

NIIT LIMITED

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NIIT Limited Earnings Conference Call

Operator: Good Evening, Ladies & Gentlemen. Welcome to NIIT Ltd Earnings Call. Mr. Vijay Thadani, Chief Executive Officer, NIIT Ltd is your Call Leader today. For the duration of the presentation all participant lines will be in the listen-only-mode. After the presentation, the question & answer session will be conducted for the international participants connected to Airtel International Center. After that a similar question and answer session will be conducted for the participants in India. Now, I hand over to Mr. Vijay Thadani of NIIT Ltd. Thank you and over to you, sir.

**Vijay Thadani, Chief Executive Officer.**

Good Evening everyone. Welcome to the Earnings Call for the 3<sup>rd</sup> quarter. First of all, I must thank you, for being here on the Call, despite it turning out to be a holiday and I am sure we will have some interesting discussion as we go through this Call. What I would like to do is to quickly talk about the results of the 3<sup>rd</sup> quarter, but before that, like I always do, I will give you a flavor of the environment that we saw in the last quarter and then get into the numbers and then some analysis and after that, I will open it for questions and answers.

To start with, I want to mention that October, November, December, normally in our seasonal business is the height of off-season, so it is normally the lowest quarter we have in the year and traditionally also the quarter in which we have a loss and it is after a very long time that in this quarter NIIT Ltd has made a net profit and I think that is the single most important highlight that I have to share with you today, before I get into the industry environment.

So, on to the industry environment I think in the Indian marketplace these are very exciting times for the IT and IT Enabled Services training and we are seeing the IT and user-industry gaining volume momentum, campus recruitments have increased and we are seeing a higher placement demand for our star product GNIIT from a large number of employers. In fact, the placement request we received during the quarter were far in excess of the numbers that we could service, and that had to do with the fact that our enrolments two years ago, when our current year's graduates would have joined us were low and therefore were inappropriate for the needs of the marketplace.

The other interesting thing is that the engineering seats in the country have gone up from 60,000 in 1999 to 400,000 in 2004, in excess of 400,000, in fact. The current batch of engineers that graduated this year, however, 20% of them could not get placed. They had degree but they lacked skills. In this environment, we think we have created a small opportunity for ourselves and we launched Finishing School for engineers in those who could not get placed, we trained about 1000 of them, of which about 393 of those who had completed, have already been placed. So, that has been a very satisfying experience. While IT and IT enabled services industry has a large momentum, I think, the youth of today has enhanced career choices. There are large number of white collar jobs, which the youth is very attracted to, whether it is in the insurance or banking industry and I think we have to compete for their mindset from there as well. So, while on one side the demand is picking up very rapidly, the supply in terms of our student base, we do have a

task in convincing the mindset or changing the mindset of people, which is happening, albeit slowly.

On the global scale the overall growth in IT training is projected positive after a long time by IDC in which at 4.3% of which Asia Pacific and China will lead the pack. The good news is that we operate in the heart of this territory. So, Learning Services is expected, is becoming a growing market, Learning BPO or LBPO is becoming popular and online mentoring is gaining acceptance. So, these are some trends, which are becoming very interesting and these are the trends, which we witnessed in the last quarter.

You would have seen the results on the website already and through the releases but I will quickly take you through the highlights and then we can get into a discussion. I think there are three highlights that I would like to point out. One is improved profits and profitability, both profits in absolute terms and profitability in operating margin terms, improved substantially over the same period last year. In the last year same period at an operating profit level, we were just about breakeven, in fact a loss of 2 million rupees, but this quarter we had a profit of 92 million rupees, which is a substantial improvement. In terms of operating margin for nine months, we had at 12% and in this quarter itself it was 11%, which is better than the margin we had, more than the operating margin we had in the whole of last year.

Our nine months EPS is at 14.3 rupees, which is up 46% from 9.8 rupees which we had for the whole of 12 months 03'-04'. The reason, I am not comparing the same period, because first nine months last year, we had a negative EPS. So, this year, first nine months have been fairly satisfying on profits as well as profitability account.

