

NIIT Limited
Quarter One Earnings Conference Call - Financial Year 2008-2009
July 24, 2008

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

Vijay Thadani: Good evening. Thank you Gaurav. Good evening everyone. Thanks for joining on the call. Just want to introduce people who are going to be with me. Mr. Pawar, Chairman of the Company; Mr. Rajendran, Chief Operating Officer; Dr. Dey, looks after the finance management training business; Mr. Basu who would be taking questions on corporate learning solutions; Mr. Vijay Kumar; Mr. Kapil Saurabh; Chetna, all of them joining us to handle the queries that you will have. So, I just wanted to take everybody through the presentation very quickly so that we set the stage for discussion. First of all, as usual, I would like to talk a little bit about the environment. In the environment, I think there are three or four points which I would like to highlight. First, the growth in the IT sector, while last year the growth was fairly impressive and new jobs got created, this year the IT sector continues to be resilient despite the slowdown in US and would grow at a slightly lower growth rate. The growth expectation is also tempered on account of possible slowdown in decision making in newer projects as we hear from people's results, that of course has an impact on the hiring pattern, but at the same time the number of hires that are required this year are also very substantial. The second is there is increased, should I say emphasis on hiring non-engineering graduates such as BSc and BCom. TCS and Infosys have already talked about numbers this quarter and we see that as a very encouraging sign. The third is that a boom environment is predicted for employers according to the Manpower India Employment outlook and the outlook is the strongest in the services sector, followed by finance, insurance, and real estate. Fourth, the whole government spend which we have talked about which is five times more than 11th Five Year Plan as compared to the previous one is showing itself in some very interesting projects. There is a project going on right now to look at public-private partnership models to set up 6,000 model schools and this is education beyond IT education which also offers an interesting opportunity. So, overall, in terms of education and training activity, I think we see strong tailwinds globally both in terms of employability education and then workforce productivity and of course improving the overall quality of education. So, in this context, I would like to talk about the financial highlights of the quarter. System-wide revenues were up by 25% at 3.6 billion.

Net revenues were up by 15% at 2.6 billion. I will, at a later stage, explain the system-wide revenue and the net revenue gap. The EBITDA was up by 29% to be at 187 million. The operating margin has improved 78 basis points year on year despite strong pressure on cost coming out of inflationary trends. The PAT, the profit after tax from our operations was actually up at 27% year on year, which is in line with the EBITDA. However, due to a lower growth in the associates and in associates' profits, our overall PAT is up only by 10% which is at 170 million which leads to an EPS of 1 rupee approximately, 1 rupee 3 paise reflecting a 10% year on year growth. So, overall, we would like to talk about this quarter as a quarter where we had accelerating revenues. I want to remind that in the last two quarters, our year-on-year growth was at 6% each quarter and from there, we have jumped to 15% growth accelerating revenues coupled with improvement in profit very much on a year-on-year basis. As you know, the business is seasonal and there are peculiarities in each part of the business, so the right comparison is year on year. In terms of the highlights of the business, the strongest growth and volume came from individual learning solutions as expected. They constitute on a high growth at 38% year on year. EBITDA was up 114%. Margin was up 571 basis points. When I refer to individual learning solutions, I am referring to IT as well as finance & management training. Then, going down one level lower, in IT training, the revenues are up 34%, EBITDA was up 42%. The FMT space, which is IFB and Imperia, they grew 104% year on year. Last year, they had negative EBITDA of 35 million. This year, they had a positive EBITDA. So, that has also worked well for this business. School learning solutions, of course, was a big news creator. The new thrust resulted in our winning some very impressive tenders. Andhra Pradesh, 2005 schools which was an order worth 173 crores, which we added during the quarter. In addition to that, we got some order extension in Chhattisgarh and Bihar. Overall order intake was 2.02 billion which is one of the...not one, the highest ever we have had in a single quarter. The second part was revenue in which most of this order intake is not yet visible was up 42% year on year and the EBITDA grew 53%. In corporate learning solutions on the other hand, we did see softness in our US geography revenues in certain sectors of discretionary spend which has to do with custom projects and custom content development and overall the business was flat year on year, though there was a 5% Q-o-Q growth. Why quarter-on-quarter growth is relevant in this case is because we talked about changing the product mix more towards learning products and training outsourcing and that part did grow both year-on-year as well as quarter on quarter for us to therefore get the quarter-on-quarter growth. The India part of the corporate training revenues grew 114%. The training outsourcing and learning products grew 15% year on year. The fresh order intake was 39.2 million dollars, lots of it coming from training products and...sorry, training outsourcing and the learning product, that order intake itself grew

