



Analysts/Investors Conference Call

January 18, 2006

Moderator

Good evening ladies and gentlemen, I am Parimala the moderator for this conference. Welcome to the NIIT Limited conference call. For the duration of the presentation all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Vijay Thadani of NIIT Limited. Thank you and over to Mr. Thadani.

Vijay Thadani

Thank you Parimala. Good evening and welcome to the conference call for Q3 financial results. I do understand you all had a rather tiring day. So I would like to keep my part of the talking to the minimum and then open it for question and answers. The results have been on the site now for nearly 2 hours and I hope all of you had an opportunity to access them. If not, www.niit.com is the site, and if you do have the presentation in front of you I would like to start with the logo that you see on the front slide itself which is the celebration of 25 years of NIIT which is beginning as we talk today. So you are amongst the first to get an access to this new logo which we will be running with for celebrating the 25 years of NIIT. I also must mention that as we speak, NIIT has now been a public company for longer than it was a private company. This is also 13 years of being a public company now.

With that let me just get into the agenda where as usual I would like to start with describing the industry environment that we faced as a company. I would like to look at each geography and what we saw there. In India I think the improvement in consumer sentiment for IT careers continues and there is more and more news stories and more and more vibes on how IT can be a good career option. Of course a lot of it contributed by the education, which the industry is doing, as well as a small role which NIIT plays.

The other thing which I would like to talk about is the NASSCOM McKenzie study of December 2005, where they talked about how the IT and BPO population from 700,000 directly employed professionals and indirectly employed 2.5 million information workers will grow to 2.3 million IT workers and 6.5 million in support or support service indirect employment by 2010, and how that leaves the gap of nearly half a million people given the current education infrastructure. We saw all that as an opportunity and we are working on capitalizing on this opportunity. There was a third element of that there is only 25% of engineers and professionals coming out of formal institutions are ready for direct employment into the industry and therefore the balance 75% also presents an opportunity for giving finishing school to kids.

In China we saw that the IT education to become a part of the formal education system has gained momentum and now provincial governments at government level are leading delegations to India. We had a number of them visiting us during the last quarter, which shows the interest in implementing IT education as a part of their formal education process. The second, again a very encouraging thought was that the Indian IT companies, a dozen of them at least, who have started hiring locally and I think the fact that our development methodology and our training methodology is very aligned with the Indian processes that IT companies use in India should make it very interesting for our students to get placement in these companies.

In US we saw the corporate spend on training was on an increase. Blended learning is the name of the game right now, not pure e-learning, not pure instructor led training on one hand. On other hand, technology companies, especially Microsoft and large technology companies are coming up with new products, and enablement training, readiness training, mass deployment training, these are becoming needs of the hour and we saw ourselves trying to use or take advantage of some of these opportunities and form partnership with technology companies.

Lastly in Europe, where our subsidiary just started working, we saw an interest in training outsourcing and we will talk about the results of that.

Quickly going on to the numbers themselves, the consolidated net revenues for the quarter recorded by 22% year-on-year growth. I must mention here that given the fact that our business is seasonal and therefore seasonal volatility does affect the results. The seasonal volatility was reduced with a better product mix, which means the quarter-on-quarter reduction in revenues, which would have taken place in previous years, this year that reduction was less, but on an year-on-year basis in this quarter, this is being perhaps our best quarter in this year with a 22% year-on-year growth. The operating profit grew 29% year-on-year reflecting a better operating margin and we saw an improvement of 63 basis point in operating margin, which was at 11.3% in this quarter. The PAT, profit after tax, was at Rs. 55 million for the quarter, which was up 14% year-on-year. System wide revenue something which we used to track and will continue to do so because in the individual business the product mix of own centers and franchise centers does reflect a new number in terms of how much was the customer purchase and system wide revenues is something which we have been sharing in the past, they grew 13% year-on-year.

