



**NIIT LIMITED**

**Investors/Analysts Conference Call**

**October 27, 2006**

**Moderator**

Good evening ladies and gentlemen, I am Ahmed, 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. After the presentation, the question and answer session will be conducted for the participants connected to SingTel. After that the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Vijay Thadani. Thank you and over to you sir.

**Vijay Thadani**

Thanks Ahmed. This is Vijay Thadani here from NIIT, thank you very much for being here on the call. I have with me all the senior business leaders, Ashish Basu runs the corporate business, Dr. Dey who is looking after emerging businesses, Mr. Rajendran, the Chief Operating Officer, as well as Mr. Pawar, Chairman, supported by Chetna who looks after Investor Relations and Finance, and Jitender Mahajan who is the CFO. So we have this panel to answer your questions. What I would like to do is to quickly give you an overview of the results, so that we can spend most of our time in understanding the details of these results.

To start with let me give you some financial highlights. The global system wide revenues for this quarter July-August-September which is the second quarter of the year grew 66% year-on-year to touch Rs. 3213 million. The net revenues grew 64% year-on-year to reach Rs. 2031 million. EBITDA has grown up by 36% year-on-year and is at Rs. 238 million. Net profit is up by 23% year-on-year to touch Rs. 161 million.

Obviously, the revenue growth reflects the growth coming from three perspectives: one is the organic growth which has been very good compared to the previous quarters. We have been on an accelerating path and I think this quarter has been particularly good on that context, and we have had 20% year-on-year growth as far as revenues are concerned. The second part is the Element K acquisition, though the acquisition was effective only 2<sup>nd</sup> of August we had 60 days of the quarter as far as their being with us was concerned and they contributed 26% of the revenues. And the last part was new initiatives, which is negligible in revenue contribution, but have great potential for future which we will talk about. So the organic growth as I mentioned was 20% year-on-year, the Element K contribution was 26%, and the three new businesses their contribution was Rs. 11 million.

I do want to talk about the operating margins, the operating margin is at 12% on a consolidated basis and I must remind you that this includes the numbers of Element K, which has been in a turn around stage and I am very pleased to inform you that in the very first quarter of its performance, Element K has been EPS accretive as far as NIIT results are concerned. So that was one of the major initiatives that we had during the quarter immediately after the acquisition to implement measures which will turn around Element K.

In the numbers that we have I think it would be important for me to drill down a little as I mentioned the organic revenue growth is 20% year-on-year. Operating margin is at 16%, so the organic revenue at a net level is Rs. 1493 million, the EBITDA is Rs. 211 million, and therefore we are talking of an operating margin of 14% after providing for some acquisition related expenses which is Rs. 22 million, therefore that is how it reconciles with 16% organic.

Element K by itself had a revenue of Rs. 537 million and an operating EBITDA of Rs. 27 million, and a PAT net after tax is of Rs. 2 million. So just about breakeven on a net profit level.

Rs. 161 million of PAT reflects Rs. 8.3 EPS as far as this quarter is concerned. In the quarter, the individual and corporate business share has increased and institutional share has reduced and that is in line with the strategy that we had shared with you last quarter.

Giving you some more details of the individual business, overall individual business this year grew 46% on an year-on-year basis and within that the India individual business grew 62% so that has been on the back of very good response we got in GNIIT enrollment. We had a 98% growth in GNIIT enrollment. In addition to that there is a number which many of you have shown interest in the number of engineering and computer science students who were joining NIIT, this quarter alone we had 30,774 engineering and computer science students taking up courses at NIIT, which was 45% more than the same number last year.

In the overall individual business, China grew 35% to contribute 21% of total individual business system wide revenues, and the operating profit of the individual business has nearly doubled year-on-year given that the operating margin has gone up from 13% to 18% in this period at Rs. 132 million. This is coming from the operating leverage that we have in this business with a higher capacity utilization of 61% despite the fact that we added 4% additional seats during the quarter itself.

Overall enrollment of all programs put together grew 26% year-on-year. The second thing which I would like to highlight is the institutional business, in the institutional business while based on the strategy that we had shared with you in the previous quarters, we have been conscious of new government business that we would like to take and being selective about it this quarter we had a revenue of Rs. 221 million and an operating profit of 16% at Rs. 35 million.

Non-government business this quarter contributes 24% of the total in contrast to 17% of the total one year ago. In the institutional business, we now have about 135 crores of

order book of which 49% is executable in the next 12 months. In the corporate business, we added \$12.9 million of new orders, three new technology customers, six new corporate clients, and this is also the business which is actively engaged in the Element K integration. Though there is no impact of the Element K revenue on them, I think a lot of their effort has gone into making the Element K integration successful. They had a revenue of Rs. 515 million with an operating margin of 16%. Their business reflects a 14% year-on-year growth and 18% quarter-on-quarter growth. The quarter-on-quarter growth is particularly impressive given the fact that this is a business in which quarter-on-quarter growth in line with new orders and new execution is particularly relevant.

Our technology vertical which is one of our focus areas has increased 40% year-on-year as well as the product mix of content learning delivery and learning technologies has also moved in favor of learning delivery and learning technologies, which was an identified growth area.

Overall the business closed the quarter with an order book of \$37.5 million of which 63% is executable in the next 12 months, so a fairly strong order book which can be used up in the next 12 months.