The second important thing is that there is acceleration in volume and that is visible in revenues. We had a system wide revenues growth of 11% year-on-year, which is even better than what we have experienced in the previous quarters. So, we see an acceleration happening.

Net revenues, the acceleration is even more because it is 13% and that is because our own centers grew much faster as well as the corporate business internationally grew much faster. In terms of seasonality, though we have been struggling to see how do we get out of the saw-tooth curve that we have of growth. I think we were able to manage seasonality to the extent of profitability much better against the net loss of 116 million last year same quarter, we have a profit of 48 million this quarter, which as a profitable quarter has happened after a very, very long time. Those are the highlights of the consolidated financials for nine months.

At the balance sheet level, we did a minor asset addition of 27 million rupees but the DSOs have improved substantially at 96 days when compared to 113 days that we were last quarter same time. The cash position, of course, is slightly different. Though we had positive operating cash coming in, improved receivables collection as well as operating profit, we had some creditors to be cleared as well as some loan repayment, which contributed to our cash or cash equivalent balance to be at 504 million rupees.

Let me get down to some other segmental matrix. The India Institutional contributed 21% and has grown 15% year-on-year. So, I think one of the expectations, which the market had, is to see acceleration in enrolments taking place in the career segment, which indeed, happened. Thanks to some very industry oriented and relevant initiatives that we launched. Our career enrolments in this quarter were 28% growth year-over-year, which is growth of more than 25% experienced after a long time. The CATS segment also grew fairly well at 44% in terms of enrolments.

In International, our overall growth was 14% and I think it has been led by on one end, improvement in corporate training, in the developed world and the “NIIT Inside” model in the developing world. Overall, International and India Individual were the two leaders of the packs in terms of growth.

We have shared a segmental profitability as well. India Individual, if you would see, even sequentially in our best quarter of the year typically, which is July, August, September had lost some money but has broken even and expectations that we have been working on for a while, where we can now say that this business has broken even at an operating profit level and will move further. India Institutional had a 13% operating margin and International had a 14% margin and thereby overall we were at 11%.

In terms of center network, we have been working on some consolidation exercise, where we are trying to see that centers, which do not justify the cost of support, we should see that we do not renew and instead focus on larger centers, where we have very large placement demands coming from the employer industry. So, we did some consolidation effort during the quarter and our number of centers has come down from 773 to 707 in terms of those, which are, in our business partner locations. The Institutional locations, the number of centers have come down from 2730 to 2541 more to do with the fact that the Tamil Nadu school project was closed successfully and its term has expired and we have handed over charge to the government. So, that is a very successful case of Build-Own-Operate and then Transfer. Going forward, we are also looking at International geographies and rationalize some of the lower revenue centers. This, obviously, does not have any impact on revenue or profitability, but an impact on profitability for the better and a very-very small change in revenue, which will be covered up by the growth. Overall enrollment in the quarter were, in excess of 40,000 and I think the quality of enrollment is what we have been focusing on, which is, what came in very well. In terms of order in-take, International order intake about \$8.35 million and we closed with an order book of nearly \$60 million all over totally, which translates to 2648 million rupees.

During the quarter we added a headcount of only 26 people net. Our future strategy, I think, is to take care, take advantage of the volume acceleration, is to take care of our brand strength, leverage our brand strength and capitalize on it on one hand, and then take advantage of the volume momentum, that is building, So we are going ahead with expansion plans, reflecting that launching more and more industry relevant programs and looking at NIIT inside in International universities in the developing world and focusing on training outsourcing and have BPO opportunity in the developed world. While we go

ahead with these strategies, which we do believe, will cause a volume acceleration to happen and to reach a stable state where we can have in the relevant sectors, relevant segments like Indian Individual, a growth rate which matches that of the IT and IT-enabled services industry, which is, what it should be, given the fact that we are a feeder or an upstream industry to them.