Moving on to some details of these financials, if you looked at the net revenues, I have already talked about a 22% growth year-on-year. Our operating expenses grew slightly slower and that is the reason we had a better operating margin after providing for a depreciation of 96 million, and then other income, which was in negative this time, because of foreign exchange fluctuation losses booked in the other income. Our profit before tax was 19 million and after including share of profits from associate and the provision for tax, our net profit was at Rs. 55 million, which reflects a basic EPS of Rs. 2.8 per share. On a 9-months level this reflects a CYD performance of 12% growth in system wide revenues, 14% growth in net revenues, 21% growth in operating profits, 13% operating margin, and an

improvement of 75 basis points in a 9-months period, and an EPS growth of 16%. So last full year we did an EPS of Rs. 18 a share, the first 9 months we have already clocked 16.4.

In terms of product mix, our Individual Solutions contributed 47%, Corporate 33%, and Institutional 20% on a system wide revenue basis. So if you look at an analysis of that, in Individual business where system wide revenue is relevant, individual business wise, it recorded 22% year-on-year growth. If we look at it in terms of geography levels, 65% of revenue was contributed by India, which grew at 22%, and international contributed 35%, and within international if I was to do China and non China, 20% was contributed by China. What is significant is that of our Individual learning revenues, China is now 20% of the total revenue. China grew 36% year-on-year basis. In Institutional business where net revenue is more relevant, we grew 21% year-on-year and while we did get some orders in the early parts of this year in every quarter we had some orders, we did not have any new orders during this quarter, very significant new orders in this quarter; however, the funnel has been strong and the growth that we saw was based on the contract that we had received during the year in the first three quarters. In Corporate we had a very decent order intake and corporate revenues grew 17% year-on-year.

Just going down to one more level of details, in the Individual business, the India business grew by 47% and China already mentioned 36%. Our overall enrollments were at 61,685, which were 46% YOY improvement. Most of the contribution in the individual business came from the career segment where revenues were up 50% and enrollments were up 61%. Obviously, all this is called by some lead indicators like placements. Their placements in these nine months were up 76% over the same period last year. One important development during the last quarter was the academic alliance with UK Open University where we have selected six countries other than India where we would be launching joint curriculum along with UK Open University where students will be doing the first two years of NIIT program the way it is and the third year, which is called the top up course, with the UK Open University of courses conducted by NIIT and thereby getting a bachelors degree in computer science from UK Open University. This release has been received very well. We expect to launch the courses in April. We have already got our centers in Vietnam certified and we have the other few countries where in Africa and South Asia we are going to have this course, we are going through the certification process. So we see good opportunities coming out of this. In China, another part of the individual business, we opened seven new centers and I think the NIIT inside model is gaining further popularity.

In the institutional business the most significant things was thrust, which we had in private schools where he had some new products launches and some significant products opportunities that we created for private schools through a partnership with Intel and State Bank of India, where Intel and State Bank of India jointly fund the school on one side and then use the product that we have created for those schools.

Overall institutional order book at the end of the quarter stood at Rs. 1501 million of which 42% is executable in next 12 months. The total school serviced at the end of the quarter was standing at 4295.

In the corporate business we had a 17% growth as I mentioned and this was basically in most of the growth came out of technology vertical where we formed alliances with the large number of technology companies to do their customer training, their employee training, and their partner training, which is what is meant by enablement and readiness training. We also launched our European subsidiary which we had commenced in the last quarter, but this quarter it became operational and it also brought its first order for training outsourcing from corporate sector and from a larger electronics major from Europe and that was a very nice beginning for the European geography.

In terms of order intake, corporate business received an order intake of \$10.38 million and therefore the closing order book is \$22.6 million, in this case, 70% of which is executable in the next 12 months.

Our head count during the quarter went up from 1995 to 2103 predominantly in the corporate business on one side and in the individual learning business where we did open some new centers for ourselves.

I think I have completed all the numbers and analysis that I had to, so may be I would like to open this for question and answers and then we could discuss other issues. Parimala for question answers please.

Moderator

Thank you very much sir. At this moment I would like to hand over the proceedings to Ayesha to conduct the Q&A for participants connected to SingTel. After this we will have a Q&A session for participants at India bridge. Thank you and over to Ayesha.