The second part of my presentation is about the new businesses, we had talked about three new businesses in the last investor meet, all three new businesses were launched on schedule. NIIT Imperia, which was launched on September 12<sup>th</sup> is addressing the executive management education space. It is in partnership initially with the Indian Institutes of Management at Ahmedabad, Calcutta, and Indore, there we have launched 6 new programs some of you may have seen the announcement for these programs. We have received a very good response and we expect the first round of courses to commence in November. Institute for finance banking and insurance, which is an equity participation with ICICI Bank was launched on September 26<sup>th</sup> once again while we have been servicing the in house needs of ICICI Bank for time being, we have now opened it to public as well and public enrollments have started, and once again the response has been fairly good. NIIT Litmus, which is to meet the recruitment testing requirements of the IT and ITES industry was also launched early in October has already acquired its first customer in September though. Overall, all three responses have been very good, but I would like to say that all three are in the learning phase and we are testing out the business model and perfecting the business models as we go along. Overall these three businesses put together today constitute a market space which is about Rs. 210 crore and growing at 31% CAGR from the given statistics. We expect our growth to be fairly substantial in these three areas and we expect them to reach nearly 80 to 90 crores in the third year of operation, which is 2008-2009 fiscal.

New businesses had very small revenue, Rs. 11 million, but had a negative operating profit given the start up nature of the operation.

I would like to talk a little bit about the Element K acquisition, which we had just concluded during the quarter and would like to give you an introduction of what Element K is all about, how their financials are, and how much of that financials we have added in our numbers. So Element K is as old as NIIT approximately, formed in 1982 in Rochester, New York. They are both a product and a services company. Their products are in printing and distribution, in publishing domain where they have their own IPR as well as

they work with other technology companies to partner and create instructor led training material, they have a huge elearning library of about 2300 titles, and they have content development hosting and other managed services as a third line of their business. In terms of their experience, they are third largest Elearning content library, in fact I would now like to say the second largest because the No. 1 acquired the No. 2 just yesterday, so they automatically get pushed up to being the No. 2, the second largest elearning library. They have their own content for key technologies and they are also a major authorized distributor of various technology companies for their content. They had large content development capability as well as their technology platform known as knowledge hub is coming from very unique advantages. We intend to take advantage of both their custom printing and fulfillment, off the shelf elearning and ILT content, as well as hosting and managed services to grow the business across a large number of our technology customers and corporate customers and they intent to do like wise.

The gross revenues of Element K during this quarter was Rs. 707 million, which is about \$15 odd million for the 60-day period. I must say this is in line with the US GAAP accounting which they use. We aligned their revenues to our revenue recognition norms by which this is Rs. 53.7 crores or Rs. 537 million. The interesting thing is that they generated an operating profit of Rs. 27 million. We are managing them as an independent subsidiary with utilizing their strength, but at the same time maintaining their management team. We have already launched their offering in India in collaboration with NIIT, known as eNIIT, and simultaneously have been addressing large number of our technology customers as well as corporate customers to see how we can put both the offerings together to create a stronger customer, stronger value for our customers. Together NIIT and Element K now would represent nearly \$250 million of annualized revenue on a systemwide basis and therefore are the first and the best choice for corporate for comprehensive learning solution worldwide.

In terms of head count, during the quarter we have increased the head count from 2424 to 3128, I must point out of this the new additions of 641 are due to the Element K acquisition.

I would like to stop at this point of time and open the forum for Q&A. Moderator, can you please open it up for question and answer?

Moderator

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

Ichu

Thank you, Ahmed. We will now begin the question and answer sessions for participants connected to the SingTel bridge. Please press 01 to ask a question. Participants at the SingTel bridge if you have a question please press 01. Press 01 if you have the question. There are no questions from the participants at SingTel bridge. I will hand over the proceeding back to Ahmed. Ahmed.

**Moderator**

**Thank you Ichu. We will now begin the Q&A session for participants connected to India bridge. To ask a question please press \*1 now. Participants to ask a question, please press \*1 now. Participants who wish to ask questions please press \*1 now. First in line we have Mr. Dipen Shah from Kotak Securities. Over to you sir.**

**Dipen Shah**

**Hi Vijay, congrats on a good set of numbers, congratulations to the management team.**

**Vijay Thadani**

**Thank you very much.**

**Dipen Shah**

**I had just a couple of questions regarding first of all Element K. In terms of you said the acquisition related expenses were about Rs. 22 million, now is this included under the new initiatives, which is showing a loss of about Rs. 3.5 crores.**

**Vijay Thadani**

**Yes, actually, we just combine them into the new initiatives and acquisition related expenses as a line item.**

**Dipen Shah**

**Okay and this Rs. 22 million is one off kind of a thing and not to be repeated in the current quarter.**

**Vijay Thadani**

**Very right, and these are those acquisitions related expenses, which cannot be considered to be capitalized as a part of the acquisition process.**

**Dipen Shah**

**Okay, and in terms of the acquisition it got merged with effect from 2<sup>nd</sup> of August, I just wanted to know something on the financing part as to the \$35 million of debts when did where actually taken and how much was the interest component which came in this quarter?**

**Vijay Thadani**

**Yeah, when I gave you the PAT numbers of Element K, the Element K numbers I had already accounted for the interest for the 59-day period already and that is how we had the Rs 2 million PAT. The total debt which we took for this purpose was \$35 million and**

the debt was effective, the closing date, which is 2<sup>nd</sup> of August, so that was 59 days interest.

Dipen Shah

Okay, what would be the rate of interest?

Vijay Thadani

I think it is 150 basis points above libor, if I am not mistaken, some such number approximate to that, 170 above libor.

Dipen Shah

Okay, it is 170 above libor, okay, and on the other hand could you just throw some light on the strategies which you are adopting to increase the profitability of Element K?

Vijay Thadani

Yeah, what I would like to do is to ask Ashish Basu, who is actually leading the integration effort to talk about the three main initiatives which we have for increasing both the revenue as well as profitability of both Element K and NIIT's corporate business, both of which will get effected in the next few minutes, yeah, Ashish.

