



Conference Call

July 27, 2006

Moderator

Good evening ladies and gentlemen, I am Parimala, the moderator for this conference. Welcome to NIIT Limited conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the Q&A session will be conducted for participants connected to SingTel. After that the Q&A session will be conducted for participants in India. I would like to hand over to Mr. Vijay Thadani of NIIT Limited. Thank you and over to you sir.

Vijay Thadani

Good evening ladies and gentlemen, thank you very much for making it convenient to attend our quarterly results call. I will quickly take you through a summary of quarterly results as well as an important announcement that we want to share with you and then we will open it up for questions and answers. So before I start on the quarterly results I want to mention that the results have been on the web site for a while and I hope you have been able to access them on www.niit.com if not you can do so even now. Now I would like to talk start from where we left on our strategy meeting, we were talking of 3 important strategies, growth strategies going forward. Our first growth strategy was to do with partnerships and we talked about technology partnerships, channel partnerships, as well as higher education partnerships and in that in a part of a partnership scenario we had also talked of re-prioritization of our business lines. The second strategy was to do with new businesses which was emerging from the fact that if we are re-prioritizing our business lines there is a strong need to get into new businesses and the third was inorganic activity and I am going to touch on each one of these in this brief and what we did during the quarter so that we can then open it for questions. So lets start with the industry environment. In the industry environment, that we saw the numbers which you already have are IT and ITES industry growth which has been at 32%, exports growing at 33%, and employee base expanding to 1.3 million people. In the training IT industry specifically NIIT strengthened its competitive position now that a Dataquest numbers are out in the Top 5 and we see new opportunities emerging in the services sector. In china, we saw Chinese universities and education system opting for IT skills and English proficiency as a combination going forward for their under graduates which we see as a major opportunity. In US and Europe, we saw learning BPO services gaining favor and technology companies wanting an increasing international focus or non US focus, if I may say, and new product announcements creating large training opportunities. Just touching on NIIT market position, NIIT has further consolidated its market position amongst its peers in India by being now 3.7 times its nearest competitor compared to 3.4 times this year. We grew 22% in the individual training segment which is one of the flag ships of NIIT's activity while the market de-grew by 5% which shows NIIT's relative strength in the individual learning

business and overall in the domestic market NIIT grew 20% while the market grew only 3%. In the international are NIIT showed significant growth last year both in China as well as in the other geographies of US and Europe where we have the corporate solutions business. The highlights of this quarter was the benefit of re-prioritization of our businesses yielding improving improved growth in two of the businesses actually accelerated growth in two of the businesses and as well as an overall improvement in operating margin, so our focus on individual and corporate business enabled us to record a 33% year-on-year growth in individual which I must point out is ahead of the industry growth, in fact in India it is 55% which is nearly a 1.7 times what the industry is growing at. Corporate also grew at 17% year-on-year growth and this is in contrast to US training industry which is growing at a single digit percent corporate where major activities in US grew at 17%. We launched some new initiatives to address new opportunities and I will talk a little bit about the progress on each one of them. We launched a project to train people for the banking industry and its called the Institute for Finance Banking and Insurance. It is an independent subsidiary and in fact ICICI Bank took a 19% stake in the subsidiary as a token of their commitment to development of banking insurance and finance professionals. NIIT Imperia Centers for advanced learning was another activity in technology based learning field to make sure that advanced and specialized programs are made available to people in the cities in which they are through synchronous distance learning. NIIT Litmus was in the area of assessment and testing services. So we will talk more about vis-à-vis as we go forward. Part of our re-prioritization strategy was to be selective in the highly capital intensive government schools business, so while we had successfully completed the Karnataka schools order this quarter because of our being selective and we have not added any significant orders in the schools business and to that extent the government schools business is re-prioritized and on the other hand the private schools which are the focus area grew by 24% year-on-year and we have added 55 new schools to reach 783 schools. If you look at the impact of these activities on a consolidated financials while the overall financials may show a net revenue growth of 4% and an operating margin of 14%, I think under that layer is hidden a very strong performance by both individual and corporate business, so if you see the two of then put together they grew 25% year-on-year, which is a very healthy growth and operating profit from these two businesses grew by 72% year-on-year. So in line with the re-prioritization strategy that we had worked out, we are very satisfied with the results that the other two businesses have shown. In terms of our overall revenue mix now institutional business in this quarter has come down to about 10% of our overall system wide revenues and 16% of our net revenues. Going into one level of detail in individual business financials, individual business had a seller growth last quarter. India revenues, I mentioned 55 sorry it is 58% growth and the India contributed 58% growth in this quarter. The net revenues grew by 33% and operating margin improved by 1181 basis points and its at 15%, I think this would answer many of our friends question on how does the operating leverage work in this business because while we increase capacity by 3% our operating our capacity utilization was at 59% and that you can see the benefit of the increased capacity utilization directly visible in the operating margin of the business. Some other matrix from individual business, we had announced a new GNIIT and a new advanced program for engineers both of these did extremely well. GNIIT enrollments were up by 156%, advanced engineering enrollments were up by 122%, overall revenues of career business were up 62% and overall enrollments which include CATS, Swift, and Future were up 7% year-on-year. In the institutional business the re-prioritization is very visible with the non GSA now

contributing to 30% of the revenues for the quarter compared to 13% and GSA stands for the Government Schools Programs. Now the margin in the business were had reduced in this quarter to 7% of course the revenue has dipped by -46% and that is a part of the re-prioritization effort. In the corporate business, the growth was 17% but I think more important than the growth in revenues was the increase in order intake and we had a \$15 million fresh order intake which included 8 new customers, 2 new technology companies and one of which was a multimillion dollar, multi year order in learning delivery. This is in continuation of our strong thrust in building technology partnerships. Overall our order book for corporate business stands at \$35 million with depending order book at \$35 million and the order intake of \$15 million is in excess of 150% of the quarter's revenue and this is now the third time in succession as far as that is concerned. In the new businesses the Institute for Finance Banking and Insurance, Parimala I am getting an echo is that normal.

Moderator

It is fine from our end sir. I mean I can hear your proper voice.