Ayesha

Thank you Parimala. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press 01 to ask the questions. Participants please press 01 to ask the questions. Parimala there are no questions from participants at SingTel. I would like to hand over the proceedings back to you.

Parimala

Thank you Ayesha.

Ayesha

You are welcome.

Parimala

We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1, participants will

get a chance to present their questions on a first-in-line basis. Participants are requested to use only handset while asking the questions. To ask the question, please press *1 now. First in line we have Mr. Ashi Anand from Pru ICICI, over to you sir.

Anand

Good evening sir. I just wanted to understand some of the profitability trends in the individual business segments. Now in the individual business while revenues have gone up and as I understand it is a relatively fixed cost business, we have also seen operating expenses go up reasonably sharply. Just wanted to understand what were these operating expenses that went up and why we did not really see operating leverage taken in this business?

Vijay Thadani

Okay in this particular quarter, as I mentioned we had some new product launches in three geographies. Actually there were two or three reasons why we had high operating expenses, mostly fixed expenses, in this quarter. So therefore the impact of that was felt on the bottom line because the revenue levels were small. For individual business it is normally the smallest quarter, though in this case it turned out to be as good as the first quarter size in revenue. The two or three things which contributed to lower operating numbers in the individual business, basically came from the fact that we had some new marketing campaign, in fact if you have the presentation in front of you, we had one of the very successful advertising campaign which said Bill Gets, where we were actually trying to say that even before the product launch of Microsoft we had trained nearly 11,000 people, even before Bill Gates came to India. So there were some marketing launches, which contributed to that. Second, we also had higher incidents of certification courses where we have to use the vendors' courseware, so therefore the variable cost in that case is higher. Third, we had some campaigns in Nigeria and Vietnam, which were basically created for mass awareness and create large number of followers; and lastly, we had some delayed implementation of certain programs in one of the international geographies. So some of these would have contributed. If these unique situations were kept aside, then our operating margin in this quarter would have been more like 4%.

Anand

Okay, it has been more on 4%. Sir if one I know it is difficult to understand capacity utilization in this business, but in terms of what your individual benchmarks should be internally, where would we be actually in terms of capacity utilization?

Vijay Thadani

We are 39%. Now we track capacity utilization very accurately for the last three quarters. I think for last three quarters we have been giving you exact numbers of capacity utilization. So we use revenue capacity utilization model where the number of seats and if all the seats were paid for by students who paid the full fee what would that number be and how much

was our revenue and therefore divide the former number and we would get the capacity utilization.

Anand

Okay, so we were at 39% in this current quarter?

Vijay Thadani

Very right.

Anand

And how much is the optimal as I can understand you would not be able to operate at 100, so what is the realistic number one could be looking at?

Vijay Thadani

Yeah, typically the breakeven in every geography is between 35% to 45% depending on the pricing that we use, depending on the infrastructure we use, but that is a range. Typically, when we start going beyond 65% to 70%, we start thinking of expanding capacities because then what happens the price slots to go away and then you are not able to get the right mix of students. So the optimum level I think even today there are centers which run at 85% plus.

Anand

Okay. Okay sir on the institutional business we have seen a very sharp jump in operating margins. What would explain that?

Vijay Thadani

As I mentioned these were some of the new contracts we got last quarter, last three quarters, and they had annual milestone, so I wanted to repeat that because I want to tell you that this is a one off phenomenon, it is not a continuing phenomenon. The right margins steady state margin over a long period for an institutional business is more like 15% to 18%.

Anand

Okay, I am sorry, lastly, just on the corporate business, what would explain the fall in margins on that part?

Vijay Thadani

It is a product mix issue once again, if the instructor led training part is higher then the people cost becomes relatively higher, and the technology companies this enablement and

readiness, this is like an investment for the future, you do a mobilization type to train up large number of people who cost you bear but they do not deliver adequate revenues for you.

Anand

Okay, thanks for the question sir.

