



TRANSCRIPT: NIIT Technologies Ltd Q2 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 NIIT Technologies' Q2FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 telephone. 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: Thanks and good afternoon everyone, and welcome to our Q2FY16 Earnings Call. By now you would have already received the results and fact sheet that we had sent out via e-mail; those are also available on our website www.niit-tech.com.

I would like to add that the disclaimer about forward-looking statements apply, as mentioned in the invitation to this earnings call sent out to you earlier.

Today, as usual, we will start the call with opening remarks from our leadership team and then we will move on to taking your questions. Present with me here from the leadership team are our Chairman Mr. R S Pawar; our CEO Mr. Arvind Thakur; our Chief Operating Officer Mr. Sudhir Chaturvedi; and our interim CFO Mr. Amit Roy.

I would now like to hand over to Mr. Arvind Thakur, our CEO, for his opening remarks. Over to you, Arvind.

Arvind Thakur: Thank you, Abhinandan, and good evening everybody. I will straightaway talk about our performance in the second quarter of FY16. As you are all aware, our prime agenda for FY16 has been to grow our business in our international geographies and reduce dependence on domestic government engagements. Last quarter I shared with you the direction and we saw international revenues growing 9% and domestic business declining by 19%. The same trend continues into the second quarter of this financial year where international revenues have grown 8% sequentially during the quarter and there has been a decline in revenues in India which shrank 12.4% in the quarter. Overall revenues have grown 5.7% sequentially to Rs.6,779 million which represents 15.2% growth over the same period last year. In constant currency, revenue growth has been 4.1% sequentially. There has been a gain of 1.6% on account of rupee depreciation. Business in the US has grown 6.2%, contributing to 46% of overall revenues during the quarter.

EMEA grew 5.8% and contributed to 35% while revenue share from APAC has also grown and now contributes to 10% of total revenues. In other words, there has been all round growth in all our international geographies.

Share from India is down to 9% from 11% in the previous quarter as a result of reduced focus in the Government business.

Among industry segments, BFSI grew 8.3% sequentially and this has been primarily on account of Insurance business in the US and also growth in NITL, which is NIIT Insurance Technologies Limited. And BFSI overall now contributes to 37% of our revenue. Travel & Transport grew 6.6% also contributing to 37% of revenues. Manufacturing & Distribution is now 8% of our revenues. As with our international geographies, we have seen all round growth in every vertical segment of focus. Revenues from our Government business has declined 48% reflecting the changed dispensation towards the segment and Government business now contributes to only 3% of the overall revenue mix. Onsite revenues represent 59% of the total revenues of the company.

Focusing a bit on margins: Operating profits for the quarter stood at Rs 1,194 million which is a sequential growth of 14.6% and represent 45.2% growth over same period last year. There has been a significant expansion in operating margins which has grown 135 basis points sequentially and operating margins now stand at 17.6%. Improved margins are essentially a result of the changed revenue mix with increased revenues from international geographies and lower domestic government business. Currency impact has been minimal on our margins. There has been an impact of 10 basis points only in terms of positive impact of currency on the margins and this is because of lower hedge gains that are recorded in our revenues.

Net profits improved 70.3% over the same period last year to Rs.682 million which represents a 16.5% sequential growth. Besides expansion in operating profit, net profits are up because of reduction in the effective tax rate due to lower domestic business. Effective tax rate for the quarter stood at 23% of PBT.

So those are the broad financial numbers. Now to talk about the business, I will request Sudhir to share with you some insights in fresh orders, new clients, and so on.

Sudhir Chaturvedi:

Thank you, Arvind. We had \$80 million of new business which we acquired this quarter, this included \$29 million from the US, \$34 million from EMEA and APAC was \$17 million. The executable order book is \$300 million over next 12 months. The lower intake this quarter was on account of a large deal loss and some delays in closure. Overall large deal pipeline is healthy and three deals with contract value of about \$20 million are at an advanced stage. These deals will be decided in Q3. Further deals will close in Q4 and beyond. We have added 4 new logos this quarter; 2 each in US and EMEA; 3 in Travel and 1 new logo in Media.

From Digital Services perspective, Go Digital efforts were rewarded with new wins and good growth. I am pleased to share that two major airlines went live with new responsive websites providing a whole new digital experience to their customers. Digital now accounts for 15% of total revenues; of the 15%, 50% of these revenues come from our Digital Experience accounts, and Analytics and Digital Integration account for 40% of revenues in Digital today.