While we do this, the challenges that we have are the fact that consumer sentiment and choices have increased for the consumer with so many white-collar jobs and we have to win the battle of mind share and therefore more and more dependence on the brand with all exist. We also have, while outsourcing backlash is a different thing, as far as the industry is concerned, but I think in academic circles once in a while you do hear a small dialogue on this, so that is something which we would have coped with, but overall we see a positive outlook as we go forward.

With this I have completed my presentation but before I open it up for question and answer, I also wanted to share another development, which the Board approved today and that was the FCCB issue, the Foreign Currency Convertible Bonds issue. The Board today approved the proposal of Intel Capital for subscription to the \$10 million issue of foreign currency convertible bond. As you may have known, with Intel Corporation we built a strategic alliance about three months ago when Dr. Craig Barrett, Chairman of Intel Corporation was visiting India and this is in a certain sense, a strengthening of that relationship, now that we will get an opportunity to work together, to take advantage of the technology revolution, as it affects this country and the rest of the world and we look forward to building a stronger partnership with Intel Corporation, as we go forward. So, with that I would now like to open this Call for Q&A.

Operator: Thank you very much Sir, I now handover the proceedings to Lucy at Airtel International Center to conduct the question and answer session for the international participants. After this, we will have a question and answer session for the participants in India. Over to you, Lucy.

Lucy: Thank you Swati, at this international participants may press 'zero' 'one' if they would like to ask a question. On pressing 'zero' 'one' participants will get a chance to present the question on the first-in-line basis. International participants who wish to ask question please press 'zero' 'one' now. At this moment there are no questions from participants outside India. I would like to handover the proceedings back to Swati.

Operator: Thank you very much Lucy, we will now begin the question and answer interactive session for the Indian participants connected to audio conference service from Airtel. Participants who wish to ask question may please press 'star' 'one' on their touchtone enabled telephone keypad. On pressing 'star' 'one' participants will get a chance to present their question on a first-in-line basis. To ask a question please press 'star' 'one' now. The first question comes from Mr. Dipen from Kotak Securities. Mr. Dipen you may ask your question now.

**Dipen:** Good Evening Mr. Thadani and Congrats on good set of numbers. Quite some questions, at least three or four of them, to just clarify. First thing relates to the revenues during the quarter on the Indian Institution as well as the International front. I see that on a sequential basis, both of them have gone down, I believe that the Indian Institution could be mainly because of the Tamil Nadu project getting over that is what I believe it is, but could you throw some light on how the International revenues also gone down sequentially and on what levels like what could be steady state of revenues?

**Vijay Thadani:** Okay, Yes, you are right. As far as the Institution revenues are concerned, they have gone down quarter-on-quarter and that is because the Tamil Nadu project was handed over. On the International front, there are parts of the world where there is a seasonality very much like the seasonality we faced in this part of the world, especially to do with corporate training, where in the October, November, December time-frame where the instructor-led training elements are higher, in fact, training in general delivery elements are higher; then there is traditionally a slowdown and this is in line with what has been happening before. So that is what is contributing to it. In terms of the steady state of growth, I think on an annual basis, we believe that the international segment will accelerate up to a steady state growth rate of about 20%, right now, it is lower than that, but I think it is accelerating.

**Dipen:** And I think the corresponding reduction in the operating profit, one it is mainly because of these revenues and when this pickup from (indiscernible) can improve? Is that correct?

**Vijay Thadani:** Yes, if you look in comparative terms, I think our operating margins are better this quarter.

**Dipen:** Okay, that is one part, the other part is, just if you can give me some sense on what the overall fixed expenses in the company, Mr. Thadani. Now, what would be the total fixed expenses as a percentage of the net revenues of the company?

**Vijay Thadani:** Since, they are fixed then as a percentage it varies with the revenue. So, I think the typical fixed expenses of the company, it varies a little bit up and down is between 42 to 50 crores per quarter.