45% year on year and that revenue has grown 15%. On the consolidated financials, just a few comments on a few extra line items, I already explained about EBITDA 78 basis points improvement. I do want to talk about the fact that was a higher cost pressure in three areas, travel, energy, premises, rentals and of course we also have this quarter when we have higher salary hikes, I mean we have the salary hikes and we saw the impact of those. In addition to that, given the fact that we had some new businesses, there were new campaigns and new products, because of which the marketing spend was a little higher than what we had in this quarter, typically nearly 20 million rupees or so to do with new campaigns and some of them you may have seen on television and others. Depreciation was lower because we were discussing a lower asset base to be serviced. In other income, we had much lower interest. There was some write-back of some old provisions in provision for tax in line with our deferred tax asset-creation policy, some deferred tax assets got created because of past losses in Element K and our overall geography NIIT USA, which is what led to operational net profit to increase from 64 million to 82 million. Share of profit from associates was actually down by 2 million, which means nearly flat and that is what PAT of 170 million comprises of. Going one level lower, in terms of who contributed what to this, if one took a stock of businesses, then 52% of the business came from the ILS IT side, 3% from ILS finance management training, which means ILS or individual learning solutions contributed 55%, schools contributed 7%, corporates 38%. This is a definite shift from last year, nearly 700 basis points difference, and I think the losers were corporate, the loser has been corporate and the gainer has been the individual learning solutions. The same impact could be felt in the geographies as well where the geography mix, US and Europe, last year same quarter was 45% is down to 34%, the rest of the world is 17%. India is at 49% compared to 42%. Just two points I wanted to make, one, the higher margin and faster growing businesses are occupying larger share of revenues as well as a larger share of profits, so that is a very nice thing to know. The other thing is that in the rest of the world, this quarter, we did see a surge of activities, which, by the way, we have been watching over the last year in Africa. So, our Africa revenues are this time...for the first time we are reporting it separately at 7% of our system-wide revenue, which is fairly substantial, given the fact that it is now beginning to be the same as China on an overall basis. In terms of EBITDA contribution, 80% of the EBITDA came out of the individual learning solutions, 19% came out of school, corporate had a flat corporate, just breakeven, and I will explain that as we go along in the details of the quarter. Going down to one level lower in terms of how each of the businesses performed, in individual learning solutions, I think overall now that we are looking at a target of 16.3 million students and graduates who are our target segment, we now track the number of these graduates and students who are becoming enrolled with NIIT whether in IT

or in any other activity, that number crossed 100,000 in this quarter, so in this quarter for us to 100,000 new enrollment is fairly unique. Our new forays in BPO and KPO training, you would recall the announcement we made about a joint venture with Genpact, that is now getting ready to start and it will start this quarter, but a lot of work happened during the quarter on this activity and on yet another, the English and professional language skills, we did make some significant movement in creating the standard for English as a recruitment standard in the country. In the IT training space which many of you track at this level, our India revenues grew 39% year on year. Overall revenues grew 34%. India contributed 69%, China 10%, rest of the world 21% and in rest of the world, I think the most significant one was Africa because that was a large chunk. Overall enrollment growth was 16%, career enrollment within that was 28%. Our overall seat capacity enhanced by 15% year on year and our utilization was at a higher level. Closing net order book was at 1.7 billion rupees. We did see an improvement in operating margin by 100 basis points; however, at this capacity, utilization level, the margin could have been higher. I explained to you about higher marketing spend and the increased salary levels that we saw in this quarter which contributed to not aligning itself to the complete formula. On the individual learning space, I think an emerging fact which is becoming obvious like we showed it in IT, partnering with the number one company in that space, getting benefit of domain expertise, credibility, going out to market and getting large number of students to join. So, on one hand, we have been adding new partners in the IT training space. In the next few days, we would be announcing a training partnership in business analytic space, so we would hold this till that announcement is made; however, that is in continuation of that. Same thing in finance and management training, tie-up with the best in terms of the domain partner. So, we did have partnerships with Indian Institute of Management, now we have partnerships with Ahmedabad, Calcutta, Indore, and Lucknow on one side and then IMT Ghaziabad and Indian Institute...IMT and Indian Institute of Foreign Trade. So, together, we have run now 22 management program. One new program we introduced this quarter was in family-owned businesses or management of family-owned businesses. So, overall, we have 22 programs in management and 6 programs with our career program in banking, financial services, and insurance. The strong point of this quarter was strong enrollment growth, but a large interest being shown in financial planning and insurance courses. Overall, FMT revenues grew 104% year on year. From 35 million negative EBITDA which they had last year the same time, they just about broke even 2 million of positive EBITDA 2%. Once again, this EBITDA sequentially seems to show a decline, but I want to explain the fact that this is also the time when large marketing campaigns are rolled out to attract the new students. The second, we were also in the middle of an admission cycle, so the quarter has come at a