Vijay Thadani

Okay fine, thank you. Sorry for the interruption. Institute for finance banking and insurance they commence their short term programs for corporate and they in fact have already trained more than nearly 550 sponsored candidates by a leading bank. We are expecting a public launch of this activity through 6 centers in 6 major cities in India in the coming quarter. NIIT Imperia has two premiers tie ups with IIM Indian Institute of Management, Calcutta and Indian Institute of Management, Indore and they are also expecting to launch their services through 6 new centers in this quarter. NIIT Litmus already have some perspective customers and we expect the business again to commence in this quarter so all the 3 new businesses that we talked about at the beginning of the quarter have made substantial progress and we do see their revenue generation activity picking up during this quarter. Overall in terms of head count, we added 165 people net in this quarter and in terms of education centers, I already talked about a 3% increase in the capacity. Now lets talk about the third strategy which was inorganic activity, I am very pleased to announce that today NIIT entered into a definitive agreement to acquire Element K a US based leading provider of learning solutions. The transaction is expected to close very shortly in the next 1 to 2 weeks together and NIIT and Element K will emerge as the leading global provider of comprehensive learning solutions with more than 3000 employees, over \$250 million at revenue and a presence in 32 countries. Element K is a current run rate of \$80 million, it currently leverages it is renowned technology knowledge hub and an award winning suite of more than 3500 courses. This learning solutions are enhanced to custom content development and strategic learning services so in a sense some of their custom content services would overlap with ours but even there based on the methodology that we use there is a fair degree of complementarity. So as you can see our corporate solutions and our overall learning business with their strong technology platform as well as strong content library, for which they have more than 1500 current customers gives NIIT a fair window of opportunity to position together with Element K as the first and the best choice for a learning BPO services provider. Just to explain you some other aspects of this transaction we expect Element K to retain its brand name and to run as an independent

operating entity. The current CEO Stephen Hoffman will continue to be the CEO of the new entity as well as a Director on the Board. We expect the board to be 4 people from NIIT, 1 independent director and then Stephen Hoffman to make it totally 6 people. As we speak right now, we see an opportunity to create a very unique and strong offering set to position NIIT and Element K to emerge as the leader in the learning BPO market place. We believe there are some unique benefits which we offer to our customers. The first is comprehensive solution if you add the suite of services and products which Element K has today which is a strong a strength in custom publishing, a strength in custom content development, a very strong content library and a very well renowned and stable robust platform on which a large number of customers have their E-learning services hosted that is a very strong addition to NIIT's capability which is in building strong custom content development. The second in learning delivery through instructor as well as online and finally through learning technologies and managed services. The combination is creating a very comprehensive solution set. The second is the global efficiency with operations and development staff around the world, customers will have access to the right talent of local and remote resources based on their project requirements. So they will not only benefit from the advantages of off shore, but they would also benefit from the expertise experience and localization of onsite. Global reach through a combined presence and established reputation in 32 countries our customers will be able to access global learning solutions with local support. In terms of our customer sets itself in terms of reach, we have a very strong presence in technology sector with large number of technology clients and a few important fortune 100 corporate clients. On the other hand, they have a strong presence in the corporate sector with 1500 clients and a few important technology client, so when we combine the two customer basis we will have a much deeper or much stronger offering for the technology space and a much large base of customers which we will be able to address together in the corporate space, so that if the update on NIIT and Element K with that I would now like to open this for question and answers.

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceedings to Lucy 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 you Lucy.

Lucy

Thank you Parimala. We will now begin the Q&A session for participants connected to the SingTel Bridge. Please press 01 to ask your question. Participants who wish to ask questions please press 01 now. At this moment there were no questions from participants at SingTel. I would like to hand over the proceedings back to Parimala.

Moderator

Thank you Lucy. We will now begin the Q&A interactive session for participants at India Bridge. 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 handsets while asking a

question. To ask a question please press *1 now. First in line we have Mr. Dipen Mehta from Dipen Mehta Share and Stock Brokers. Over to you sir.

Dipen Mehta

Sir I just wanted to understand your re-prioritization strategy it is clear that the institutional business is being scaled down and you are being selected over there but for the year is it likely that it may turn talk in the sense that you know you could start making losses in that business given that there are always some amount of overheads in that division.

Vijay Thadani

No our aim would be to make sure that business gets scaled on but not loses its profitability, it will of course not be at the level at the way it will not be at the same volume level at which it would be but I think it can reach, it can maintain the profitability it has. So overall if you see the impact on NIIT we still believe that the other two businesses will more than compensate for this reprioritization impact and selectivity which we are applying in the institution space.

Dipen Mehta

That means that you are actually maintain other good volume to make sure the two ends are met in that division.

Vijay Thadani

Yes that division by the way has very little SG&A, it has mostly direct and variable expenses.

Dipen Mehta

Okay. Second question relates to the increase in expenses in the corporate business because of which or is it the operating profit margin correct me if I am wrong or over the marginal decline any explanation for that sir?

Vijay Thadani

No that is to do with the way the business mix is operating and the way certain projects come in one part of their business, if you see the overall average margin during the year, we have actually an improvement in margin as we grow forward though at a quarter-to-quarter level as you can see that was the fairly unique situation last year when we had a 19% margin.

Dipen Mehta

Okay. Third for the list to the financing of this \$40 million acquisition what are your thoughts are in I know that I know that we have taken approvals for \$50 million global offering is that the only way or may be internal accruals also would come into action?

Vijay Thadani

Yeah actually we have not yet decided to use the FCCB at all. We have already tied up using our internal accruals and a line of funding of line of borrowing that we will be able to close the transaction and work with the acquisition in the next few months. FCCB will be a back up option well not a back up option but more an option which we would like to use if we think it is in the best interest of the share holders.

Dipen Mehta

Right sir thank you and all the best and I will just reserve some more questions for later on.

Vijay Thadani

Thank you. I must yes I must accept the fact that our results are a bit late this quarter but next quarter onwards, well actually even next quarter our days are not matching, unfortunately some of our directors were not available this quarter independent directors because of the global travels but hopefully soon we will be able to give the results much earlier but, thank you for your feed back.

Moderator

Thank you sir. Next we have Mr. Dipen Shah from Kotak Securities. Over to you sir.