**Dipen:** Total 50 crores per quarter.

**Vijay Thadani:** It can go up to 52-53 also sometimes, if the incentives are bunched together.

**Dipen:** Okay, and since you are planning to open up for some of our own centers this could go to higher level. Is that correct?

**Vijay Thadani:** Yes, it can go up to a higher level, but yes, you are right, but not dramatically.

**Dipen:** Okay and something more on this FCCB issue, a couple of things they are like what could be the reasons for Intel picking up a stake in the company and other question is how do you intend to utilize the funds which are coming in?

**Vijay Thadani:** Yeah, I think Intel sees strategic value in association with NIIT and the reason is I think both of us are committed to the penetration of information and communication technologies in the whole world. India, being very strategic for Intel and even the developing world together, so while our relationship has started in terms of working together in the Indian school system and teacher training and areas of such kind which are very developmental for Intel but they are a business line for NIIT so is a natural partnership. We do believe that going forward, there will be other areas where ICT technologies could affect us. I would, in fact, request Mr. Pawar, Chairman to also say a few words on this since he has been discussing this with Intel as well.

**Rajendra Pawar:** Yeah. This is Pawar here. One discussion we have been having for some time is pertaining to the work that we are doing in the use of technology even outside the school but in rural setting but for education and you may be familiar with the part of research, which is going on and the discussion with the Intel for sometime has been on whether they would create a product or create computers, which are more appropriate for those kind of settings because now what they make are basically office computers and they are over specified for some of the applications we have in mind when we look at this rural kiosk. So, there has been some meaningful discussions on areas like that, so that they can create a product or they can create a specified product for those kind of applications. And of course, in the schools area, we already are cooperating with them for some time, they have a big mission to increase the penetration to get access to that market and our K12 business is involved in delivering learning, so whatever we can do together to bring the cost of the devices down for the school system that would expand the market for both. So, there is some activity going on in these kinds of areas with Intel.

**Dipen:** Okay.

**Vijay Thadani:** Okay in terms of usage of the funds, as we have shared before we have a CAPEX plan of about Rs 100 crores in this quarter and next 12 months, which means in the 15 months period. As you know, this was our plan for Rs 50 crores last year and 50 crores in the coming year. For the first three quarters we were a little slow, for two reasons one we wanted the momentum to pick up and the few other issues to be in place and I think going forward, our plans are very clear. The Rs 100 crores CAPEX plan, which we have shared with you is for modernization and expansion of some of the businesses we have, Knowledge Solutions Business on one hand, the K12 business itself has investment, as each and every project comes up. Our new education centers, which we are setting up and last but not the least, the investment in NIIT University, which is also happening, so, that is the overall expansion plan for which we have a number of funds identified, number of sources of funds identified and we have FCCB as one of those sources of funds. So, we will be using internal accruals, FCCB's as well as some Term Funds for this round of expansion.

**Dipen:** Okay and I am sorry for asking this may be the information is already available, but how much of money will you be raising with the FCCB?

**Vijay Thadani:** \$10 million.

**Dipen:** 10 million, okay and at what rate will the bond be converted into share equity?

**Vijay Thadani:** Okay. The coupon rate is 2.5% and the conversion price is 200 rupees.

**Dipen:** 200 rupees?

**Vijay Thadani:** Yeah.

**Dipen:** And when can this be converted?

**Vijay Thadani:** Whenever they want.

**Dipen:** Okay. There is no lock in as one to two years as such...

**Vijay Thadani:** No, ECB has, you know, this is the same ECB instrument, so there the terms are standard.

**Dipen:** Okay. Okay. And the other income was in fact lower in this quarter once again, would the rupee be there since we have some international revenues, would that be the reason or?

**Vijay Thadani:** Yes, I think the primary reason was that there was also a notional exchange loss because there are some loans given to subsidiaries, which had to be converted into equity but as long as there are loans on the books, you have to account for an exchange loss there.

**Dipen:** Okay. Thanks and all the best.

**Vijay Thadani :** Thank you so much.

Operator: Thank you very much sir. Participants who wish to ask questions may please press "star" "one". The next question comes from Mr. Ashish from Lucky Securities. Mr. Ashish you may ask your question now.