time when the admission cycle is still in progress. On school learning solutions, we had a very good quarter, 2005 schools were added from Andhra Pradesh. Total schools added were 2124 which included 133 non-GSS school. There were a few schools from previous orders which got over, that is the reason the school number, the difference...that will explain the difference between the two numbers. We had very good traction, both in GSA which is government as well as non-government space. Non-government grew by 21% year on year. Our order intake in non-GSA grew by 215%. As you know, this is subscription-based revenue, so it comes over a period of time. Andhra Pradesh, 2005 schools, some extension in Chhattisgarh and Bihar contributed to the overall order intake that we are talking about. We now have a pending order book of 309, sorry 3.09 billion, 32% of which is executable in the next 12 months. The EBITDA improvement was again 98 basis points in this case as well, so 42% growth in top line and 98 basis points improvement in margin. Coming down to corporate learning solutions, as I mentioned, we had a flat quarter as far as year on year is concerned; however, 5% quarter on quarter growth in revenues. If we go one step down, there was one part which grew very well which is a part we are focusing on, training, outsourcing, and learning products. However, that 15% growth was balanced by fairly sluggish custom content and custom projects revenues, which is what resulted in an overall flat revenue. We do have an order book in both these cases and we do believe that this situation will improve as we go further during the year. India part of the corporate revenue grew by 114% year on year and we see that to be a major contributor to the overall growth this year. New product introduction, sales force expansion, and salary increases during the quarter did affect the margin in this case and we were just at breakeven level on this. As you know, we have been working on a very thin margin in this case, but we believe that this is a temporary issue and we will be recovering the margin in subsequent quarters. We had an order intake of 39.2 million dollars; our pending order book is at 80 million, 63% executable in the next 12 months. On the balance sheet side, while we generated cash from operations, we retired part of the debt on one hand. On the other hand, our spend on assets increased because of project assets that we added during the quarter to meet some of the requirements of the government order. So, overall, we added 214 million rupees of asset and also capital work in progress where contracts are not yet completed or 160 million rupees. Our DSO days were slightly worse than March 08, 79 days on last 12-month revenues versus 74 days last quarter, predominantly because of the new contracts that we have got into for which the execution happened towards the end of the quarter and we would be recovering these in the coming...in this quarter itself. Overall debt in the balance sheet appears higher, though a part of it, a large part of it actually is the Forex impact of dollar borrowing which is about 94 million rupees. Overall debt is at 2252

million at this time. Overall, our cash balance is at 476 million rupees. Talking about headcount, we added 139 net headcount during the quarter and most of this was in India. I already talked about the capacity and I talked about the new ventures of Genpact, joint venture with Genpact to launch training for BPO and KPO space. So, with that briefing, I would now like to open this for question and answers and my colleagues will join me in addressing your questions.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. 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. Participants are also requested to limit to one question during the initial round of Q&A session. To ask a question, participants may please press *1 now. First in line, we have Mr. Mr. Sonal Kohli from AIM Capital.

Sonal Kohli: Hello Mr. Thadani.

Vijay Thadani: Hello.

Sonal Kohli: On your individual business, you know, you grew 46% this quarter versus your net revenue grew 34%, so is that 12% within system and net revenue growth. Could you explain what is the reason for that and how did the China and rest of the world business grew this year.

Vijay Thadani: Yeah. So, as far as the difference between system-wide revenue and net revenue is, system-wide revenue is all the revenue that the students paid, but all of that revenue doesn't land up in our P&L because we have business partner network who keep a part of this revenue. If we add up all the fees of all the students that to what system-wide revenue tells you and that tells you the attractiveness of the market place, how did our market share move, so that is the growth of 46%. The fact that the growth was higher in system-wide revenue actually shows that the product mix moved more towards the tier II, three III cities and where we have large number of business partners. In this particular case, part of this also got caused by as I said a strong growth which we saw in Nigeria. Just want to share one data point with you. We do a scholarship exam in India every year and we get about 80,000 plus enrollments in that. In Nigeria, which we did the exam about three weeks ago, we got 72,000 enrollments. So, that shows you the kind of potential that some of these places in Africa have. However, much less of that would convert into revenue, but that is what one of the things which caused the Africa revenue to shoot up and there the multiplier would be more. So, the product mix change is what explains this difference between...channel mix

change, sorry, not product mix, channel mix change suggests that difference between the two.