Ashish Basu

Okay, hi this is Ashish Basu and I look after the knowledge solutions business at NIIT. We have three specific growth initiatives identified for Element K all of which are already in implementation. The first is an integration of our IT customers with Element K offerings. We have already spoken to a number of customers we have a lot of interest, we are expecting to see closures of additional business in this area in the coming and the next quarter, which is in OND, JFM we should have something to report here. The second major initiative is around internationalizing the Element K product offerings because they have primarily the North America focussed and they are looking at taking it into India that is what Vijay talked about a little while ago as I mean launched in India but also managing distributors in other countries. And the third thing that we are looking at is actually to introduce additional packaged offerings where we would leverage our services capability along with their content products, so they have 1500 odd customers. We are going to increase their average up take of revenue per customer by a significant percentage, so these are the three strategies all of which have already started and will gather momentum in the next couple of quarters.

In terms of improvement strategies we have three again, the first one is that prior to acquisition itself, we had agreed on a certain level of cost savings, these where to be implemented over three quarters. We have already completed implementation of 60% of that and the other 40% are on schedule. We have a schedule by which these cost will be kind of changed, which are primarily in G&A and R&D. The second major thing is that Element K has a platform called Knowledge Hub, NIIT has a platform called Clicks, and we are proceeding on the integration of these two. The integration will take a little while

but this integration projects have already commenced, so that again over time will lead us to only have to maintain and support a single platform, which will save significant money. The last is that for all additional work that Element K is looking at we are restructuring the way work happens to increase the offshore component, so increasingly their profitability and margins will grow because of offshore.

So just to summarize again, three growth strategies are one is expanding their products into our technology segments. The second is international sales. The third is increasing revenue from their 1500 customers. The three improvement strategies are cost savings that is around 10% of their initial gross revenue. The second is to merge and create one technology out of the two platforms that we have, and the third is to increase offshore development.

Dipen Shah

Okay, so if I understand from this correctly, we should not be expecting significant or any reduction in revenues of Element K because of offshoring, it is mainly that the revenues would increase from the three initiatives which you are taking, so that there should not be any reduction per se in case of Element K because of offshoring. Is it correct?

Ashish Basu

Absolutely.

Dipen Shah

Okay and if you could just give us some estimates if at all you can as to where are you looking at Element K profitability after the initiatives are well taken care of say probably in a 1 year or 1-1/2 years down the line?

Vijay Thadani

Yeah, actually, what we are trying to do is to make sure that their profitability reaches our current level of profitability in let us say 2008-2009, which is they should reach an EBITDA level of 15 to 16% in that period. I must point out that this is a company which was making losses for the last many years, so we also have an uphill climb and obviously we also got the benefit of working with them and adding these bits because we were already in this business. The second thing which I want to say is that even in terms of top line growth, the market place where they are playing, which is North America, the industry growth levels are at 2 to 4% if you reach the IDC reports. We are trying to grow that faster because we are also wanting to take advantage of the outsourcing boom, so these two initiatives we believe will contribute in the future.

Dipen Shah

Okay and in terms of the institutional business, it is mentioned that there were some project closures during the current quarter and could you just throw some light whether

the current quarter revenues of about 22 crores are indeed sustainable, the margins, as well as the revenue base?

Vijay Thadani

We have mentioned before that overall the institutional business, we are wanting to de-emphasize and be selective about the government part of the business and therefore we are not going to be at the levels of last year, and given the current state of government orders and the once which we would like to participate, we would like to make sure that we maintain our margins at about 15% for the year, and at the same time the revenue may be about 10 odd percent lower than last year.

Dipen Shah

Okay, thanks very much and that is all from my side and all the very best.

Vijay Thadani

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Hitesh Shah from Citi Group. Over to you sir.

Hitesh Shah

Hello, congratulations on a good set of numbers. My first question is on Element K, is there any seasonality in the business of Element K? Do we see any spike in revenues in the December quarter for this company?

Vijay Thadani

Well in all businesses which are largely services driven there seems to be a small should I say subdued interest in the last quarter because you don't get enough working days, so the services part of their business does get effected. Is that right Ashish? And on the product side of the business they may get new orders but they would not be able to get the revenue because those are typically subscription libraries which have to be built over the next 1 or 2 years. So in other words there may be a small dip in the OND quarter, but it is very minor, it is nothing like the one which we go through.

Hitesh Shah

Okay, sir the other thing I wanted to know that sometime back Ashish mentioned I think offshore development, but if I understand correctly, Element K has some staff in Chennai facilities and which do the product development for them, so how would it they are already having an offshore developments so how?

Vijay Thadani

How will we help what?

Hitesh Shah

Yeah.

Vijay Thadani

Yeah, okay, so Ashish why don't you explain.

Ashish Basu

Yeah, so there are two, things their facility in Chennai is already being used for product development largely and we are looking at also services, which is custom content development, so the level of process maturity you need to do custom development is different from product development because in product development you are not touching the customer directly, so at this point in time where they are doing a part of their work in Chennai, which is substantial part, but they are doing a fair amount of it in Rochester as well. Based on everything that we have discussed and seen so far as they start to grow, because their development services business is growing, as that starts to happen the Delhi team will have to help in sharing that load and so on and also getting the Chennai people up to speed on being able to take on that kind of responsibility, because it is somewhat different capability.

Hitesh Shah

Okay, the other thing I wanted to understand was you know last quarter we spoke of some lay off that might have happen because of the Element K acquisition, is that already over or we might see some you know extraordinary expenses related to that in the coming quarter?

Vijay Thadani

We mentioned to you about the fact that there was a reduction in force exercise done at the beginning of the quarter and whatever were the plans we had already shared while it is being done in phases it will not have any effect in terms of any extraordinary expenses that we have to look at.