Dipen Shah

Yeah good evening sir this is Dipen here. Just I had a couple of things first of all I just wanted to know as regards to acquisition what is the profitability of Element K as of now and the next part would be that in the individual business to what extent can we take up the capacity utilization and what will be the stable state of utilization we should be looking at.

Vijay Thadani

Okay, thank you. Element K in the last operating year had a small operating loss, this year they have been on a turn around and have in fact in the last month made a small operating profit. We obviously therefore there are no way near the margins that we have we do believe that this year at an operating profit level the acquisition will be neutral to us and next year it would be accretive because we have a strong cost saving and synergy program which we are implementing immediately from the day we start working with them.

Dipen Shah

Okay.

Vijay Thadani

So that answers your first part.

Dipen Shah

And this sorry to interrupt you but they said the operating level must be the EBIDTA levels or the PBT levels or the PAT levels.

Vijay Thadani

At operating, I mean the EBIDTA levels.

Dipen Shah

So on the PAT levels where do you think the company will end in the current year?

Vijay Thadani

Okay at PAT level there may be a marginal dilution depending on how the funding of this acquisition takes place so right now if we use the mix of internal accruals and debt then to that extent as far as this acquisition is concerned, we may be at a neutral even on a PAT level.

Dipen Shah

Okay in fact I did not get it properly I was more referring to the PAT margin of Element K excluding whatever debt options we use.

Vijay Thadani

The PAT margins, if you do PAT I mean without the interest implication, then we expect that in the 7 or 8 months that we would be running this company we may have a marginally positive PAT.

Dipen Shah

Okay and does Element K have on your debt on its books.

Vijay Thadani

As a part from the day we take over it does not have any debt on its books.

Dipen Shah

Okay.

Vijay Thadani

Other than the debt that we would take to finance the acquisition.

Dipen Shah

Okay and just one last thing anything what is the net cash with the company of at all any and what would be the goodwill which will accrue because of this deal?

Vijay Thadani

It is a private limited company, it is a privately held company, typically privately held companies when they change hands you get very little cash, so we may have to include a part of working capital to support them. Right now obviously when we take over there will be a goodwill in their books based on the acquisition or the assets for the price that we pay but that goodwill perhaps will not because in that goodwill perhaps will not reflect in anyway in P&L account in the consolidation.

Dipen Shah

Okay, and the next one was how about the capacity utilization expense to which levels can you grow in the individual business.

Vijay Thadani

Yeah, I have maintained this before and I will ask my colleague Raghvan to answer this question for you but.

Raghvan

In the last quarter we reached a capacity utilization of 59%. In a steady state, we think when we take us mid 50s or 65 to 70% we should be looking at opening new centers. Obviously, this is an global gross level it will vary from center to center and location to location.

Dipen Shah

Yeah that is fine. Yeah there is a question on your China business how is that state over the current quarter?

Raghvan

It has grown 25% in the last quarter.

Dipen Shah

In terms of profitability?

Vijay Thadani

It is profitable at this point of time.

Dipen Shah

Okay and just on the Element K again, how old is this Element K company and what was the basis for the valuation?

Vijay Thadani

Coincidentally, the company was started in 1982 about 3 or 4 months after NIIT started, so it is a 24 year old company that way or 25 year old company but they have been through 3 Avatars, if I may say, they were in the first Avatar called their name was Logical Operations, in the second they were by bought by a publisher called Ziff Davis very famous publishing house and in the third Avatar a Ziff Davis sold it to for it to become Element K. Element K financials were examined by us and their operations and synergies were looked at by us and based on that we did the standard valuation methods that are used including this year and obviously negotiation. It was also a competitive bidding situation, though I think we were a favored partner because we were more strategic to them in terms of the benefit which comes to their employees and their growth.

Dipen Shah

Just to get a sense on how is Element K grew over the last few years does it mean that from a higher base it is fallen or how is the trend of that company been and what is this kind of balance sheet that the company has?

Vijay Thadani

Okay we would be able to share much of these details which you perhaps next quarter, because as I said the company went through 2 or 3 transactions in between and they also sold a part of their businesses, they added on a bit of debt, they were effected by the down turn, they recovered from that down turn and were at about a flatish revenue for the last 2 or 3 years but when we inherit the company will get a clean balance sheet with clean set of assets and therefore when we talk to you next quarter post the closing we would be able to share to with you in detail how the balance sheet of that will look like.

Dipen Shah

And just one thing which is a last thing, sorry for being so much inquisitive, but if we had to talk about the business of Element K I believe it is basically in custom content development as you see so it will develop content for the customers and the second one would be it will publish the content on their behalf and if at all this E-learning then it will host that content on its own platform which can be accessed by the customers employees, so look at this business model of Element K have I understood it right?

Vijay Thadani

No, I would like to well while the bit and parts of what you said are definitely correct I would like my colleague Ashish Basu to explain to you how exactly Element K functions

and I would also ask him to add to that how Element K and NIIT together create the potent combination, I think you would be interested to hear that.

Dipen Shah

Yeah absolutely.

Vijay Thadani

And by the way before he answers you don't have to be apologetic about asking questions that is the whole purpose.

Dipen Shah

Okay, thanks.

Vijay Thadani

Yeah.

Ashish Basu

Okay so let me try and explain to you the basic business models that Element K has. So the first thing is that they are primarily or they started out being an E-learning organization and the two parts of revenues that they have is either from E-learning or from the print fulfillment function. Now Element K sits in the middle between a whole lot of training centers and technology providers so here it is how it works. Let me give you an example and that might make it a lot easier. So lets say Microsoft has an online platform in which all Micros if you want to do a Microsoft course you have to go to this particular plat form and then you can take a course for Microsoft now that is actually running on Element K platform and element K makes money each time there is somebody from who is the Microsoft customer who comes on board. The second is that if you use lets say Microsoft official curriculum and you want to kind of have accessed to that material that material was largely developed by Element K but it is certainly distributed by them. So all those orders would go to them now what actually this does is that Element K owns the channel, the training centers work for Element K more or less because they were much prefer to work with Element K than anyone else so now Microsoft of course uses Element K to access the channel but so does Cisco and so does every other major technology player who wants to access the training channel, so Element K is sitting in the middle between technology companies and between training providers fully servicing the training providers whether it is online or whether it is print, so which means lets just imagine that you are a new technology company or you are even a very large technology company, Element K does not take money from you it generates money for you because it essentially make sure that your material, your product, and which is both your content, your course material everything else reaches the channel properly. So that is one core part of the business model. The second part of the business model is essentially because they have their own IP, intellectual property, which is content and technology, they have a huge sales team which is actually selling this product globally, though I must admit that most of that is in the US and there is a