Moderator

Thank you Mr. Anand. Participants who wish to ask questions may please press *1 now. I repeat participants who wish to ask questions may please press *1 now. Once again participants who wish to ask questions may please press *1 now. Next in line we have Mr. Sonaal Kohli from Aim Capital, over to you sir.

Sonaal

Congratulations on good set of numbers.

Vijay Thadani

Can you please speak a bit loudly, we could not hear what you said?

Sonaal

Congratulations on good set of numbers. My query pertains to the other income part, what kind of the Forex losses we saw in this quarter and what would have been the impact had this not occurred?

Vijay Thadani

Four million rupees was the Forex loss. So we have an interest income, we have an interest expenditure, and then we have the Forex loss, so in this case the Forex loss has what caused the negative, otherwise we were kind of equal.

Sonaal

What kind of cash and debts you would be having on your books as of now?

Vijay Thadani

Yeah just one moment. We have a total cash balance of 895 million.

Sonaal

And debts?

Vijay Thadani

Debt in this case is 1134 million.

Sonaal

This includes the FCCBs?

Vijay Thadani

Very right.

Sonaal

And as far as you corporate business is concerned, major decline in the margins by 300 basis points. Now is there any seasonality element also attached to this?

Vijay Thadani

You are referring to the corporate business?

Sonaal

Yeah.

Vijay Thadani

Yeah the corporate business does not have as much of seasonality as in this particular case a product mix issue. So going forward we should see an improvement.

Sonaal

So what kind of margins we can see in the future over next one or two years in this business?

Vijay Thadani

Yeah see I have maintained that the steady state margin for this business is more like 20% and we are today operating at around 15%, if you take the last four quarters, and we see a steady improvement going forward as the product mix changes.

Sonaal

Could you throw some light on your university progress?

Vijay Thadani

I will ask Mr. Pawar to comment on this. One moment.

Pawar

Well, there is a work going on a couple of fronts; one is of course is the discussions with the government, so we continue to have discussion to explain our plan and look at the procedure and so on, but on the ground we are now at a stage where we are building the master plan for the campus which we expect will some phase it will be ready in the second half of 2007, and in the mean while we have started adding technical staff who are currently operating out of a transit campus that we have in Delhi where their key task is to start building capabilities to start building processes that are required for us to be ready for operations as and when the procedural formalities are completed. So that is where we are.

Sonaal

What kind of quarterly cost would you have incurred on the university in terms of recurring expenses?

Vijay Thadani

No the university is an independent entity and therefore their accounts do not come into our accounts.

Sonaal]

Could you also throw some light on these ESOPs, 550,000 ESOPs, when were they issued and what kind of pricing as for the ESOPs?

Vijay Thadani

I do not have the details right now, but they are available on our web site, it is 550,000 ESOPs, which were issued in two grants, one grant was in August. Just one moment, in fact it is given in our notes to account, so let me read out to you. The company granted 555,350 options at Rs. 180 per share to be vested on August 2, 2006, and 46,200 options at 237 to be vested on August 11, 2006.

Sonaal

Okay, thank you so much.

Moderator

Thank you Mr. Kohli. Next we have Mr. Hitesh from ABN Amro. Over to you sir.

Hitesh

Congratulations on a good set of numbers. I just had few queries; can we have a centre break down across India individual, International, and India institutional?

Vijay Thadani

Okay. India institutional I already told you was 4295, India individual is 504, and International is 235.

Hitesh

And of this 504 in the individual how many are NIIT own?

Vijay Thadani

Let us put it this way, there are about 45 of them which are NIIT own, and 37% of the capacities, they represent 37% of the capacity.

Hitesh

Also I wanted to know what has happened in the corporate business, why the margin declined so much on Q-on-Q basis and even if you look on YOY basis the margins have declined. What have actually gone into that?