Hitesh Shah

Okay, the other thing I wanted to understand you know, the EBITDA margin of 5% which Element K did in the first two months of integration, is there an extraordinary or you know 5% is kind of sustainable EBITDA margin for them for at least next 2 to 3 quarters is what I wanted to understand?

Vijay Thadani

Okay, it is too early for us to come to that conclusion because first of all let me tell you that they have seen a positive EBITDA margin for that matter and net profit after many, many years, so it is too early for us to conclude from there, however, going forward if our outlook was little longer than next 2 quarters, but it was lets say 4 or 6 quarters, then as I mentioned, we do see the EBITDA margin go well beyond 5%.

Hitesh Shah

Okay, also if you could just update on some of the balance sheet numbers like cash, debt, and you know all that stuff, DSOs.

Vijay Thadani

As far as NIIT is concerned?

Hitesh Shah

Yeah.

Vijay Thadani

Yeah, okay, so lets talk a little bit about cash, we closed the quarter with a cash balance of about 40 crores of rupees. Our DSOs are at down by 7 days and they are at 136 days, once again clouded by the high government receivables even though we saw the government receivables reduce this quarter. We got payment both from our two favorite states during the quarter and we see some more coming in because they have some budgets released, so at this time they were 136 days.

Hitesh Shah

Okay, can you give me the amount if that is possible?

Vijay Thadani

Rs. 1782 Mn..

Hitesh Shah

Okay, right, and what about the debt that you have apart from FCCB, what is the total debt right now at the end of quarter?

Vijay Thadani

Our total debt excluding the funding for Element K was 567 and to that we have to add the Element K debt, that is \$35 million.

Hitesh Shah

Okay and this is apart from the....

**Vijay Thadani**

However, the Element K debt while I am talking about it on the NIIT balance sheet, in the way our numbers are shared with you the interest on that debt has been shown along with Element K.

**Hitesh Shah**

Right. This is over an above FCCB right, Rs. 567 million.

**Vijay Thadani**

Yes.

**Hitesh Shah**

Okay, and we had 24 million of order intake in institutional business, was this all private school or there is that some component of government school business as well?

**Vijay Thadani**

No, this was all private schools.

**Hitesh Shah**

Okay, thank you, and the best, I will come again I have any more questions. Thank you.

**Vijay Thadani**

Oh! Certainly. Thank you.

**Moderator**

Thank you very much sir. Next in line we have Mr. Dipen Mehta from Dipen Mehta Shares. Over to you sir.

**Dipen Mehta**

Sir, congratulations on good set of numbers. Just only the clarification that 2.2 crores is the additional one time expenditure spent on the acquisition Element K.

**Vijay Thadani**

Yeah.

**Dipen Mehta**

And 1.1 crore is the initial start up cost for all the other three new initiatives we have taken, is that a correct understanding?

Vijay Thadani

No, it will be 1.4 crores as the start up cost of the new initiative.

Dipen Mehta

Oh sorry 1.4 and 2.2, that is just 3.6 crores.

Vijay Thadani

Yes.

Dipen Mehta

Okay, and you were explaining that the interest cost of it was included in Element K, I did not quite get that, in Element K performance, the interest for only 35 million debt.

Vijay Thadani

Yeah, I will just explain you. What we said was if you look at on the web site the presentation which we have slide #6.

Dipen Mehta

Yeah, I am on slide #6 yeah.

Vijay Thadani

The financial summary by business line I could explain to you.

Dipen Mehta

Yeah, yeah, I am there on that.

Vijay Thadani

If you look at existing NIIT, the column called existing NIIT, that tells you the organic NIIT which existed last quarter, which has a 19% year-on-year growth and a 17% operating margin.

Dipen Mehta

That is right.

Vijay Thadani

Correct, then the next line is 11 million of new business revenues, 47 million of expenses to do with new business, and acquisition of which 22 million are one time.

Dipen Mehta

Right.

Vijay Thadani

That totals to column called organic NIIT because all these are to do with NIIT and will remain and NIIT. Then we have the column called Element K where you have 537 million of revenue, 27 million of EBITDA, and they have a net other income of -21; that -21 is actually 22 million of interest and 1 million of additional and other income they had, so that is the 21 million net.

Dipen Mehta

Okay, so that 2.2 crores over there is basically for 60 days, so we can work out the average cost per quarter and therefore per year.

Vijay Thadani

Yeah, can be, if you actually multiply it by 6 you will get it right,

Dipen Mehta

Okay that means that all said and done Element K has not damaged your bottom line in any way, the interest cost is now more than being paid out of the profits of Element K, is that correct?

Vijay Thadani

That's the reason I used the word it is EPS accretive, because every cost to do with Element K operation has been paid out of Element K profit and it has contributed Rs. 2 million, so you said it in simpler words than I did. Thank you for doing that.

Dipen Mehta

And his therefore the 36 million loss which is there, the 1.4 million, the start up which is there, how do you see that panning out for the next quarter, do you see closing the gap in over the next 2 to 3 quarters or so?

Vijay Thadani

So let me talk actually if you could keep that Rs. 22 million one time which can be kept away, we just did not want one more column with single entry that is why that 22 was there, otherwise it had very little to do with this column. As far as new businesses and their prospects are concerned, specially Imperia and IFBI, I would hand you over to Dr. Dey he will just give you a quick summary of what we see as going forward.

**Dipen Mehta**

Okay.

**Dr. Dey**

Yeah, as we said for both these two new businesses, NIIT Imperia and IFBI, both of them have begun their public offerings, and as we said the response indeed is up to our expectations. Imperia, which deals with executive management education, we are targeting enrollments of about 500 numbers and with an average fee of about Rs. 150,000 and of course this will be serviced over an average of a 10-month period. And in IFBI, we are targeting about 450 numbers of students into a program which is a 6-month program, which has fees of Rs. 48,000. We will have expenses associated with the delivery of these programs and therefore going forward we see the operating expenses to be of the order of about .....