**Ashish:** Yeah. Thanks. Hi. Sir, I would like to know what would be the dilution if and when this FCCB gets converted?

**Vijay Thadani:** I think it will be south of 10% just short of 10%.

**Ashish:** Okay. And next thing I would like to understand is, presently we have something like 1800 million of pending order for Indian Institutional, over what period of time would we execute all this?

**Vijay Thadani:** The total order book of 265 crores that we have, 41% is executable over next 12 months.

**Ashish:** Over next 12 months.

**Vijay Thadani:** Yeah.

**Ashish:** Okay. And sir, one more thing, the enrolments for this particular quarter seem to be less on year-on-year for the same period last year. What would we take out of that module, infer from that?

**Vijay Thadani:** Yeah what you would infer from that is that the enrolment in the literacy segment Swift, you know, that was a mass literacy program that we had launched three years ago, which we are continuing with and the success of that program is visible in the fact that enrollment are falling, which means we have been able to create more and more literacy but the other issue is that the literacy segment gets their education in schools and colleges as a normal course now and this was also the program where we used to have the 500 rupee course, 750 and 1000 rupee course, so that's the volume which has fallen. In FUTURZ, our enrollments are up 28%, in CATS, our enrollments are up 44% and that was the focus last quarter.

**Ashish:** Okay, okay. That was it, sir. Thank you.

**Vijay Thadani:** Thank you.

Operator: Thank you very much Sir. Participants who wish to ask question may please press "star" "one". I repeat, participants who wish to ask question may please press "star" "one". The next question comes from Mr. Manoj Singla from JP Morgan. Mr. Singla, you may ask your question now.

**Manoj Singla:** Hello. Good evening sir. My question actually relates to the Indian Institutional business, as you rightly pointed out, that we have a seen decline in the avenues because of TN order getting over, but you have seen a significant decline in margins as well, so I think, the first part is how do we see the margins in this business going forward, because as of now, this is most profitable segment. Secondly, in terms of revenues, how much of the current revenues is (indiscernible) stream, and what are the further contracts in the pipeline in which we can expect to win and what kind of growth can we expect in this space?

**Vijay Thadani:** Yes. You are right, the margins this quarter are lower than the margins that you had in the same period last year, now if you notice, the margin in this business fluctuate across quarters depending on the kind of contract that we have and each of the

state governments go for a module which is different, so if it is system integration module for first part of the contract and then followed by a facility management, then the revenue pattern is slightly different and I think, last year, you would have seen that happening in this quarter. At a steady state, I think there is more business to come from given there are 800,000 schools and government has very ambitious plan for IT and schools and the fact that we are best equipped to handle it. I think what we have to manage, is the working capital demands of this business and therefore in steady state we look for a revenue growth of 15% on a steady state basis, at this point of time, keep this quarter aside but on the nine month basis, we would be little ahead of that but in a steady state, we would like it to settle at 15% and we would like this business to be about 20-odd percent of our total revenue, because otherwise our working capital exposure, given the time that government takes to make payment, can be substantially large. In terms of pipeline, I think there are number of other states, which are in the reckoning and are at various stages of tender finalization, typically in this period, normally there are finalizations. Our past experience shows that, but this year because of the assembly elections in a number of states, I think there is a dampening of that, because of, you know codes of conduct and pre-occupations. So, we do believe that during the year, I think many of these tenders, some of which we are very favorably positioned, will materialize and we will be able to get the growth, that we are looking for.

**Manoj Singla:** Sure sir, my second question is actually on the International business. Can you just break that up as to how much of the revenues came from Knowledge Solutions, as far as I understand, that business should not be seasonal? Just to understand, what is the seasonal impact?