revenue stream coming in from there. So these are the two basic models that they have. Now in terms of capability so lets say for example again staying with Microsoft, Microsoft pays them around \$2 million in a year to just maintain the platform, they pay them another few million dollars to do custom content development but then they are paying them something like about I mean they are generating revenues considerably above \$10 million on the servicing of the channel, so there is a size and the approach to it that is important okay so that is the Element K approach. Now, if I were to just stay with the technology piece then NIIT and the Knowledge Solutions business at this point in time we are adding technology customers at the rate of 2 to 3 a quarter and we have reached a base of about 35 customers, now if I were to add that to Element K capability to go deep into an account and essentially become indispensable to that customers then we have the breath and they have the depth as far as technology is concerned. This reverses very nicely as far as corporate customers are concerned because when we look at corporate customers they have 1600 odd corporate customers who are using their content and their hosted technology, now for these people Element K providing services is relatively limited at this time because they are not a major service provider whereas we are a big service provider, so Element K subscription model is something which we can leverage to provide services. And then the natural extension there is that if I am a person who is taking subscription and if I have services then I naturally move into the learning BPO direction, which actually is an end goal, so one of our primary starters and objectives in getting onto Element K was to essentially jointly get into the LBPO state.

Dipen Shah

Okay.

Ashish Basu

Okay, because so now if you can see what happens really is that for technology providers we are giving them the width and we are getting and the depth from them which is an LBPO play and in corporate customers they have the width and we are providing that depth with again moves up into an LBPO play and that is the reason why we are very excited by this transaction.

Dipen Shah

Okay, yeah I think I got the picture. Thank you very much and all the best.

Vijay Thadani

Thank you.

Moderator

Thank you sir. Next we have Sonaal Kohli from Aim Capital. Over to you.

Sonaal Kohli

Hello Mr. Thadani congratulations on good set of numbers.

Vijay Thadani

Thank you.

Sonaal Kohli

Just wanted to understand in terms of your institutional business, how much of it grew from the order book which you would have now or the next 12 months and what was the same over the last quarter?

Vijay Thadani

Okay about 44% of our order book will be coming from the way we accrued in the next 12 months, and I think your question is therefore how much will government business be this year. So last year for example private schools was about 17%, this quarter it has been 30%. I think over the year we will add a few government clients selectively and to that extent I think if we believe that our overall private business may go up to as much as 20 to 25% of the total.

Sonaal Kohli

Okay and last quarter when you had an order book of about 165 crores, what was the order executable over the next 12 months at that point of time?

Vijay Thadani

I will just share that with you in a minute. It would be a similar number.

Sonaal Kohli

So one would say that you would still be able to manage to, I mean, achieve not more than 25% kind of degrowth based on the order book you already have?

Vijay Thadani

Yeah because those are commitments that we have and we have to honor those commitments. The last quarter by the way it was exactly 44%.

Sonaal Kohli

Okay, so basically 165 crores into 44% is a assured government business which I have and in addition that there is a private business which is growing?

Vijay Thadani

Yeah.

Sonaal Kohli

In terms of your business in 2005-2006 what portion of the revenues was from the India business in the individual business?

Vijay Thadani

In out of the total how much was India and the total?

Sonaal Kohli

Out of the individual business what was the India's contribution last year?

Vijay Thadani

I will just give it to you in a minute. I will just pull it out in the last year right.

Sonaal Kohli

Right.

Vijay Thadani

Yeah if you can just give me another question, meanwhile then I can meanwhile pull this data out.

Sonaal Kohli

Could you throw some more light on the Philips orders?

Vijay Thadani

Yeah, so let me put you back to Ashish Basu, he will explain you the Philips order as well also the progress of that.

Ashish Basu

Okay, the way the Phillips order is structured is that we are responsible to service all external programs that Philips employees under take. Now this is being rolled out in a gradual fashion, they have 3 large regions, so for example last quarter the EMEA region signed up, this quarter the Nam region has signed up, and Asia Pacific is due for the later part of this quarter. Now what that implies is that and this is a it is not an immediate process but increasingly every program that people are attending the way they register for the program, the way they are supportive, the way they feedback gets down the way, the approval cycle works, and the help desk and everything to do with actually administering the training program is something which we get paid for on a per unit basis, so for every person who takes every course there is a certain amount of money that comes to us and that is how the Philips thing is. We expect the numbers to sort of I think the it was about a third last quarter that will be 3 times this quarter, it will grow

double the quarter after, and it continues to increase thereafter through the next year and a half or so.

Sonaal Kohli

Okay.

Vijay Thadani

I have the answer to the first question India revenue was 57% of total system wide revenue and 79% of the net revenue.

Sonaal Kohli

Mr. Thadani, if you look at this quarter you had mentioned in your presentation that the India's revenue contribution was I think somewhere in the 60s?

Vijay Thadani

68%.

Sonaal Kohli

So going forward for the year and India revenue is I guess is growing at 58% and China 25% for the other as far as countries are concerned they would be de-growing in terms of revenue.

Vijay Thadani

Yeah and we talked to you in the investor conference on focusing on 6 key geographies and reducing our SG&A, because we had a large exposure to a large number of geographies and we are now trying to make sure that there is a minimum size in each geography, so that is the approach which we are using in the other international partners and the rest of the international business.

Sonaal Kohli

Just wanted to understand because you this business contributed 68% the India business contributed 68 could be total individual revenues and 70% last year and this business is growing at more than 50%, so would it be fair to say again throughout the year the contribution of India business would be more on 75 to 80 link?