To talk about our people addition, I hand over back to Arvind.

Arvind Thakur:

Thanks, Sudhir. I also like to add that a customer of ours went live on Hybrid Cloud-based solution around SAP HANA on a multi-year usage pricing model. So, I would say that also contributes to Digital Services business.

Talking of people addition, there has been a net increase of 364 people during the quarter, taking our total headcount to 9,592. Our utilization improved slightly to 79.7% during the quarter. And we have seen an improvement in our attrition levels as well which stand at 13.7%.

We had a net cash decline of Rs.150 million during the quarter. This was on account of the dividend payout that took place during the quarter. Debtors at the end of the quarter were 89 days of sales outstanding. So there is an improvement over here as well as compared to last quarter which was 92 days. We had a capex spend of Rs.365 million during the quarter.

Now, looking at the overall environment, we see that US remains in a good recovery mode in terms of the economy, it has grown better than estimated, in fact, estimates show that the April to June quarter the annualized rate was 3.7% which was up from the first estimate of 2.3%. We are also seeing a recovery in the UK economy with encouraging data on disposable income that have been recently released. Euro zone remains in a state of flux where some data coming from Germany on industrial output and trade indicate some loss of momentum there. In Asia, the Indian economy is holding its ground as a fast growing economy and I think the recent rate cuts on interest should support the growth going forward. So, by and large, there is a good environment globally in the geographies where we are focused. Even if I look at Travel & Transport vertical, the airline industry continues to be positive with increase in passenger traffic. In Banking, Financial Services, & Insurance, we are seeing, at least in the businesses and the clients that we are engaged with, showing a good traction.

So, looking at the overall position and our whole strategy where there is a shift in the revenue mix clearly our margins are on a solid recovery path and we expect this trend to continue into Q3 and hope to grow it in Q4 as well. Q3 is usually a soft quarter for the industry. So we may expect slower growth in Q3 but there should be expansion in Q4 for us to be able to deliver the industry average growth which we talked about earlier.

With these remarks, I would now be happy to open up the call for your Questions and Discussions.

Moderator:

Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Sandeep Shah from CIMB India. Please go ahead.

Sandeep Shah:

The first question is in terms of the order book. So we have mentioned that one deal we have lost. So can you give some more color on what were the reasons? And on three deals there is a

delay in decision making. So where are we in terms of positioning, who are the competitors and when do we expect the decision to come?

Sudhir Chaturvedi: Regarding the deal loss that we had in Q3, this was a closely contested deal, we finished in the final two, and this deal was an existing account where it would have been net new revenue for us. So, I think the key thing is that we were able to showcase the ability to compete in a new area and some of that is holding us in good stead for growth in that account as well going forward.

Sandeep Shah: Who won it – is it an Indian competitor?

Sudhir Chaturvedi: We cannot disclose the names of the winner to you.

Sandeep Shah: What about the three deals like what were the reasons in terms of slipping it to the following quarter?

Sudhir Chaturvedi: Large deals closure tend to slip for multiple reasons. I expect them to get decided in Q3, all the three deals will sort of close in Q3 from a decision perspective. Usually, large deal cycles take 3-6-months from a closure perspective and that is what we are seeing.

Sandeep Shah: So looking at the TCV odd which are happening on a Q-o-Q, that is very important for a growth rate targets or the budgeting for FY2017. So how confident you are in terms of your organic growth capabilities in FY17 versus FY16 because FY16 the growth has been also inching up because of the Incessant?

Sudhir Chaturvedi: The order intake which is at \$80 million ...As I shared with you this place and you can see that the majority of the orders are coming from US and Europe, I also mention that we have a healthy large deal pipeline, we have three deals which we will see decisions taken in Q3 and we have another three deals which work to \$20 million which will get decided in Q4 with some getting decided in Q1. So we got a healthy pipeline flow and our 2017 prospects will be determined by how well we do in our existing...so the momentum that we carry on Q4 which we expect to be good as well as some of these deal closures, we close a couple of large deals going forward, we should see decent 2017 as well.

Sandeep Shah: So the restructuring which you carried out in the sales and marketing operations for the last maybe one year, do you believe there are some improvements, a) in terms of reducing sales cycle; b) in terms of improving the deal win rate?