**Vijay Thadani:** Yeah, one part of that business is seasonal and which is to do with the fact that where ever there is live training involved and there is a part of education delivery which is outsourced to us because there are Christmas breaks in colleges and universities, also one part of our business is in higher education, so there is a minor dip. The other part, where the dip takes place is, in the trainer, where onsite training which we do for a number of our technology as well as corporate clients. The onsite training also reduces in the month of mid-November to December because they don't have enough participants, because of holiday season, so those are small dips but in the developing world, those dips can be little longer depending on the place where we are in. China normally does well in this time because in October they have a recruitment season, so overall there is a small dip that does take place and to answer your first part of question, Knowledge Solutions Business is about 65% of the total, of that international pie.

**Manoj Singla:** Sure sir, sure thank you. One last question from my side. You suggested that you are looking at a growth of 15% to 20% on the Indian institutional business and 15% in international business, so I think we are going to the next year, can we expect a 15%-20% growth in your overall revenues over the coming years?

**Vijay Thadani:** No, as you know we have three income streams, we have India Individual, we have India Institutional and we have International. So, we would like the

Institutional to stabilize that 15%, International to grow upto a 15% growth and then move on further in the following years and India business next year to grow on the other side of 10% so I think you will see more between 10 and 15 rather than 15 and 20 next year.

**Manoj Singla:** And sir, finally on the margin front, what should we expect to go into the next year for the next?

**Vijay Thadani:** I think margins are also improving so they will also improve in line with the revenue.

**Manoj Singla:** Ok. Sure Sir, thank you.

Operator: Thank you very much, sir. The next question comes from Mr. Dipen from Kotak Securities. Mr. Dipen you may ask your question now.

**Dipen:** Yeah, my question has already been asked. It was, basically, relating to this India Individual market, where Vijay mentioned in his opening remarks that he would like this growth in the India Individual Business to tend to the overall in the IT industry growth rate and I think that growth rate is put at about 20% or more than that so may be that could be the reason why I was very, slightly more optimistic on the growth rate for India Individual.

**Vijay Thadani:** Yes, except that, that growth rate for it to happen there will be acceleration, it will not be a step moment. So, I think the next season will be better than the previous season and then the following season will be better than this, next year.

**Dipen:** Ok, thanks very much.

Operator: Thank you very much sir. Participants, who wish to ask questions, may please press 'star' 'one'. The next question comes from Mr. Ashish, from Lucky Securities. Mr. Ashish you may ask your question now.

**Ashish:** Yeah, sir with more than 50% of a business coming from the International side, I would like to know if we have taken some forex hit and whether we hedge our positions in any way?

**Vijay Thadani:** Yes, we do and we regularly do that as a part of our overall treasury management process; we normally take a six-month hedge on our receivables.

**Ashish:** Ok. In this quarter any particular hedge, loss of profit on the forex side as far as the other income is concerned?

**Vijay Thadani:** Yes, in this quarter we have had a loss, and I say, that most of that is for a notional reason because we had a loan to our subsidiaries, which was to be converted

into equity, pending some permissions and therefore as a notional number, that exchange loss has to be recorded.

**Ashish:** Could you specify the number, the number this quarter we have taken, that loss?

**Vijay Thadani:** 11 million is the loss on account of the loan.

**Ashish:** Ok, thank you.

Operator: Thank you very much Sir. Participants, who wish to ask questions, may please press 'star' 'one'. At this moment there are no further questions from participants. I would now, handover the floor back to Mr. Vijay Thadani for the final remarks.

**Vijay Thadani:** So, I think that brings us to the end of this Call. What I would definitely like to state is that all the data sheets are available on the web as well as our lines are open for any follow-up questions that you may have, myself, Nidhi Agarwal. Sanjay Mal, P Rajendran and Raji Pawar. All of us are available to you for any questions that you may have. Thank you very much for being here on the Call and your line of questioning as always has been very educative and I am sure, will help us, in doing better in future. With that wish you all the best, thank you very much.

Operator: Ladies and Gentlemen, This concludes the Earnings Call. You may now disconnect your lines. Thank you for connecting to Audio Conference service from Airtel and have a nice evening.