Vijay Thadani

I tend to feel that the growth that you saw this quarter you perhaps may not see this similar growth right through the year. Remember the denominator will keep increasing as we go in the next quarter, because last year also was a heavy growth period for us. So I think overall growth that we have projected for individual business to be in the range of 25 to 28% is what we would still bank on. I tend to feel, China will be consistent and

we will grow 25% consistently and may be a little more because China in two quarters does little better than two other quarters the next quarter at July, August, September they do a little better and Jan, Feb, March they do a little better because those are the times when NIIT inside enrollments pick up. So overall I think if I was to do as an annual basis, I would say China will grow between 25 to 30% and overall the rest of the world will perhaps de-grow a little because of the focus and India will grow a little better than 30%, so that the overall it is between 25 and 30.

Sonaal Kohli

Okay in terms of Element K what is the debt which they have on books as of now and I understand that you will not be taking over the debt but what will be the debt currently on the books?

Vijay Thadani

Well they had a very complex structure and because they were owned by financial investors and I think they had had two or three rounds of funding and so there was Preference capital, there was equity capital, and then they had a line of credit from their banks, but I think all that will be history as far as we are concerned because we will inherit a clean balance sheet with 0 debt.

Sonaal Kohli

What kind of receivables and if I am right the companies top line is \$80 million?

Vijay Thadani

Yes because about \$80 million in the last 12 months.

Sonaal Kohli

Okay would you be taking with the receivables also if any?

Vijay Thadani

Yes we are taking our all the good receivables.

Sonaal Kohli

Also wanted to understand from you that your GNIIT enrollments are up 156% year-on-year and typically for GNIIT program varies from 1 year to 4 years depending upon the length for which student stays in this program.

Vijay Thadani

3 years.

Sonaal Kohli

And in the previous years also your GNIIT growth was significantly higher than the overall India's growth in terms of the enrollment.

Vijay Thadani

Very correct.

Sonaal Kohli

So with a lag of lets say a year or two either students in the initial year the growth has not much higher because there would be certain students who are already there in the course for last 3 to 4 years, but as one should go forward students growth are actually accelerate rather than they decelerate?

Vijay Thadani

No but I don't think I said or we did not allude to the fact that decelerate.

Sonaal Kohli

No what I meant was that.

Vijay Thadani

Are you referring to this quarter versus last quarter?

Sonaal Kohli

No I mean in terms of the over the next few years and the base impact gets changed because in the last 2 years there would be certain GNIIT students which have been there for last 2 to 3 years.

Vijay Thadani

Yeah.

Sonaal Kohli

And as the enrollment would be increasing.

Vijay Thadani

Yeah.

Sonaal Kohli

Your number of students on a waited average basis would increase?

Vijay Thadani

Correct.

Sonaal Kohli

In the next 1 or 2 years.

Vijay Thadani

Correct.

Sonaal Kohli

This within the growth actually accelerate rather than decelerate going forward.

Vijay Thadani

I think it will be more mathematical because it is we have to see the denominator at the size because whenever you are looking at growth you are looking at percentage growth you have to look at the denominator, so for all you know what you are saying may as well be true, but I think this quarter the growth which we expected also came out of the fact that if you saw our whole advertising pattern and may be Raghu can talk a little bit about that we announced our program a little earlier then what we normally do. So to that extent there is a balancing factor which you will see happening because finally the total universe that we address is the same but Raghu you want to talk about that.

Raghu

I think that is true basically the GNIIT new GNIIT if you rolled out has been accepted very well. We started the campaign much earlier in terms of the higher composition of the GNIIT students in the total enrollment what way it will actually reflect this capacity realization which is something I talked about earlier, so at the end of the day from a GNIIT student you can only recover revenues for one year during a year so that will continue to be the case and as I mentioned earlier in the investors conference the new GNIIT the fee structure happens to be little different than the traditional GNIIT fee structure and also the products are not comparable this is about 25% higher than the fee structure of this earlier versions of the GNIIT so all this things will contribute to acceleration that we are saying and earlier Vijay has point about between quarter-to-quarter comparisons and not on an annualized basis.

Sonaal Kohli

Okay and what would be the cash and debt on the books?

Vijay Thadani

For NIIT total.

Sonaal Kohli

Yeah.

Vijay Thadani

Okay, our cash balance at the end of the quarter was 557 million and debt has reduced to 606 million.

Sonaal Kohli

This is including the FCCB.

Vijay Thadani

No excluding.

Sonaal Kohli

It is excluding the FCCB.

Vijay Thadani

Yeah, debtor days have improved.

Sonaal Kohli

Okay, thank you Mr. Thadani.

Vijay Thadani

Thank you.

Moderator

Thank you sir. Participants who wish to ask questions may please press *1 now. Next we have Ms. Priya Rohira from Enam Securities. Over to you mam.

Priya Rohira

Yeah, hi, good evening to all of you all, I just wanted to sense with the merger of Element K with NIIT Limited how would the composition of your technology based clients change in terms of revenue terms?

Vijay Thadani

Okay, I will answer one part of the question, while what you mentioned perhaps was not technically what we are trying to do. Element K is acquired by us so it will be yet another

independent operating entity within NIIT system. But how the technology clients and the percentage of revenue coming from technology clients change is that was your question.

Priya Rohira

Yeah.

Vijay Thadani

Part 2.

Priya Rohira

Yeah.

Ashish Basu

Okay, okay so if I were to just look at the percentage within the corporate segment now, we would be looking at NIIT's, the percentage in corporate from technology customers is typically around the third and for Element K it is about half may be to about 60%, if I combine the whole thing it would probably now be about 60% technology and 40% others.

Priya Rohira

Okay. The other thing, which I wanted to check out you know given the space in which they are offer things, what would be the competitive scenario over there?

Ashish Basu

Okay in the space that they are operating really is the major competition is if the customer takes that whole proposition back inside that is one of their unique positioning elements because like you know it is hard for a technology company to access that entire channel without Element K. But there are organizations will just say look we will do it ourselves, then the technology customer has no other option but to go to the organization itself. So there is no direct competition per se. On the corporate side when we look at catalogue there are certainly many other competitors both bigger and smaller with a bigger range of products and smaller, I mean that whole part of it is a very competitive landscape.

Priya Rohira

Also in terms of you know the concentration you know given that the given example of Microsoft whereby you know they get around \$10 million greater than you know on an annuity base in terms of servicing to channels and other licensing sort of you know revenues. So you know, if on a \$80 million how would you know the top say 8 to 10 technology clients for whom they service would actually contribute?