**Vijay Thadani**

Just one moment, he is just pulling out.

**Dipen Mehta**

Yeah, no problem.

**Dr. Dey**

Yeah, so we expect the EBITDA to be in the range of around -50 to -60 for the full year.

**Vijay Thadani**

For this year.

**Dr. Dey**

For this year FY07 and of course we expect to breakeven sometime in the second or third quarter of next year.

**Vijay Thadani**

Next year what are you projecting?

**Dr. Dey**

And the projections for the businesses in revenue terms for the next year would be in the range of about 300 million and in the third year we see a figure of somewhere close to about 80 to 90 crores, 800 to 900 million, and at that time we should be at an operating margin in excess of 25%.

**Dipen Mehta**

That is in the third year, when you have 80 to 90 crores.

**Dr. Dey**

That is right.

**Vijay Thadani**

And in the second year?

**Dr. Dey**

In the second year our operating profit should be in the range of 10 to 20 million.

**Dipen Mehta**

No, no, the operating profit will be basically 5 to 10%, that is what you are saying. The EBITDA margin will be between 5 and 10%.

**Dr. Dey**

That is right; the EBITDA margin will be between 5 to 10%.

**Dipen Mehta**

Okay, I just did not get the EBITDA margin for the current year.

**Vijay Thadani**

So, I think let me explain since the paper were little far from him, let me just repeat what he said.

**Dipen Mehta**

Yeah.

**Vijay Thadani**

In this year we expect these businesses to contribute between Rs. 75 to 80 million of top line and would have a negative EBITDA of Rs. 65 to 70 million. In the next year because they will breakeven during next year, we expect them to reach between Rs. 280 to 300 million and have an EBITDA of between 15 to 30, which is 5 to 10%. And in the third year is when we would reach the optimum capacity utilization of what we have set up. We expect to see this in excess of 25% at a revenue of between Rs. 800 to 900 million. As you know NIIT Imperia is again a very high operating leverage business given the fact that there is a capacity, it is a capacity driven business, and same is the case with IFBI as well.

**Dipen Mehta**

That means they still incur 1.4 crores already loss incurred in the second quarter, they incur anyway between 5 to 5.5 crore loss for the other 2 quarters for the new initiatives.

**Vijay Thadani**

That is right.

**Dipen Mehta**

So we should be kind of factored in that as well, may be even for the may be less for the first quarter of next year and thereafter.

**Vijay Thadani**

Very right.

**Dipen Mehta**

Okay, thank you and all the best.

**Vijay Thadani**

Yeah.

**Moderator**

Thank you very much sir. Next in line we have Mr. Nitesh Ojha from Taurus Mutual Funds. Over to you sir.

**Nitesh Ojha**

Hi, good evening gentlemen, just a quick question. Do you give a company wide revenue guidance?

**Vijay Thadani**

We had shared with you for the year revenue guidance, which actually it is a good time for us to revisit given the fact that we now have an acquisition which has to be added to the numbers that we have talked about, so I can share that with you. This year given the induction of Element K and our first 6 month performance, we do see us doing better than what we had projected in our organic numbers and to that we are adding the Element K numbers, so our current projection is to look at Rs. 7550 million to Rs. 7770 million.

**Nitesh Ojha**

I see, and your margins, your EBITDA margin is if I am seeing this correctly, usually hovers around 15 to 16%, on the company wide basis.

Vijay Thadani

No, I will explain you. Our margin has been steadily improving in last quarter. We were overall at 13%. Our target this year for organic margin was to be 15% and we have already crossed this quarter. Our this quarter's margin is 17%, however, given the new businesses and given the acquisition and especially the acquisition, we expect the margin to be lower because the Element K's own margin as you know is at 5% right now, but we do expect it to improve during the year and overall we think we will be at the current state of margin, which is 11 to 12%.

Nitesh Ojha

11 to 12% which you briefly mentioned that my FY09 Element K margins would creep up to your company wide which will be about 15 to 16%, so over the next 8 to 10 quarters, you are hoping to further expand your margin by over 300 basis points.

Vijay Thadani

Yes.

Nitesh Ojha

Yes, okay, and your net margins will remain at 10% or any room for improvement now that the interest situation is resolved?

Vijay Thadani

No, the interest situation is not resolved, interest situation has just begun, sorry. What I do want to say is that our depreciation burden will not increase at the rate at which our business is increasing, so our depreciation is the single largest element of expense below the line. On taxation, once again, we do not oversee any major taxation coming in other than FBT and MAT, since we have a lot of deferred tax assets and reserves available.

Nitesh Ojha

Okay, so now what I meant by resolved the interest situation is that there is visibility over there at least it will be stagnant going forward right.

Vijay Thadani

Absolutely, and in fact it will reduce because we have repayments going in.

Nitesh Ojha

Yeah, so you could expand the net margins to close to 10% no?

**Vijay Thadani**

No, our net margins, I don't know whether at percent what they have, I have operating margins in front of me.

**Nitesh Ojha**

Your net margin is about 8%.

**Vijay Thadani**

Yeah, but I am saying our net margins will improve because our expenses between operating margin and net margin are more or less frozen at the levels that which we are today, they increase marginally, yeah.

**Nitesh Ojha**

Okay, thanks, great.

**Moderator**

Thank you very much sir. Next in line we have Mr. Girish Pai from East India Securities. Over to you sir.

**Girish Pai**

Yeah, I just wanted to understand the amortization figure for the goodwill of Element K, is it part of your calculations right now?

**Vijay Thadani**

No, as you know it is an overseas subsidiary and as per the consolidation guidelines, there is no fixed amortization for that but every year the value of our investment will be tested for any impairment because of loss of value, so other than that there is no amortization.

