing any impact of the macroeconomic issues at

all in that segment?

Arvind Thakur Not macroeconomic, but we have some catastrophes, because this is the Lloyd's market and they

had to service some catastrophes in New Zealand, some people had to service catastrophes in Japan. So in this market, they are less impacted by the economic environment as compared to

physical and other disasters which they have to service.

Srinivas Seshadri Okay, so from that perspective, do you expect any slowdown in the revenues which have been

like fairly trending up strongly over last few quarters.

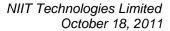
Arvind Thakur I think that will remain steady and that what we believe, just has been trending quite well. Have

been doing quite well in this space

Srinivas Seshadri Okay and couple of financial questions for Pratibha, one is how much was the total interest cost

which we incur enduring this quarter? Interest expense?

Pratibha Advani The total interest cost was Rs. 4 million.





Srinivas Seshadri

Rs. 4 million and then the other thing is what is the hedging reserve now there and reserves

surplus?

Pratibha Advani

The hedge reserves currently is negative 89 million.

Srinivas Seshadri

Negative 89 million, okay and can you also break up the Hedge position or quarterly basis at least for the current year.

Pratibha Advani

I am primarily sharing the US dollar hedge because that is the significant Hedge currency. For Q3 it is 12.5 million at 46.29. For Q4 again, it is 12.5 million at 46.49. Q1 next year is 13 million at 47.88.

Srinivas Seshadri

And finally just coming back to the margins. Given that the focus of management appears to have and the organization itself appears to have shifted towards growing very aggressively. How do you balance margins in that context? Is there having any number or anything have in mind seen that as an organization we should not be slipping beyond the certain margin level or is it possible that given the kind upfront investments which are doing into most of the new business. I mean there is no particular target in mind in terms of maintaining margins.

Arvind Thakur

I think what we are doing Srini is you know in the transformational deals, it secures revenues for a longer period. We are quite willing to make upfront investment, so that one is able to scale and scale rapidly. I believe in the current turbulent environment to secure business than be overly concerned about the margin.

Srinivas Seshadri

But there is no absolute level at which you will say that let us balance the margins versus the top-line growth?

Arvind Thakur

I think as you have seen in the past I think you manage margins pretty well and as a business at least amongst I would say mid-sized organization our margins will always be superiors.

Srinivas Seshadri

Thank you. That's all from my side.

Moderator

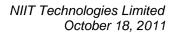
Thank you so much for Mr. Seshadri. One next question is from the line of Shradha Agarwal from B&K Securities. Thank you and over to you ma'am.

Shradha Agarwal

Just a few more clarifications, I mean the quarter has been good, but off late there had been some negative news flow coming in from the airline industries especially, you are a base airline company like Lufthansa having cut its profit guidance and another airline company cutting its forecast for the year. So how do you look at the Europe based airline industry?

Arvind Thakur

Okay, Shradha you would have noticed that even in the slowdown, when the airlines were dramatically hit, they did not stop spending on IT, but this is one industry that is very information intensive and we have used technology to help them both in good times to acquire more customers and in bad time. So one would not be overly concerned about what is happening





to the industry per se. So if you look at some of our key clients, they are investing, so if we look at British Airways for example. They have got a huge marketing budget now to enhance their premium and first class passengers. They are coming out with a completely new look that is giving us an opportunity to grab market share.

Shradha Agarwal

Probably what you are referring is to that you have not seen any impact of the recent turmoil on your clients' budgets at least.

Arvind Thakur

No in fact we gave seen growth in revenues in these accounts.

Shradha Agarwal

Sir secondly there have been some major vendors talking about elongated sales cycle in certain instances, what is your take on that?

Arvind Thakur

I think yes in some situations you have seen that because the decision making seems to have more from the CIO to the CFO. So I think there is a little more rigor but let me get Lalit comment on this as well.

Lalit Dhingra

I think I will agree with Arvind on a little bit of longer sales cycles, but in certain areas, as Arvind says, it's going from CIO to CFO, and now what is happening is that in the US, we are seeing CIOs, CFOs, and business heads together take a decision on the organizations which can add value to them. So that's why a little longer cycle, but I think in certain cases when chasing small-to-medium organizations, you get better and quick results, but when you go with the larger clients, then you will have little longer cycles in the US.

Shradha Agarwal

And the secondly ma'am would it be possible for you to tell us what does this non-operating income of Rs. 6 million referred to?

Pratibha Advani

This is our inter-company debit-credit that we have in NIIT Limited. So they share spaces with us in some of the geographies.

Shradha Agarwal

And secondly was there any loss or gain booked in the revenue line on the old hedges this quarter?

Pratibha Advani

No, nothing Shradha.

Shradha Agarwal

So this \$39.75 million does not have any component of old hedges.

Pratibha Advani

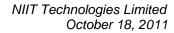
No.

Shradha Agarwal

Sure. Thanks a lot.

Moderator

Thank you so much Ms. Agarwal. Our next question is from the line Sonaal Kohli from AIM Capital for a follow-up question. Thank you and over to you sir.





Sonaal Kohli A small clarification when you say that your next few quarters would see robust growth this is

ex-hardware sales or that is primarily because of hardware sales.

Arvind Thakur Sonaal, in our business, you deliver revenues of the order book. So huge intake that we have got

now we are going to be delivering of that intake. So it includes both services as well as hardware.

Sonaal Kohli But could you expect your services business to also grow at a robust pace in the next....

Arvind Thakur Even services will grow.

Sonaal Kohli Secondly when you say about outlook from margin with respect to the current quarter margins

when you talk about future margins may be getting subdued from theses levels is that including

impact to hardware or were you referring only to IT services margin?

Arvind Thakur I was talking about the time required to transition large contract like Morris as well as the lower

margins that will get in contracts with hardware.

Sonaal Kohli So it includes the impact of both?

Arvind Thakur Yes.

Sonaal Kohli Okay. Thank you so much.

Moderator Thank you so much Mr. Kohli. We have the last and final question from the line of Ravindra

Agarwal from Capital Market.

Ravindra Agarwal On the CapEx front, what is the CapEx that you are looking for the current fiscal and also I just

missed out on the hedges part like what is your hedge position for the coming quarters?

Pratibha Advani On the CapEx side, we had a 22 crore goodwill that has been capitalized and about 10 crore of

assets for Morris and Proyecta acquisition. Additionally, our own spend has been 70 crores, so

that is a CapEx breakup. Next quarter, we envisage we will spend about 20 crores.

Ravindra Agarwal On the hedges front....

Pratibha Advani As we mentioned earlier, it is 39.75 million.

Ravindra Advani Okay fine thanks.

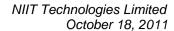
Moderator Thank you so much Mr. Agarwal. As there are no further questions, I would like to hand the

conference over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments.

Arvind Thakur Thank you very much once again for your participation in this conference. NIIT Technologies is

on a growth path and sustaining very significant growth momentum on the back of a very

significant order book that it has been able to build up with some very good wins. So hopefully





going forward you will be pleased with the performance of the organization as well. Thank you very much and good bye.

Moderator

Thank you so much. On behalf of NIIIT Technologies that concludes this conference. You may now disconnect your lines.

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