Sudhir Chaturvedi: I think the immediate benefit that we have seen is that our quality of new logo in fact has gone up and our revenue contribution from new logos is significant, in fact, if you see our account No.11 to 30, the accounts grew faster than our top-10 accounts. So even though our top-10 accounts grew, the revenue growth from the new logos were acquired were faster. The other

thing that we are seeing is the deal sizes at the time of new logo acquisitions are also good. So that part has certainly materialized. And the second part I think is that our focus verticals as Arvind described, BFSI and Travel have been our growth drivers going forward. So, yes, in that sense, the plan that we have been executing over the last 24-months is seeing good results.

Sandeep Shah: How confident in terms of sustenance of the margins going forward in a constant currency basis? I think in a television remark we have said that we still believe that the direction of the margin is likely to move up rather than moving down going forward within Q3 as well.

Arvind Thakur: Yes, that is right. I think we are confident of expanding our margins in Q3, in fact, even in Q4. I think there are good track as far as margins are concerned. They had been depressed because of the dependence on the government programs in the past. So now that we have cleaned up a lot of that, margins will continue to grow going forward.

Sandeep Shah: On the FCF conversion to PAT this time, there is a healthy improvement. So do we believe is it a one-off or there are efforts in terms of maintaining this going forward?

Arvind Thakur: That has been a strong focus within the organization to manage the operating cash as well as doing collections. So you would have noticed that receivables are down by 3-days which is also contributing to improvements in a free cash flow and that effort will continue. So you will continue to see improvement in free cash flow going forward.

Moderator: Thank you. Our next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Sir, a couple of questions; first, on the transportation side. So can you briefly tell us what is actually driving growth in that vertical and also whether there is a Digital component there as well? Secondly, how much change in the side of Digital deals you are seeing on a quarter-over-quarter basis? Third, do you think that the existing clients... as you mention that the new logos are growing faster than the existing ones, are we trying to say that within the existing clients probably we are of good size and we need to do more hunting of clients rather than forming of clients?

Arvind Thakur: We will do both. I think we saw strong growth; 6.6% quarter-on-quarter growth in our Travel space. Yes, a good amount of growth is coming through Digital. In fact, we had the two major airlines who went live with the new responsive websites and that itself is a significant opportunity because all travel customers have to refurbish their channels to be able to engage with their customer base and provide them with a better experience. So overall, our Digital revenues have also grown; they now contribute to 15% of our overall revenues, last quarter it was 14%. So that in fact represents about 18-19% quarter-on-quarter growth. So that has been healthy, but Sudhir may want to add.

- Sudhir Chaturvedi:** I think the only thing I would add to that is from Travel perspective, our growth is quite significant in terms of passenger numbers as well as in fact cargo growth as well. So, for clients there is any need to modernize their systems, infrastructure, including their PFS systems and ticketing systems, and as Arvind talked about their multi-channel experience for today's consumer. So therefore, we are saying higher discretionary spend in Travel and it is being led by both the consumer demand and the changing expectations of the consumer.
- Arvind Thakur:** So there are two big areas which is giving a lot of traction for us in the Travel space; one, of course, we just talked about which was Digital and the responsive websites, the other is modernizing the backend which is migrating their passenger services systems. And in fact, some of the new logos that we have acquired are really supporting that initiative. Sudhir talked about three new logos in the Travel space; two of them actually are in the migration space.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde from Emkay Global. Please go ahead.
- Manik Taneja:** This is Manik here from Ruchi's line. I had a couple of questions; first of all, if you could give us some sense in terms of what was the reason for delay in some of these deal signings? And also, give us some sense in terms of which areas, which verticals, which geographies these deals are? Second question was a much broader level question. Some of your larger peers as well as similar size peers actually have indicated higher than usual slowness in the second half of the year. Do you see a similar situation happening for us?
- Arvind Thakur:** Let me just take the last question first and then Sudhir can talk about the intake. I think Q3 for the industry is always a soft quarter. It has to do with a number of days available in that quarter. A lot of holidays, people take leave, year end and so on and so forth. So traditionally it is a smaller quarter. I think that is the reason why you are hearing our peers in the rest of the industry talking about it that way. So other than that I do not think there are issues.
- Sudhir Chaturvedi:** As I said, the three deals were all about \$20 million and clients' diligence stages were longer than earlier plan that is why they moved to the next quarter. I think the healthy sign is that we continue to have a good large deal pipeline as well as seeing traction from Digital initiatives which tend to be smaller deal sizes. So I think our focus is going to continue to remain on our sales and marketing transformation, try, and focus on high quality new logos, large deals, and large account mining. So that will continue and the pipeline as I said is in good shape and we will continue to focus on conversion going forward.
- Manik Taneja:** I am just trying to understand how an increasing share of Digital deals and we heard from peers about smaller size deals happening in Digital as compared to the traditional engagements that we have been used to, so both lesser annuity component and smaller size of contract. How should we be reading that in context of a smaller number in terms of order intake?