**Girish Pai**

Okay, so you are not going to provide for anything until you see impairment in the plan. Okay, the second thing I want to ask you is you mentioned about 150K as the fee that you get from Imperia per capita, now is that net or you share this with the IIMs?

**Vijay Thadani**

We share that with the IIMs, so you can say in our books we would get about 50% of that.

**Girish Pai**

Okay. Third question is regarding private schools, can you give me a split of IT enabled versus IT training kind of revenues within your private schools business?

Vijay Thadani

In our private schools business we have a combined offering of IT enabled as well as IT training, that is part of the total package. So every school that we address has both IT training and IT assisted training.

Girish Pai

Okay. Fourth question is regarding your Q3 outlook, because if you look back into your Q3 of FY06, it has been a pretty weak quarter from an individual training business, financial perspective, what do you see happening in Q3 of this year? Do you see that improving in terms of margins and combined with the possible losses you know from the new businesses that you have would we see a very weak Q3 this year?

Vijay Thadani

Okay, Q3 is typically a weak quarter for us given the seasonality of our business, but as you know in the past years, steadily we have been bucking the seasonality a little bit each time, so while Q3 will have the same trend, but I think Q3 will have a better growth year-on-year then you see in the organic business year-on-year.

Girish Pai

In terms of margins will it be better I mean because I think last year you had a very good quarter from an institutional business perspective, do you think that kind of get repeated?

Vijay Thadani

That would depend on the order intakes that we have during the quarter and at this point of time it will be difficult to comment on that.

Girish Pai

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta

Hi, good evening gentlemen, congratulations on your result. Sir I just was wondering could you just give us the total FCCB what the total diluted equity?

**Vijay Thadani**

**Yeah, FCCB will result in a 10% dilution. It is a Rs. 200 per share conversion.**

**Ruchit Mehta**

**Okay, so currently we have about 90.3 million shares that will be diluted by 10%.**

**Vijay Thadani**

**Yes.**

**Ruchit Mehta**

**Okay.**

**Vijay Thadani**

**No post dilution, yeah that is right, you are right post dilution Intel capital which has the FCCB will own 10% of the equity.**

**Ruchit Mehta**

**Okay in terms of number of shares what will be the equity?**

**Vijay Thadani**

**2188 additional.**

**Ruchit Mehta**

**2188 lakh shares additional.**

**Vijay Thadani**

**21.88 lakh shares, 2.1 million shares.**

**Ruchit Mehta**

**Okay, and in terms of funding for Element K we had actually announced our \$40 million was the acquisition price and we paid it through \$35 million of debt, the balance has been through cash or there is potentially some equity issues because of that as well.**

**Vijay Thadani**

**No, \$40 million is the approximate price for total cost of the acquisition; it is approximate still because the numbers are still getting tallied. The \$35 million was a debt which was taken and the rest was funded by internal accruals, no other equity was taken.**

**Ruchit Mehta**

**No further equity dilution because of this.**

**Vijay Thadani**

**No.**

**Ruchit Mehta**

**Okay, so the debt about that you mentioned earlier about Rs. 567 million is excluding the FCCB?**

**Vijay Thadani**

**Very right.**

**Ruchit Mehta**

**So this plus FCCB, plus Element K debt would be there.**

**Vijay Thadani**

**Very right. Do you want to know what the total number is?**

**Ruchit Mehta**

**Yes, please.**

**Vijay Thadani**

**I can tell you that. Just give me one second; I will just give you that number.**

**Ruchit Mehta**

**Yeah, and sir I just also wanted to understand, I joined in a little late so my apologies, what is the sort of outlook now the retail side of the business it is going fabulously, so how do you see it for the next year and the rest of the year and the year after this?**

**Vijay Thadani**

**Yeah, you are very right, the retail side of the business has been particularly exciting in this quarter, but I must also point out this is the peak quarter of this business. I also want to give you another data point and this is actually some of our friends in the investor community have been asking for to give us a visibility for the next few quarters, so I wanted to share with you a data point, which is to do with our order book in each of the businesses and how that will pan out in the next three quarters, so in the individual business we are entering the third quarter with an order book of 132 crores, which is Rs. 1320 million and we are expecting, I will just give you in each of the quarters the 1320,**

the way it will pan out. I think it is 25% in the coming quarter, 19% in the following quarter, 14% in the third quarter from now, and 11% in the fourth quarter from now. So actually that also answers the earlier gentleman's I think Dipen's question on what will this could run of individual business help in the third quarter, so nearly a 25% of the 1320 is due to come through in the next quarter itself. Similarly, in the corporate and the institutional business, I gave you the next 12 month's outlook.

**Ruchit Mehta**

Okay, and sir in terms of could you just repeat that for the, anyway those are figures in the presentation, but you know going forward China has also been a very good growth driver for the individual business, quite obviously the market itself is growing by about 31%, do you think that over the next 3 to 4 years some 20-25% is sort of the growth rate the market business can sustain over there?

**Vijay Thadani**

I think higher than that.

**Ruchit Mehta**

Okay, and that will be due to primarily what?

**Vijay Thadani**

See for us there are two growth engines there are our traditional education center and the second is the NIIT inside model where we are working with the large number of universities and colleges who adopt NIIT's curriculum, but I must say at this time India growth is far in excess of even China growth, and I think that is also to do with the dominant position of India in the IT services space of NIIT in India and the range of offerings that we have.

**Ruchit Mehta**

Okay, just one final question, could you just what is the capex for the year for fiscal 2007 any outlook for fiscal 2008?

**Vijay Thadani**

I can tell you that in the next few minutes, we will just tell you the total capex of which how much have we spent and how much is left to be done.