Ashish Basu

Yeah so first is this was I took Microsoft more as an example, but I mean if you want to know how much to the major technology companies contribute it will be more than half the revenues.

Priya Rohira

Okay, that really helps. Thank you very much and wish you all the best.

Vijay Thadani

Thank you.

Moderator

Thank you mam. Next we have Mr. Michael from Bridger. Over to you sir.

Michael

Hello and good evening.

Vijay Thadani

Hi, good evening.

Michael

I was wondering on the Element K acquisition could you walk through some of your plans to take this business from operating break even to operating profitability, is it cost savings, is it revenue growth, can you kind of outline that strategy.

Vijay Thadani

Yeah, it is obviously a combination of cost savings and revenue growth coming out of organic as well as synergistic revenues and I will ask Ashish to give you a picture but I think it is very simply understood they have a very large onsite base and its overall revenue grows between Element K and NIIT and most of the growth in resources happens off shore that itself will create a larger operating profit as we go forward but in more specific terms I will ask Ashish to talk to you about.

Michael

Okay.

Ashish

So just to try and answer that question to at the out set there are some costs which very simply come out of the system which is primarily on G&A and on some R&D because we both have a similar platform and we both have the same technology base which we use

to maintain the platform so we don't need to maintain two sets of people and so on and obviously us being off shore and lot less expensive is something which you will naturally do. So practically from the get go the independent operation of Element K is profitable to start with, not all of this will kick in right in the first couple of quarters because obviously the expenses and making all this happen but we are certainly expecting that the next complete year it will be a profitable situation. On the synergy aspects we are looking at primarily 2 or 3 areas, the first is as I have explained before we have access to many technology customers, Element K tends to have much deeper relationships but has access to fewer technology customers. We plan to take that offering into the technology companies that we have and each one of those orders is normally reasonably substantial for that certainly one thing where we expect significant synergies and growth. The second is that there is revenues records of the fact that we can take services which are somewhat more economical and which can be supported from off shore to their 1500 customers who presently are just catalogue customers, so that is the second part of synergy revenue growth and the third area would be around looking at the global approach of packaging the products that they have but being able to market it into an international arena, so those would be the three big synergies areas which would generate additional revenues as per the plan and we are very confident actually on the first one which is the biggest contributor at this point in time and also allowed us to have as reasonably or a substantial play in the technology area which is something which is much to be desired.

Michael

And if you think about just the cost part of this synergies and once that is effect in 2007 what should be a reasonable EBIDTA margin for this business just with the cost saving.

Vijay Thadani

I think we would come back to these numbers much more in detail next quarter, because I think at this point of time which ever way we have looked at it we are still from outside the doors and we are not inside the doors but during this quarter after closing when we go through the full phases of integration, I think we would be able to come up with more exact stuff, so I think I would like to answer this question after a couple of months.

Michael

Right and few other questions on the institutional business, is the result that we see in this quarter is that roughly a fair run rate and just the business tell me to degrow during the transition?

Vijay Thadani

I think that is a fair run rate in fact you would see a little increase in it because there are some select government orders which we want to add given the set of relationships which we have but this is certainly what you can see. Second, I think the private schools business is growing and is growing pretty well, so that will also cause a little bit of growth as far as that is concerned. Overall, we look at the institutional business as

becoming more private schools oriented nearly 25% or so and drag little more if possible by the end of the year.

Michael

Understood and in terms of the overall business excluding Element K, the out look for this year for revenue growth and for margins.

Vijay Thadani

As you can see both corporate and individual businesses have done extremely well. In fact, their growth is enabling us to re-prioritize ourselves faster when we would have otherwise done and therefore what we would like to do is to maintain this balance and we would like to hold on to maintain the out look that we had talked about which is to say that we would like to grow by a faster rate than we grew last year may be a 100 or 200 basis points more and we would like to have a higher operating margin may be a 100 or 200 basis point overall for NIIT business without Element K and going forward we would be reporting separately for Element K till it gets fully integrated but till then we would like to make sure that till it is an independent operating entity, which it is for a while, we will report their results separately along with of course our results and therefore you will be able to see the individual progress as we go through the year.

Michael

Right and then just 2 final questions one on Element K, the funding from you said internal funding how would that 40 million come internally?

Vijay Thadani

No I mentioned that we have internal funding. As you know we have raised an FCCB last year of \$10 million, so we have part of those proceeds still left with us and we have some internal accruals so that is the internal part of the funding. We are taking a line of credit and we are adding some debt into our balance sheet and I mean we are taking some debt to finance this transaction and that debt would be supplementing that.

Michael

Right and then just last question accounts receivable at the end of June?

Vijay Thadani

Okay, accounts receivables at the end of the June was about 1786 million representing 143 days, large part of these receivables as I have been mentioning before are in the institutional business, government institutional business. We did have some very good collections, so I was actually joking to somebody few minutes ago saying in previous quarters we use to feel very thrilled and we use to celebrate when we got a new order from the state government, of late we feel very thrilled when we get a payment for an existing contract from the state government and this quarter was one of those.

Michael

Oh! Thank you very much for taking my call and best of luck with Element K.

Vijay Thadani

Thank you very much.

Moderator

Thank you Mr. Michael. Next we have Mr. Girish Pai from East India Securities. Over to you sir.

Girish Pai

Yeah I just want to understand the size of the learning BPO market could you throw some light on that?

Vijay Thadani

Yeah I think we have some numbers though it is not a very well developed number, but Ashish has done some work. Ashish would you like to share.

Ashish Basu

Okay, so this is a slightly tricky one and I will tell you why. There is the training out sourcing market is seen from two glasses. One glass says that any work that you give outside at all is training out sourcing. The second one talks about transferring some level of responsibility for delivering on an entire process. So if you look at the first criteria, the number for the size of the market for learning BPO seems to be somewhere in the vicinity of \$3 to 4 billion and in the first one it seems to be closer to about half to one, which is what we would term as learning BPO today it seems to be in the vicinity of \$half to 1 billion. It is not a very big market at this time but it is growing very rapidly and that is really the place where we believe that there is going to be extensive growth and play.