- Arvind Thakur:** It is very simple. In the Digital space, what happens is customers' partner with their technology partners, they may have a few technology partners, but all the work that is happening in Digital gets distributed amongst these partners. So unlike the situation where like in Infrastructure Management there is a well-defined large program, then RFP and then people bid against that and so you secure large business. In Digital, there are small-small projects which are released amongst the partners. So everybody has a budget to execute, it is not firm, but that business is going to happen. So typically your visibility would be for a quarter, but you know at the same time you will be working on the new projects for the rest of the year or for the period of the MSA that you have. So you cannot really call that as order booked, because it is not confirm but you know that that business is going to be there going forward.
- Moderator:** Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.
- Abhishek Kumar:** My first question is on NITL. The sharp growth that we have seen in Insurance business. It seems to be at odds with some of the other players' commentary in the Insurance space. So just wanted to understand what is driving the growth in NITL and how sustainable this could be? Also I wanted to understand if there is any seasonality in license sale in this business?
- Arvind Thakur:** What is different between us and perhaps some of the other players is that this is a space in which we have our own IP, and there is a lot of IP-based business that happens. So you recollect that last year we had launched our new suite of products which we call as "ADVANTAGEsuite" which had many sub-products. One was in the area of policy admin, then we had the risk aggregation platform. So these products are now being used in the market. So the first implementation of our policy admin system went live in this quarter with a key client of us. That has contributed to significant growth in revenues in this particular quarter. So once your product gains acceptance in the marketplace, it creates a very different kind of traction.
- Sudhir Chaturvedi:** The new product that we launched based on modern technology and benefit that it provides to the insurance companies is the ability to write insurance across more product lines fairly quickly. So most insurers are struggling with making and underwriting profit, but there are emerging segments, for example, which we call political risk and other segments especially in large commercial insurance where we are seeing customer spending money because there is an opportunity for them to grow their top line there. Those are the market segments that we are focusing on, and that is different from the traditional ADM business and Insurance.
- Abhishek Kumar:** Second question I had on margins taking forward from the question which was asked earlier. If I look at the operating levers in this quarter, a lot of them seem to be slightly stressed if I look at utilization or offshore shift. So, what is giving you confidence that we will be able to sustain the margin expansion even in a soft quarter like 3Q?

- Arvind Thakur:** There are a number of reasons; number one is of course the mix change which is contributing to this. So more international revenues have higher margins and that is what we have been seeing in our business. Second, you would have also seen an improvement in our onsite/offshore ratio as well, last quarter it was 61%, this time it is 59%. So that is another thing that is contributing. Third is in one of our businesses which is the GIS business this quarter we have had lower margins, which is on account of some provisions for doubtful debts which we have taken in this quarter. That is not likely to be there in the next quarter. So some of these things are the levers that we have which will help us improve margins in the next quarter.
- Abhishek Kumar:** Sudhir, you mention that the deal that we lost it would have meant some new work for us and it was with an existing client. So, does it mean that we will lose some of the existing projects that we were doing or some of the revenues that we were clocking with this client as well?
- Sudhir Chaturvedi:** No, as I mentioned, this was a completely new area for business which we are not currently involved in and we were bidding to that.
- Moderator:** Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** Just wanted to get some book-keeping things right; one is on Incessant where the margins once again in the region of about 30%?
- Arvind Thakur:** That is right.
- Dipen Shah:** Can we have the revenues of ROOM actually?
- Arvind Thakur:** Rs.528 million.
- Dipen Shah:** So this one contract according to you actually contributes a large sum of money?
- Sudhir Chaturvedi:** Yeah, this is the new license plus implementation service.
- Moderator:** Thank you. The next question is from the line of Nitin Jain from Credit Suisse. Please go ahead.
- Nitin Jain:** First, on your top accounts. There has been decline in this quarter. So any particular reason for this decline?
- Arvind Thakur:** I do not think there is decline, the proportion has become less and...
- Nitin Jain:** So when you look at US dollar numbers, it is down by some 1-1.5 million.

Arvind Thakur: In constant currency, rupee is not finally declining but nevertheless I think you are right. What has happened is that I think Sudhir explained that our 11 onwards customers they have scaled more rapidly and they are because of the quality of clients that we have been able to secure in the last year which have higher headroom for growth. So, we are seeing more significant growth happening in those clients.