**Ruchit Mehta**

Okay and sir typically what would be your turnover to capex ratio, asset turn over ratio in new business?

**Vijay Thadani**

**In steady state in education business, you should get an asset turn over of 2.5 to 3.**

**Ruchit Mehta**

**2.5 to 3.**

**Vijay Thadani**

**Yeah.**

**Ruchit Mehta**

**Okay, but if you include your corporate ad to these two segments it should improve a bit.**

**Vijay Thadani**

**Yeah, see the institutional segment; the asset to turnover ratio is frankly a misnomer, because the asset does not get left behind with you at the end of the period, so that we used to discount, yeah because that is a build own operate transfer model.**

**Ruchit Mehta**

**Okay, thank you sir, if you just let us know the debt and the capex part.**

**Vijay Thadani**

**Yeah, I will just give the total debt also.**

**Ruchit Mehta**

**Yeah, thank you.**

**Vijay Thadani**

**Yeah, so the total debt we have on our balance sheet is 2175 is the secured debt, which is 567 plus the \$35 million which will work out to 1610, and FCCB which sits its conversion price was Rs. 200 but yes it is technically a debt for 437.**

**Ruchit Mehta**

**Okay.**

**Vijay Thadani**

**And the capex so far in the business is 472 million, this year has been 472 million and given the new centers which are coming up we are seeing another 300 million more.**

**Ruchit Mehta**

**So about totally 80 odd crore you will spend through the year.**

**Vijay Thadani**

**Yeah.**

**Ruchit Mehta**

**And so you will be okay for the next year there would be any major capex requirement for the next year?**

**Vijay Thadani**

**Next year the capex requirement will fall very substantially because these three businesses would in that case be operating at full cylinders.**

**Ruchit Mehta**

**Okay.**

**Vijay Thadani**

**There will be some extra capex, which will get incurred for their expansion.**

**Ruchit Mehta**

**May be 10 to 15 crores or something like that.**

**Vijay Thadani**

**Yeah, but we will be sharing that I think in the next quarter because our plans for next year will be final by then.**

**Ruchit Mehta**

**Okay, thank you very much sir.**

**Vijay Thadani**

**Yeah.**

**Moderator**

**Thank you very much sir. Next in line we have Ms. Priya from Enam Securities. Over to you mam.**

**Priya**

Yeah, good evening to all of you all, and congratulations on good set of numbers. My first question relates to the fact that and if you could give us some assessment on the Litmus customer assessment services which you have just launched in October 2006 mostly on the pricing side because we have got flavor with respect to Imperia and IFBI if you could give us most on the pricing side?

Vijay Thadani

Okay, so NIIT Litmus is an assessment testing service, it already has its first customer and it is a relatively low investment business because it will leverage our current education centers and current reach, and it is actually going to some of our specialized centers to start with, and therefore while in capex it is low, I think in revenue possibility it has a high potential. We expect this business though its numbers are already included in our corporate numbers because it is part of our corporate business, we do see that this business will grow fairly strongly and we expect it to reach about 250 to 300 million in the third year.

Priya

That is FY09 where you are targeting 800 to 900 million for all the three initiatives.

Vijay Thadani

For the other two initiatives.

Priya

Sure, so you are saying that 250 to 300 is not in that 800 to 900.

Vijay Thadani

No it is not.

Priya

It will be part of the corporate business.

Vijay Thadani

Yeah.

Priya

Okay, sure, and also if you could give us on the pricing scenario which you are looking at in Litmus NIIT.

Vijay Thadani

Litmus is a large range but may be Ashish you can talk about pricing.

**Ashish Basu**

Yeah, so there are multiple models that will work there, so the pricing depending on whether a customer does it in house or whether we do it at our centers will vary somewhere between Rs. 100 per person per test to about Rs. 500 per person per test.

**Priya**

Okay, so you are saying that because it depends on whether it has been done in house or at NIIT location.

**Ashish Basu**

Yes, and also depending on the test.

**Priya**

But obviously that would also vary the margins as well. What I am trying to understand is you know when we are doing at your locations and you have mentioned that you know it can be done at the existing capacity itself would that imply if it is done at your location, the EBITDA would be much stronger.

**Ashish Basu**

Okay, yes, the EBITDA will be much stronger and at the same time we are setting up some specialized centers as Vijay had mentioned there will be a few specialized centers which will have between 50 and 100 seat capacity. We are in the process of setting up four of them and we will do another four next year, but that is not a high capex contributor. It is I mean the space is rented and so on, but that will be set up and for additional space which is where there will be people who would need to increase the catchment to may be a 150 cities or so we will leverage NIIT centers as well.

**Priya**

Okay, so that is really helpful. Second question relates to the fact that you know if you could give us some flavor of the order intake of \$12.9 million which you had in the corporate business?

**Ashish Basu**

Yeah, so a fairly large section of that are technology customers, so for example, we did have a fairly strong order intake from company such as, okay which would be in the you know fortune the top 10 technology companies, we would have got the substantial amount of order intake from them. We also had a few large customers who both in India as well as in the US which added to that.

**Priya**

Okay, you also mentioned on your slide with respect to corporate intake that you know there was a ramp up with respect to the call, is it expected to continue given the fact that you know the businesses in a high growth phase and it differs from assignment to assignment?

Vijay Thadani

No, actually what we are referring to there is the fact that we are changing the product mix, so for example, we are adding more of learning delivery. For learning delivery you have to get your instructors certified especially if you are doing international rollouts, in which case for the first 2 months or 3 months you have an instructor on your payroll, but he is actually not delivering revenue, so as you are ramping up, to that extent you have a little subdued operating margins.

Priya

Okay, but that would typically happen when you are going in for geographical expansion rather?