Vijay Thadani

Just to support what he said I must tell you these are not well developed numbers because there are number of research firms but I just want to share with you the report of the company called the Acceleration Group, they said that the corporate spending on employee training in US is expected to be \$53.1 billion and it is suppose to grow at 8% in the next 2 years. The second 38% of this corporate spend will go out to out tasking suppliers, which is the vendor target base that we would like to be in. Third the growth market will be customer stroke product training and the largest opportunity will be in product training with respect to technology orientation so this by the way was the complete universe of training from there it has to be derived the universe for the universe that we operate in and the last is 15 to 20% market penetration in the next 5 years for out

sourcing services. I must admit these are four disparate pieces of data that they are talking about the following trends.

- 1 Corporate training spends are increasing.
- 2 Out sourcing of corporate training or out tasking is increasing.
- 3 It is the highest expected in technology related area

So that is why we believe that the combination that we are talking about is a very potent combination and we have to pull this out for the area which we service.

Girish

Okay this learning BPO business what kind of stable state margins would you be seeing say couple of years from the road?

Vijay Thadani

I would at this point of time hazard a guess only because I don't think it is a mature segment of the industry, but my gut tells me, our guts put together tell us that it should be in the range of any other out sourcing services that you have typically 20 to 25%.

Girish

This is will a level of PAT level?

Vijay Thadani

It would be I don't think the difference will be very dramatic between EBIDTA and PAT.

Girish

Okay, The second thing I wanted to understand was regarding your private schools initiative what exactly the business model you follow vis-à-vis the other leading player in the market your comp and how is your effort since there is and what do you see this market potential in that area?

Vijay Thadani

Okay, there are two business models that are prevalent one is you sell the present and second is you sell the present in present, which means you sell it on a subscription as the school runs and the second is you sell your future in the present which is what is you take the whole IPR and you sell it one shot to the school. We have so far followed a very strong subscription model and we believe that the subscription model is a way of getting you higher profitability but yes a more sustainable growth which is possible if we use a mix of a bit of licensing of certain IPR which the school will use on a permanent basis so we have a mix of license and subscription model. We believe that some of the other players in this market do use a licensing model.

Girish

Okay is there any seasonality in the private schools business in terms of addition of schools to your base?

Vijay Thadani

Yeah, first half of the year is normally better than second half of the year.

Girish

Okay and numbers which you show have added does it mean that these school signed up before they started giving you revenues?

Vijay Thadani

I am sorry.

Girish

The number of schools you told you have added up from 55 odd schools. Are these signed up number or is at the schools has started billing your revenues?

Vijay Thadani

No, I mean normally when you sign up, the sign up is only valid at the school start giving revenue otherwise piece of paper signed up does not mean anything. So it is schools which have started giving revenues that is first and second when I answered to the first question you mentioned I was referring to the first 6 calendar months of the first 6 months of the calendar year because in the first 6 months January, February, March schools are preparing for the next session and their the laggards are in April, May, June catching up with that and which is where most of the activity happens and then in July, August, September it is kind of reduces a little.

Girish

Okay and in terms of the market potential in India what kind of market potential do you see here?

Vijay Thadani

Rajendran can you talk about the number of private schools.

Rajendran

No in terms of market potential and the two kinds in private school and there are one of schools and there are what the call as a chain schools. So you may have a St. Xavier's Schools see which will be about lets say 20, 30, 40, 100 schools. Now like Vijay said, there are schools where we sell licenses, there are schools where we sell subscription models, why we need the license approvals, for which we have created a lot of products, is #1 because there are many schools now who have their computers already in place

and what they are seeking is and some of their teachers are already trained and what they are seeking is not only IT training but to use their existing hardware and software infrastructure to start improving their education in other subjects so we have now as part of the licensed products, products for using IT, English, social sciences, maths, and science. So the combination of this has got lot of potential. In addition to this what we did last year and we are seeing the effect of that now also, is to work along with internal Microsoft and the State Bank of India to create a loan system said that there is a package which the schools sign up with the SBI, and they get the loan from SBI they go and buy the hardware and they pay up and the banks pays up directly for us in the license and the schools pay back over a period of time. We believe that the work which we did about 10 months back in starting this and putting it together and announcing, launching, is now paying off because there are more schools signing up for this loan system.

Girish

Okay and in terms of CAPEX for the subscription model, how much would that be?

Rajendran

For the subscription model we don't have any for the private schools there is no CAPEX.

Girish

Okay.

Rajendran

Because we do not supply hardware at all the schools buy directly or there may be a few cases where our school service providers may take on themselves to provide for the schools but NIIT does not put CAPEX.

Girish

Okay just one last question on private schools what is the revenue per student once you would be getting in the subscription model?

Rajendran

It can vary, see it is a volume game so if a school promises that in that school they are going to give us lets say 600 students, another school promises 400 students, another school promises 250 students based on that there will be some tuning of the revenue also and it also depends on are we also supplying some license for it upfront, so it can vary depending on which model we are using right from Rs. 30 to almost Rs. 60.

Girish

Okay this is net coming to you or will it also go to the service providers?

Rajendran

Yeah, lets take it right now as net coming to us.

Girish

Okay, thank you.

Moderator

Thank you Mr. Girish. Next is a follow up question from Mr. Kohli of Aim Capital. Over to you sir.

Kohli

Mr. Thadani two questions on your institutional business.

Vijay Thadani

Yes.

Kohli

First is the in the private business are the margins typically a higher than the government business and secondly in the government business over last 1 to 1-1/2 years in terms of the contracts has the market moved towards content based contracts rather than providing purely the equipment and the IT drilling part and to that extent one could only bid for the contract if one has content in the regional languages?

Vijay Thadani

No am just answering your second question first and I will ask Rajendran and he is actually in touch with most of the state governments. There is no established pattern if there was an established pattern that was of the BOOT model they build own operate transfer model and unfortunately government is such a buyer that even one unique case even one unique case can create or look like a market trend so I don't think one would anticipate that because for example we have a localized content in nearly 7 or 8 languages but we keep that more as and a facilitator rather than as a qualifier first part of your question.