Nitin Jain: Is there any client-specific issue which we had in the beginning of the year? I think there were a couple of client-specific issues. So are we still facing those issues or ...I think one of them got resolved and one was still there.

Arvind Thakur: There were client-specific issues I think last year. No, they have been resolved last year itself.

Nitin Jain: On headcount growth, it has been really strong for the last two quarters, this quarter it was almost 16% YoY and looking at your revenue growth just trying to connect headcount growth and revenue growth, any comments on that?

Arvind Thakur: So I think headcount growth is mirroring revenue growth, obviously, the headcount additions are based on the pipeline that we are seeing and you are right the last three odd quarters there have been significant addition of people commensurate with the business visibility that we see.

Nitin Jain: But if I look at 12-months executable order book, that does not show any traction...?

Arvind Thakur: I think there was a question earlier, a lot of business which is for example, Digital is almost 15% of our revenues, new business is coming in that area is as low intake. So for example, in the Digital integration space, while I know there is going to be very significant expansion I do not have visibility of more than a quarter in terms of actual projects.

Nitin Jain: So that is not counted in...?

Arvind Thakur: Yeah, so actually if I were to look at that business and if I were to annualize that would have been the intake. But since it is not a firm secure order we do not take it as intake.

Nitin Jain: This 12-months executable order is on the orders which have a tenure of more than 12-months, is it like that?

Arvind Thakur: No, this is a 12-month executable order is from the confirmed order book how much is executable over the next 12-months.... signed orders.

Nitin Jain: This would include these 3-months orders of Digital?

Arvind Thakur: Yes, this includes the 3-months.

- Nitin Jain:** Finally, on your IP-based revenues, it is a small part of your business but this quarter it saw strong growth and you alluded to it earlier. So have you set any target for the IP-based revenue that you want to take your share to a certain percentage?
- Arvind Thakur:** Yes, I think we want to see two areas need to grow; our platform-based businesses as well as Digital. These are the two areas we are focusing on growth. And as I mentioned earlier, one of our large clients in this space, they have gone live on a new platform. So that is what contributed to that revenue growth.
- Nitin Jain:** But you do not have any target as such at the moment?
- Arvind Thakur:** There are internal targets.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.
- Rahul Jain:** Firstly, on the order book side, we said about some delays and closed deal lost and all that, but if you look at from a run rate perspective, even from a one quarter, the last four quarter perspective, this is probably the run rate which you were doing in fiscal '13. So given that we have been chasing a larger deal, given that we have revamped our S&M efforts and all that, do you not think still it would be a disappointment even if we are not able to take this number to a much better number despite some one-off that happen?
- Arvind Thakur:** For example, some new orders which we would have taken in the Digital space will have very little intake, but those are long-term engagements and they are likely to be multi-million dollar engagements. So I think the nature of the order intake is now becoming very different. That is what I was explaining earlier as well in this call. I think you have to view it from that perspective.
- Rahul Jain:** So can you say that effectively given that 15% of the business would never come in this particular category, this 80m has to be seen like 95m, right?
- Arvind Thakur:** Or more.
- Rahul Jain:** Then still we would be not much ahead of what we were doing earlier, right?
- Arvind Thakur:** That is what I am saying. On the other hand you will notice that our head count is increasing continuously despite the intake being lower. Our head count is increasing and our margins are also improving. So obviously the nature of intake is changing quite dramatically which is why you cannot compare the same metrics as you have been seeing in the past.