Vijay Thadani

No, if you are adding a new technology client let us say, then that happens, because you have to train a new breed of 35 trainers.

Priya

Okay and in the institutional business you mentioned on the annual milestone which you billed across in the current quarter, if you could give that quantum as well?

Vijay Thadani

I am sorry, I missed the question.

Priya

In the institutional business, the slide you have mentioned that there was an annual milestone which was billed in the current quarter.

Vijay Thadani

Yeah.

Priya

If you could just give us the quantum on that.

Vijay Thadani

The quantum of that annual milestone, I would not have it straight away.

It is Rs. 26 million.

Priya

Okay, and if you could give us some flavor on the business pipeline with respect to the private schools, while you know the overall pipeline had an addition of 24 billion, but you know just on your current feel or you know if you could just mention how the private school initiative have been going through?

Vijay Thadani

Yeah, in the private school essentially there are two seasons; there are two quarters in which there is more marketing activity. One is the quarter in which we are in and the one which is the quarter which follows this, which is the two, because the schools like to take their decisions for their academic years which start in May-June or actually in some cases April, so these are the two times when you have a whole activity, when you like to tie up with the school and get them engaged for at least a year subscription, not typically it is a 3 year, it is a 3 year engagement, so those are the two quarters in which there is activity, but the revenue I obviously anything which you get, get spread approximately over the year, it is a little higher upfront, but over the year it gets spread.

Priya

Okay, thanks very much and wish you all the best.

Vijay Thadani

Thank you.

Moderator

Thank you very much mam. Participants who wish to ask questions please press \*1 now. Next in line we have Mr. Dipen Shah from Kotak Securities.

Dipen Shah

Yeah, just one more question could you just give us some update on the NIIT University.

Vijay Thadani

Okay, may be Mr. Pawar would like to talk about the NIIT University, one moment.

Mr. Pawar

Well, nothing significant to report at this time except that you know I did mention that we are putting together the master plan, the lay outs and so on. So that work is in progress. We have added some more faculty members, so that process is on, but we still as I

mentioned we have to wait till the government clearance comes and significant acceleration would happen post that.

Dipen Shah

Okay.

Mr. Pawar

So at this time as you know we are in the process of building the campus, which is in Rajasthan, so that activity is anyway going on.

Dipen Shah

Okay and I believe that will not entail any significant capex in NIIT Limited part because we could tie up with some probably NGOs or some donations kind of thing.

Vijay Thadani

No, I do hope that our aim is to create a university which is self sustaining, and yes you are very right, it does not entail a capex from NIIT.

Dipen Shah

Okay. Thanks very much.

Moderator

Thank you very much sir. Next in line we have Sonaal Kohli from AIM Capital.

Sonaal Kohli

Hello, Mr. Thadani, congratulations on good set of numbers. Couple of queries, firstly, Element K revenues for the last year were \$80 million, was that at net revenue or at gross revenue?

Vijay Thadani

Yes, as I mentioned their revenue recognition is as per US GAAP and by that it was at \$80 million, which was gross revenue in my calculation, and the way we are recognizing the revenue we are considering the equivalent of that could be about \$14 million less, \$64 million, 66 sorry.

Sonaal Kohli

And what would be business contribution at net revenue level for the first 6 months, totally existing businesses excluding Element K.

Vijay Thadani

I am sorry, could you repeat.

Sonaal Kohli

What would be individual business contribution, India contribution to the individual business revenues for the first 6 months?

Vijay Thadani

57%.

Sonaal Kohli

At net revenues.

Vijay Thadani

At system wide I have, but I can tell you at net also, just one moment. I will just give it to you.

Sonaal Kohli

Sure.

Vijay Thadani

Yeah, why don't we continue with the next question, I will just give you that data, I have at systemwide level at 57%.

Sonaal Kohli

Two more queries, what kind of business growth do you see in corporate business for the year, and in terms of last year you started your enrollment season earlier, would that have any repercussions on growth in the next two quarters because of change in the seasonality pattern?

Vijay Thadani

Okay, so let me first answer your first part, your India's contribution to the individual business at a net level, because we have our own centers as well, is 79%. And your second question is whether the fact that we started enrollments at an earlier stage will have an impact on our third quarter revenues?

Sonaal Kohli

On third and fourth quarter revenues in terms of growth.

Vijay Thadani

Well at this point of time, I would like to say it will have a positive impact because to that extent our order intake is already in our pocket and if I share one number with you I think it is you where one of the feedback which we were responding to, we created the order book which we have in the individual business at a net level is 132 crores of which 25% is due to come in in the next quarter, which is Q3, and 19% in the fourth quarter. If you just see that number itself will give you an idea that I think will be beneficiary of the fact that we started early enrollment.

Sonaal Kohli

And your outlook for corporate business for 2006-2007 in terms of top line growth?

Vijay Thadani

Yeah, overall we are looking at the corporate business in our last discussion was at 18%. The order intake that we have in these two quarters and the order book that we are looking at, we expect that to be more like 19 to 20% now.

Sonaal Kohli

Thank you Mr. Thadani, congratulations once again for great numbers.

Vijay Thadani

Thank you very much.

Moderator

Thank you very much sir. At this moment there are no further questions from the participants. I would like to hand over the floor back to Mr. Vijay Thadani for final remarks.

Vijay Thadani

Thank you Ahmed. Thank you very much for being here with us and for all the interesting insights that we got from these conversations. I am sure there would be follow up questions, please don't hesitate to contact Chetna Kuller or myself or Vijay Kumar at our respective e-mails or telephones, we will be very happy to answer any all the questions. We would also like to invite you next time you are Delhi to visit our center and new corporate office in Gurgaon and we hope to look forward to continuing our interactions with you. Thank you once again and good night.

Moderator

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.