Vijay Thadani

Yeah. As I explained in corporate business it was a product mix issue and let me explain the product mix, as we are doing more work for technology vertical companies there is a higher incidence of instructor led training. So, for example, when I say we trained 11,000 people in Microsoft Technologies before the product launch all that was instructor led training, and whenever you have a new technology in which you have instructor led training, typically your cost of instructors is very high, cost of getting them ready is very high, so every time you have a partnership and you are creating a new set of instructor base then you have these additional expenses. So as it is instructor led training has a higher variable expenditure and then if you are getting ready for a new partnership then it takes still longer. So there was a lot of mobilization expenses which were part of this mix.

Hitesh

Okay. So it was all because of this instructor led trading product mix change?

Vijay Thadani

Yes. Part of it because the product mix got changed and part of it because we were getting ready for even more to happen going forward. Now this as the volume catches up will stabilize.

Hitesh

Okay alright. And on the individual business you spoke about some one-time expenses, just wanted to get a feel on what were the one-time expenses that we had in the individual business and what is the percentage of such expenses recurring in future?

Vijay Thadani

No as I mentioned these were one time, because I told you also without those what there were profitability would have been. So we are talking of I think a total of Rs. 22 million which we identified as additional expenses, some of them were because of delayed implementation because of which you had the resources ready and you had to take provisions, and the second was on new launches which we did, for example, Microsoft new launch which I just talked about, as well as in Nigeria and Vietnam we ran some promotional schemes. So the impact of all this is what separates it out. Now Microsoft launch is not going to happen again and hopefully we do not have similar situations of having to provide for some creation which we have already done in other geographies. So that is why I believe that if you take out those unique expenses it will be 4% to 5%; 4% is more appropriate.

Hitesh

Okay thank you and all the best. And just one more question can I get what were the debtor outstanding and what has been the net addition to PPE?

Vijay Thadani

Net addition of people?

Hitesh

No net addition to plant, property, and equipment; fixed assets.

Vijay Thadani

Oh plant property, oh yeah okay. We have 114 million of fixed assets expenditure. As usual the expenditure would be in two or three categories, just one more moment let me get hold of that page, yeah, so in this time we had an investment of 114 million in assets. Institutional projects were 65 million, our own center upgradation and modernization was 17 millions, and then the rest was routine Capex. And in terms of debtors our debtors DSO on an LTM basis reduced from 150 days to 143 days, our closing debtors were at 1680 millions.

Hitesh

Okay thank you and all the best.

Vijay Thadani

Thank you

Moderator

Thank you Mr. Hitesh. Next in line we have Mr. Nitin Sehgal from Bridge Capital, over to you sir. Mr. Nitin Sehgal are you there?

Nitin

Yeah hi! Sorry, good evening. I have a quick couple of questions, one is on revenue capacity utilization in India, you mentioned 39%, could you tell me what that was last year in the same quarter?

Vijay Thadani

I would not have it as last year, but I can tell you approximately. It would have been approximately at the same level, couple of percentage points, because we have been tracking by this calculation only this year. I can tell you what it was last quarter. Last quarter it was at 54%.

Nitin

So revenues grew year over year 22%, but capacity utilization was about flat, why is that?

Vijay Thadani

Because we added more capacity in general.

Nitin

You added a lot more. Okay, and the next question is on slide seven you mentioned India grows 22% and you said on a slide eight quarter revenue growth 47%, could you just clarify what was that one a sequential year?

Vijay Thadani

Okay. Just one moment, I will just look at that slide, okay. On a system wide revenue basis we said India grew 22% and on a net revenue basis we grew 47%. So when you see a difference where system wide revenue grows slower than net revenue it means our own centers did better and had a larger contribution because there the net revenue and system wide revenue are same.

Nitin

Yeah okay and finally could you just tell us cash and debt what they were as if the previous quarter?

Vijay Thadani

Yeah. Just one moment, last quarter this time I will pull out the numbers. Cash was 933 and debt was 437 million, and then we had a 10 million dollar FCCB.

Nitin

Okay. I am sorry just to clarify this is last year or previous quarter?

Vijay Thadani

Last quarter. You asked me last quarter right?

Nitin

Yeah for the September quarter.