- Rahul Jain:** Coming to the margin thing, you have been confident that Q3, Q4 could see further accretion and I think the biggest driver for us has been one exit from the India kind of a business and also sharp movement in terms of the offshore effort. So, from a continuous leverage of this offshore, is that the steady run rate from the existing deal which may execute or that may have a little different mix than what we are seeing right now?
- Sudhir Chaturvedi:** That is exactly as we said. The quality of revenues will go up as our international business expands and the offshore leverage is also increasing as some of these projects get into more mature phases of execution. I think the key thing that we are seeing in this demand is that as long as we add high quality new logos and our digital revenues keep going up, that is a more secular sort of indicator or demand going forward. And domestic business is not a priority business for us and we are focusing on our international market growth.
- Rahul Jain:** So that also partly explain smaller order size also because our revenue growth maybe smaller but probably our profit growth could be higher given the mix change from Onsite to Offshore?
- Sudhir Chaturvedi:** Yeah, we could give you a long explanation on Government contracts and PFR values in previous order intake, but I think the key thing is our nature of our business is shifted to international market and as Arvind has explained the nature of order intake in those markets is different.
- Rahul Jain:** From a depreciation standpoint, it has gone a little bit lower even on the absolute front. Is it because some of these hardware business effect rather what could be the run rate kind of a number there?
- Arvind Thakur:** This depreciation has come down because there are some assets which we have disposed and I think the book value of that is what is reduced.
- Rahul Jain:** But from a run rate perspective, it would move with the growth nothing to read because of the revenue mix change kind of a thing?
- Arvind Thakur:** You are right, it has got nothing to do with revenue mix.
- Moderator:** Thank you. The next question is from the line of Shradha Agrawal from Asian Market. Please go ahead.
- Shradha Agrawal:** A couple of things; I think Incessant was consolidated for the entire three months versus two months last time. Could you give me the absolute contribution of Incessant?
- Arvind Thakur:** Incessant is 345 million, it is 30% operating margin.
- Shradha Agrawal:** What would be the PFR revenue?

Arvind Thakur: Rs.3 crore.

Shradha Agrawal: Where do we stand on the AAI deal – have we bagged any additional new airport this time around?

Arvind Thakur: Not yet.

Shradha Agrawal: The decrease in Government revenue contribution could also be led because of lower revenue coming in from AAI?

Arvind Thakur: Yes, yes, definitely AAI revenues have fallen.

Shradha Agrawal: Secondly, despite improvement in cash flows, I see an increase in your debt on books. Why is that the case?

Arvind Thakur: This as a working capital in our international geography. So it is not debt, it is a working capital credit.

Shradha Agrawal: And we expect to pay that off?

Arvind Thakur: Yes, there is a one month withdrawal draw down, so it will be get paid immediately.

Shradha Agrawal: Manufacturing & Retail have seen a sharp bounce back. So what has led to that sharp increase in just one quarter?

Arvind Thakur: So there are two things that have happened here; one is there is a large client of ours for whom we have been working, who has given some change request basically extended the scope of work, which we have been executing. So that has contributed to increased revenue. And there is another client who is using our platform on a transaction based service, there is seasonality in that business which has increased our revenues in this particular quarter.

Shradha Agrawal: If I look at the fresh order intake, US was trending upwards of 40, 45 for the last many quarters, this time around it has come down almost hovering around 35%. So anything specific we should read into that or it was just a quarterly aberration wherein you did better in EMEA compared to US?

Arvind Thakur: Yes, it is a quarterly aberration. US is our fastest growing geography right now and all our target verticals in the US are also growing.

Moderator: Thank you. The next question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

- S Ramachandran:** Just wanted to get your thoughts on the ADVANTAGESuite that you are launching in. In terms of the end market that you are focusing on which markets would these be, would these be mainly the UK market or do you look to expand into the US P&C market also?
- Sudhir Chaturvedi:** So the advantage suite of products compared to our previous suite of products actually gives us the opportunity to operate outside the Lloyds of London market...London market is our core market and it enables us to operate outside it both in the London market as well as global market from a risk aggregation perspective. From a policy admin perspective, the US has different rules in every state. So, we are not focusing on that market. When you say London market that is five times as many clients as there are from target clients perspective as they are in the Lloyds of London market.
- S Ramachandran:** Just wanted to get your thoughts on both the capex on the [Greater] Noida facility we were doing how much more we would like to spend over the next maybe 18-months? And also of the debtors that is outstanding, how much of it would be towards the India or Government business that is there?
- Arvind Thakur:** So on the campus I think we have another two quarters where we expect to spend another about Rs.30 to 35 crores and I think thereafter we would not be expecting to be investing more in the campus till we need to expand the capacity. To your second question, that is a significant number. About Rs.160 crores I think, but Abhinandan will get back to you on that number.
- Moderator:** Thank you. The next question is from the line of Deepan Kapadia from PhillipCapital. Please go ahead.
- Deepan Kapadia:** Generally book-keeping questions, like can I have the revenue and margins for Morris, GIS, and NITL, and Proyecta?
- Arvind Thakur:** GIS revenue is 311 million, margin 4%; Morris is 405 million, margin 9%; NITL is 528 million, margin 30%, Proyecta is 147 million and this quarter it slacked... no margins.
- Deepan Kapadia:** So from three quarters we are not making any money in Proyecta in terms of margins?
- Arvind Thakur:** Yes, you are right.
- Moderator:** Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.
- Ashish Chopra:** Arvind, you had mentioned about the kicker in NITL that came from on the policy admin implementation, thanks to your ADVANTAGESuite. Just wanted to know that beyond this how would your visibility stand with respect to more clients in the pipeline or already in the bag with respect to this offering?