Rajender

Yeah just to add on to that in all our boots projects, for example Karnataka or Andhra, we are providing the content in the local language some places we provide in English and local language or only in English or the local language alone, but I think you are coming from a point where there are one or two states which actually put out a tender, for example Gujarat, they had an tender for supply of the hardware and software and then provide IPR educational content for science, maths, and English, and Gujarati and also to train some teachers and ensure that the hardware and software is working which is annual maintenance contract, however, no services as in teachers now when this came,

we assessed this and we stayed out of it for one good reason that same thing was tried almost 2 or 3 years back in Orissa and that project is one of the biggest failures of the government in fact two of the players, I don't want to mention them, two other players got show cause notices from the government because the grass root inside the school nothing was working and there were many schools where computers are not working, many schools where they trained teachers were transferred and the course classes were not happening so we believe that is not the right model, India is not yet matured, may be couple of years from now we may reach there. So we assess such contracts and actually don't participate and also for example government in another case, I think it is west Bengal, where the government said that okay we have got few thousand schools we will split it across 3 to 4 vendors now you have to put your own hardware and software and we don't guarantee any students and you have to go in and sell to the students if they come great and if they don't too bad, now this is again a faulted model because that this has failed in Haryana once, this has failed in Punjab. So where the government school itself is not charging any fees to the student, it is free education literally in most of the government schools when the parents are expected to pay Rs. 80 for computer education that starts creating us lot of problem. So we have stayed away from this high risk, looks like great opportunity, kind of business and we have been very conservative on participating in this kinds of tender. However, I know for sure that there are couple of others who are participating and they are already talked about potential revenues which can come from this few thousands schools over the next many years.

Kohli

What kind of business are you comfortable in the institutional segment assuming debtor problems what to be resolved at certain point of time and what kind of model would you be comfortable in participating in the institutional business where debtor problem is not there?

Rajender

Government side or on the private side?

Kohli

Government side?

Rajender

Government side 3 types, one is I mean it also depends on which state it is for example Tamil Nadu when we did as 90 crores project first time we are completely comfortable because we use to get their payments on the 30 days net basis for every quarter per 20 quarters, so we in our own sense if you were to give a credit rating, we would say that okay we will work with that state again if they come with the good model, where we are put CAPEX and things like that. So contextually depending on some of these states will be very quite comfortable with taking providing computers etc., other than that the other model which we are comfortable which we are doing now in Himachal Pradesh is computers are provided by the school and what we do is we provide the content and we give the services and we do the assessment of students and we show to them then how

continuously having NIIT in the schools is providing an improvement not only in IT education but also in the IT related education, science and maths. Third part of this is to also provide content in this school content as in those content software which we create, I talked about science and social science etc., to the school and fourth one is the left teacher training on a standalone basis and that is something which you know that we are already doing a lot with Microsoft and there are Shiksha project and the IT academies which they set up in Uttaranchal, Hyderabad, and many more coming up that is completely manned by us and that the whole thing is out sourced to us so these are what we are comfortable in and these work well.

Kohli

In terms of the contract this year did you bit for west Bengal, Gujarat, Karnataka, Tamil Nadu?

Rajender

No, west Bengal I was mentioning to you about the 3000 to 4000 schools that they talked about government has no commitment which means government is not providing any planned budget for it and it is entirely up to the vendors to come in first install their hardware and then start soliciting business from the students, we have stayed away from it that is not the right model it will almost for sure will fail as far as the Karnataka is concerned there was a tender for 468 schools which was all about providing hardware and content and I think content. We participated and but we found that when the government came back and said whether we can match the L1 and our price was about 13 to 14 lakhs and the L1 tender was 7 lakhs it is not possible to make profit at that price, but I understand that the L1 and L2 have probably supplying at that price but it is not tenable, if you want to provide quality products. Companies do provide republished products in some of the schools, we have found that out also. So coming back these have not Tamil Nadu had a tender but they delayed it government changed etc., but in case that comes we will definitely take that up.

Kohli

Okay sir Karnataka and Tamil Nadu are where you would be interested.

Rajender

Karnataka no, Karnataka I will be very, vary because we have been having lot of problems on working on the bills receivables not for any reason to do with quality just to do with government, government change, credit process, they are not providing planned budget, they are doing providing for finance during the year those we had given the contract 2 years back, so Karnataka I would be very, vary of in going forward but we don't know maybe there will be we can if we are able to negotiate much better payment in terms in futures as in the escrow or something, we will go ahead. Tamil Nadu no projects are come up but we expect that to come up this year.

Vijay Thadani

I just want to complete Karnataka story, I will be surprised if an existing player would want to bid for Karnataka because everybody is in the same boat.

Kohli

In terms of this business you supply the equipment also and that is perhaps written off in a couple of years is depreciation have very large portion of your revenues in this business because unlike in the private business where you don't supply the equipment?

Vijay Thadani

Did you say the depreciation or debt.

Kohli

Depreciation because that would be all on the equipment for that matter because that would be over of over 5 year period.

Vijay Thadani

No the size of the deal becomes large because of the build in hardware obviously there are margins on that are lower and in any case, I think right now the relative attractiveness of this business to us given are priorities and I think in the rest of the session we talked about the 3 new businesses and now the acquisition, I think we would like to reevaluate our portfolio to focus more on things which we see are more profitable and going forward give us the right volume growth.

Kohli

Okay, thank you Mr. Thadani.

Vijay Thadani

Thank you so much.

Moderator

Thank you sir. At this moment I would like to hand over the floor back to Mr. Thadani for final remarks. Over to you sir.

Vijay Thadani

Okay thank you very much for being on the call as usual we learnt a lot from your questions and I am sure Element K has aroused a lot of curiosity and there will be follow up questions. I am afraid we were not able to answer some of the more details related questions, which we can normally answer for NIIT but not for Element K but I am sure next quarters call we would have much more data and we would be able to help you in evaluating these two options very well and we are very excited about Element K and the strategic opportunity it offers us and more importantly we feel proud of the fact that we

can now be the leading global learning solutions provider and the first and the best choice we believe for LBPO services to our customers. So with that I would like to close this call, thank you very much. We are always available to you for any follow up questions on telephone Chetna is the right person to contact chetnak@niit.com. Thank you very much and good night.

Moderator

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