Vijay Thadani

Yes.

Nitin

Okay. So 437 and 933 cash.

Vijay Thadani

Yeah.

Nitin

Okay and the 1134 for this quarter includes the FCCB \$10 million?

Vijay Thadani

Yes. So if you knock that out it will be 690.

Hitesh

Okay, great, that is all I have, thanks a lot.

Vijay Thadani

Thank you

Moderator

Thank you Mr. Sehgal. Next is a followup question from Mr. Ashi Anand of Pru ICICI, over to you sir.

Anand

I just wanted to try to understand the kind of operating leverage which is inbuilt in the individual business segment given that we are operating at a low capacity utilization would you have any kind of a benchmark I mean some kind of a rough benchmark saying that for every 100 rupee increase in revenues so much would flow down to operating profit, given that a large amount of expense is actually fixed. Would it be possible to get such sort of a benchmark?

Vijay Thadani

Yeah. I can make a very rough statement. For every 100 rupees of revenue after you are at let say 50%, 45-50% capacity utilization, you would have about 45 rupees flowing down to the bottom line. The reason is you have a variable expense, which in a product mix situation would be between 35 and 40, and we always assume a marketing expense to get that additional revenue of about 15 rupees. So this our internal norm by the way.

Anand

Okay. Sir in terms of the current capacities say looking forward one year into '07, say if we have to reach a revenue on individual segment is about 200 crores, do we believe we currently have the capacity in the system or would we actually need to go out and build more centers?

Vijay Thadani

Now we are discussing a system wide revenue capacity?

Anand

No I am speaking at the net level.

Vijay Thadani

No, see it is easier to do this calculation at a system wide revenue because then you decide whether you own or somebody else owns, but you if you had to at a net level and if you had to reach the fastest then what we would do is go and open all centers of our own because that will give you the fastest. My feeling is that at this point of time..., and the revenue

capacity when we are talking about also is at the system wide revenue levels. So our system wide revenue at four quarters level will come to what right now...., so we are already at about 360 crores, okay, and at a net level we would be lets say about 170. So if you are saying if I have to improve my revenues by about 10%, do I need more capacity?

Anand

Sir about say 20%.

Vijay Thadani

I am sorry

Anand

Say if you have to increase revenues about 20%, would we need more capacity?

Vijay Thadani

Okay if I was to give a strict answer to your question, no, we will not have to improve our capacity. However, if we want to..., because today we are growing at faster than 20% and actually I want to tell you one thing and that used to be a question in the analyst call, why is our individual business growing slower than the services industry when we were at single digit and then at 10-12% and I used to say that there is an inertia in this business and it takes a while to build that momentum. I think this time we can safely say that in India at least we have shown that we are growing faster than the services industry in this quarter, we have grown 47%. So I think we would not be looking at a 20% growth. We would be looking at something better than that next year, and for that do we need additional capacity, if I was to a mathematical calculation, no, but I have to do a reach calculation in addition to a mathematical calculation, in which case, yes, there will be some more capacity which we will add.

Anand

Any capex plans on that as to how much you are planning to spend on that?

Vijay Thadani

We are actually in the middle of our planning cycle right now and we are deciding how much of own and how much of business partner like business we will be growing, so I think by next quarter we would be able to give you a better picture of that once our plans are ready.

Anand

Thanks a lot sir.

Vijay Thadani

Thank you

Moderator

Thank you Mr. Anand. Participants who wish to ask questions may please press *1 now. I repeat, participants who wish to ask questions may please press *1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Thadani for final remarks, over to you sir.

Vijay Thadani

Thank you very much. I can understand that it has been a long day and maybe it is a still a longer day, but I do want to thank each one of you for being here on the call, for all your support, and for very pointed questions. As usual we learn a lot from these questions and not to forget we are extremely grateful to you for supporting us for the last 25 years and looking forward to many more such interactions in the future. All the best, goodnight.

Moderator

Thank you sir. Ladies and Gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank for your participation. You may now disconnect your lines. Thank you and have a nice day.