- Sudhir Chaturvedi:** It is a license sales model that we deal with in this market, so there is a pipeline of other clients who are seeking. The key thing for us was to have a beachhead customer for our new suite of products, demonstrable sort of reference capability. So that is what we have in the market and we expect the pipeline to pick up going forward.
- Ashish Chopra:** So you would be fairly confident of this traction kind of continuing and NITL picking up further from here in the foreseeable quarters?
- Sudhir Chaturvedi:** Yeah, so I think if you see the shift in NITL growth from last year to this year based primarily on the new products launch and remember, these are suite of products, so we have a policy admin set of products, the risk aggregation set of products and analytic set of products. So we are also offering a richer product offering to the market.
- Ashish Chopra:** Secondly, would you be tracking or would it be possible to share how the duration period or the average duration of your quarterly order intake would have probably moved in the last maybe a year, year-and-a-half or so, would that be a number that you would be looking at do you think it should not be looked at that way especially given the proportion of Digital I assume would be increasing in the overall order intake currently?
- Sudhir Chaturvedi:** I think there are two main differences; one is the Digital order book as well as the government, for example, last quarter order intake from government was zero, this quarter it is also zero.
- Ashish Chopra:** You mention that the effective tax rate had come down because of lower proportion of India revenues and if you were to assume that the India revenues as a proportion of overall business remains here or goes down, should we assume this to be the normalized tax rate going forward for the company?
- Arvind Thakur:** It will be around 24%.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.
- Dipesh Mehta:** Just to understand this fixed price decline, whether it is primary on account of reduction in our Government business or anything other than Government decline is also affecting fixed price for us?
- Arvind Thakur:** So I think definitely because of Government business, because all Government business was fixed price. Lesser Government business would naturally skew it more in favor of T&M. A lot of Digital business is T&M as well.
- Dipesh Mehta:** Because last year same quarter we were around 45% kind of a thing, now we are at around 41%.

- Arvind Thakur:** That is right. So, nothing to be concerned about. I think the thing about these different models, T&M is in the traditional commoditized area, it is low risk, low return, but if you do T&M in the new emerging digital technologies, it will low risk, high return. So nothing to be concerned about. T&M is increasing.
- Dipesh Mehta:** It is more towards the business mix change and lower Government kind of a thing?
- Arvind Thakur:** That is right.
- Dipesh Mehta:** Just to stretch further on the one large deal which we lost to the competition. Is it possible to share in which geography the deal we were pursuing?
- Arvind Thakur:** No, I do not think so we can talk about that. There are a lot of confidentiality issues associated both with the client as well as the commercial.
- Dipesh Mehta:** About capex, I think last time we suggested around Rs.170-180 crore kind of capex for the current year. We still stick with that number?
- Arvind Thakur:** It will probably be a little less because Rs.170 crore included some project based capex as well. So, if we do not have projects which involve capex, it will probably be less than Rs.170 crore.
- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** One clarification; given that we had won large client in end of the implementation of new license in NITL and despite that we are seeing our top-10 or top-20 has kind of remained flat, actually marginal decline in rupee in terms, maybe flat in constant currency terms. I was wondering whether rest of the clients was facing any headwinds or whether the new client is still not in the top-20 in that sense?
- Sudhir Chaturvedi:** So the NITL client the one that we had where we had the ADVANTAGESuite implementation of navigator is not a top-10 client.
- Amish Kanani:** So it is a new client and not yet in top-10?
- Arvind Thakur:** Yes.
- Amish Kanani:** Hedge position... in terms of revenue it affects the grown at 1.6% but in terms of margin, you are seeing it has impacted only by 10 basis points because of some hedge situation. So if you can just update us where it is and whether it is likely to change for next couple of quarters?