Sonal Kohli: Have you increased the fees for your franchisees, you know, the revenue sharing?

Vijay Thadani: No. Our revenue sharing pattern with our business partner for a particular product remains the same, but a different product mix may change that marginally one way or the other.

Sonal Kohli: You also mentioned that China grew 10%, am I right in my understanding?

Vijay Thadani: Yes, and this is...no, actually did not grow 10%. China, for them, quarter one is their weakest quarter as you know.

Sonal Kohli: But we are talking about Y-on-Y numbers.

Vijay Thadani: Yes.

Sonal Kohli: So, they grew 10% this...

Vijay Thadani: No, they grew...I think they were flat, at 3%.

Sonal Kohli: Okay, okay.

Vijay Thadani: They contributed 10%.

Sonal Kohli: Now your business has, you know, been growing fairly well and when do you plan to, you know, expand your margins in this business considering that, you know, the top line growth has been fairly robust and you are the only large player in this space.

Vijay Thadani: So, as we have always maintained, we continue to improve our top line and bottom line growth, bottom line growth by improving it by a few hundred basis points every, every...even this time, it is a 100 basis point improvement over last year despite the fact that we were in a higher cost, should I say environment.

Sonal Kohli: So, what kind of margins should be modeled in let's say, you know, for next two years in this business?

Vijay Thadani: So, as we have mentioned before, every year...so last year, our overall margin for the year was at 21% and we are looking forward to improving that by 200 basis points plus this year.

Sonal Kohli: Coming to your new business initiatives, especially Imperia and the financial services initiative, what kind of revenue do you expect this year, are we seeing some impact of slowdown on this business?

Vijay Thadani: Well, there is no impact of slowdown which is visible right now because the current situation we had already baked into our plans, whatever is the current situation which is a different kind of a hiring pattern. The second issue is for us since we are on a growth path and last year we were one of the many sources and this year we are the only source for provision of people to certain banks. We don't foresee an impact of this as of now. However, if the situation changes for the better, things will improve.

Sonal Kohli: So, one should expect 70-80 crore revenues in this business?

Vijay Thadani: Exactly in line with what we have guided you in the past and that is exactly the number.

Sonal Kohli: On the corporate business front, last time they were talking about currency impact, negatively impacting the business, last two-three quarters.

Vijay Thadani: Yes.

Sonal Kohli: This quarter should have been very good in terms of, you know, currency impact as well as a positive impact on the revenues.

Vijay Thadani: Yes, yes.

Sonal Kohli: So, what to, you know, expect on this business considering we are guiding for a target of 10% margin in this over next couple of years while the business didn't make any money in this quarter in spite of such a favorable currency movement.

Vijay Thadani: Yeah, two issues. One, as I have mentioned before, it is a business in transition in terms of working on a set of product mixes which we want to change to move to a higher margin and higher, should I say fleet of revenue or a revenue stream which will accrue over a period of time. So, that is impacted to an extent by the slowing down in the US economy were we do see sluggishness as I mentioned in the custom projects, which have to do with discretionary spend, but overall we do see, in learning products and training outsourcing, positive growth and as their share increases in the overall kitty, you would see the positive growth returning. We had guided you for a certain outlook this year, and I think we are in line on that...we are on track as far as that is concerned.

Sonal Kohli: So, one would expect some sort of, you know, margin improvement in a, you know, high single digit to a 15% kind of top line growth in this business or would that be optimistic?

Vijay Thadani: No, we had guided you for a 7% to 10% or 10% thereabout top line growth, and we think we are on track for that based on our order book and current visibility and we had also talked of

improving last year's margin by 100 to 200 basis points. Last year, our margin was 5%. We are on...we are on track as far as that is concerned as well.

Sonal Kohli: In spite of this quarter, you would expect your margins to improve substantially in the next few quarters?

Vijay Thadani: Yes. The reason is very obvious. As I mentioned, in this quarter if the revenue increase was, even though you have order intake, the new revenues that is coming that accrues more than custom projects. The custom projects accrue faster. So, therefore, if the revenue doesn't make up and your cost structure goes up because salary increases have to happen, in that case you do see temporary situations like the one which we talked about.

Sonal Kohli: Last two questions, what would have been the impact...what is the positive impact on individual business and, you know, corporate business because of favorable currency movement?