- Arvind Thakur:** Basically, last quarter hedge gain was Rs.6 crore and this quarter it is only Rs.3 crore. So therefore you do not see that impact in the operating margin. Impact is only 10 basis points in the operating margin.
- Amish Kanani:** How is the hedge position now and how do you see that changing, in the sense that will the continuation of rupee depreciation should add based on the new hedge position or rather the outstanding hedge position as of Q2... my question was in the next two quarters, do you see some additional gains coming based on the current hedge position assuming the currency remains broadly where they are?
- Arvind Thakur:** If currency is the same, then the hedge gain will remain the same.
- Amish Kanani:** So there are no additional levers from that side?
- Arvind Thakur:** Yes.
- Amish Kanani:** Can you give us the hedge position numbers as of Q2?
- Arvind Thakur:** It will be there in the data sheet.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde from Emkay Global. Please go ahead
- Ruchi Burde:** You said that going forward we expect our effective tax rate to be 24% and that we expect to continue beyond FY16 as well?
- Arvind Thakur:** We are talking about FY16 at the moment.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.
- Sandeep Shah:** On the Incessant, what I understand is the business being complementary, so how are we in terms of integration where they have started knocking the doors of NIIT Technologies and at the same time there is a cross-selling opportunities which are happening about their offerings with the NIIT Tech and as well as we started knocking the doors of the Incessant clients, so how are we progressing – is there any instance where we can share in each of the bucket?
- Sudhir Chaturvedi:** So it is in the fourth month of the acquisition, so we have completed our financial integration, we have also created a joint sales model which as you described is them selling into our accounts, we are selling into their accounts and we are jointly going into the target markets together. We are also looking to expand our partnership with the product vendors that they have, so, for example, we are now one of the three approved partners for their mega seven upgrades which is a big achievement for Incessant. So all fronts, plans are underway. As I said

it is four months, so it is early days, but yet the plans have been created for these joint go to markets.

Sandeep Shah: What would be the outlook for the GIS revenue going forward as well as the purchase for resale, should we assume that the scale of Rs.3 crores on a quarterly basis may remain or it may go to almost zero?

Arvind Thakur: I think you can say that PFR will be around the same level. And as far as GIS business is concerned Q4 is the best quarter. So that is where you see good growth in GIS.

Sandeep Shah: So in Q3, you expect there could be a seasonal dip in the GIS?

Arvind Thakur: No, I do not think there will be a dip but real growth will happen in Q4.

Sandeep Shah: Airport Authority deal I think this would be the first full quarter where no airport gone live, so most of the maintenance might have come in this quarter. So can you share that revenue in this quarter from the Airport Authority deal?

Arvind Thakur: We cannot give client-specific commercials, but, yes, now we are on a steady run rate as far as maintenance is concerned and that will continue for revenue.

Moderator: Thank you. The last question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Just to get some sense about IMS business because I think as per our strategy for the current year we expected IMS to be one of the growth drivers for us. So if you can help us because I think in Managed Services, generally we report our IMS kind of revenue and broadly it remains flat for I think last 2-3-quarters and it declined as a percentage from previous year kind of perspective?

Sudhir Chaturvedi: In fact a year ago we were at 13% of overall revenue and we are now between 16% and 17% for the last two quarters, but as you see we have also had strong growth in the last two quarters, the IMS businesses at the same level of growth as the rest of the business, just quite admirable given that the Digital business is going quite fast. So I think our focus on IMS is 70% and some of the work that we are doing in the Cloud space for example and increasingly in the DevOps release automation space is actually complementary to the Digital business. So that is a good sign in that.

Dipesh Mehta: In terms of percentage, we are not seeing any changes, primarily because other businesses are also growing to that extent?

Sudhir Chaturvedi: That is correct.

- Dipesh Mehta:** About the top-20 client performance kind of a thing, you suggested top-11 to top-20 has done well for us but if I look your top-20 clients as a part of the presentation kind of a thing, it declined almost 4% whereas top-10 declined by 3%. So even in top-11 to top-20 I think there is some kind of decline as a percentage of revenue.
- Sudhir Chaturvedi:** What I mentioned was 11 to 30. So we look at our top-30 accounts that the one we track from mining perspective, so 11 to 30 is where the growth and we saw significant new logo growth including, for example, the NITL business was also an example of that kind of growth.
- Moderator:** Thank you. Since there are no more questions, I would now like to hand the floor back to Mr. Arvind Thakur, CEO, NIIT Technologies. Over to you, sir.
- Arvind Thakur:** Thank you very much for your comments and questions and look forward to engaging with you in subsequent weeks for any further clarifications that you may have. Have a great weekend.
- Moderator:** Thank you very much. Ladies and Gentlemen, that concludes the NIIT Technologies conference call. You may now disconnect your lines.

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