Vijay Thadani: Okay. Actually, year on year basis, currency movement has...let's talk about sequential and year on year both, I have both, I will just pull that sheet out, I have it somewhere. Okay, year on year, for the corporate side of the business, we had a 28 million negative impact in top line and 6 million negative impact in operating profit for corporate. On sequential basis, we had a 45 million positive impact in revenue and 8 million positive impact in operating profit.

Sonal Kohli: On the individual business side?

Moderator: Mr. Kohli, can you come in for question again sir because there are other participants lined up....

Vijay Thadani: Individual was very marginal Sonal.

Sonal Kohli: Okay, okay. Thank you.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ruchit Mehta from HSBC.

Ruchit Mehta: Yeah, hi, good evening sir. Just wanted to know on the corporate side of the business, we had a flat revenue in this year...

Vijay Thadani: Yeah.

Ruchit Mehta: ...this quarter, could we get a split between how much was from the Element K side of the business.

Vijay Thadani: Okay, the split I have is on the learning products, training outsourcing, and custom content. As you know, Element K is now integrated...

Ruchit Mehta: Okay.

Vijay Thadani: ...in anyways, so I will give you that split in any case. So, in the 1.4 billion, we had 860 million coming out of learning products, 297 coming out of training outsourcing, and the balance coming out of customs projects.

Ruchit Mehta: Okay. Just in terms of the outlook for this side of the business, what is your expectation, I mean would it continue to be flat for the entire year or do you think it will actually show some growth going forward as well.

Vijay Thadani: No. See, I must explain the transition that we are going through, custom content is a business which clocks quick revenues as soon as we get the project. Custom content is also the business which is affected by the US slowdown because it has to do with discretionary spends and that is what we have been talking about in the past. So, custom project as a part of the total revenue is reducing. The learning products and training outsourcing put together grew by 15% year on year and if we continue with that growth rate based on the order intakes that we have got, even out of the 39 million dollar order intake we got, nearly 80% plus is in the other side of the business, the ones which we are looking for, learning products and training outsourcing, so we do see as the revenues from learning products and training outsourcing becomes larger part and they are the growth revenues, you will see positive growth. So, at the end of the year, you will see a positive growth as we had guided before.

Ruchit Mehta: Okay, but sir when I am assuming that these two business which are growing are probably higher margin businesses for us. If so, then, you know, your margins should actually improve, but, you know, there has been a substantial fall in margin this year, in this quarter.

Vijay Thadani: That's right. So, the margin shortfall is also temporary as I mentioned because it is at a lower revenue level where we had a higher salary intake, I mean we had high salary increases during the quarter, so if you add up that, you would kind of see that the margin is playing at approximately the levels at which we were. Going forward, as the product mix changes towards better quality revenue, then margins will improve and that is why the overall margins will be better than last year.

Ruchit Mehta: Okay. And just a bit of questions on your balance sheet, could we get the figure on gross debt please and the cost of borrowing and the cash balance as well.

Vijay Thadani: Okay. I have the gross debt. I don't have the cost of borrowing. And sorry, what did you say, cash...

Ruchit Mehta: Cash balance.

Vijay Thadani: Cash balance was 476.

Ruchit Mehta: Million or...

Vijay Thadani: Millions of rupees.

Ruchit Mehta: Okay, okay.

Vijay Thadani: And 2252 was the gross debt. 2252 million is the debt on the balance sheet.

Ruchit Mehta: The cost of the borrowing is substantially higher, as high as 10% or...

Vijay Thadani: No, we have...a lot of it is foreign exchange...

Ruchit Mehta: Okay. Would you need additional debt as, you know, as the proportion of revenues on the institution side, the government school projects keeps on increasing, do you anticipate the requirement of further capital into the business?

Vijay Thadani: Well, the capital requirement will come out of, as you rightly said, project-based revenues. So, right now, we are well provided for, however, we are hoping to win some more projects, in which case we would need more funding, which will be backed by those projects.

Ruchit Mehta: So, you know, is this move towards more of institutional business deteriorating your working capital cycle?

Vijay Thadani: Not as of now.

Ruchit Mehta: Okay. No, what is that as a percentage of turnover?

Vijay Thadani: Our total working capital days were...I mean debtor days were 79 days as I mentioned.

Ruchit Mehta: Okay, great. And just finally, what is your CAPEX plan for this year?

Vijay Thadani: We had earlier guided to an 800 to 900 million rupees of CAPEX.

Ruchit Mehta: Okay. That is the same, there is no change to this?

Vijay Thadani: No, but the project...new projects may change those things, but those will happen as they come.

Ruchit Mehta: Okay, thank you so much.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Pawan from Dipen Mehta Stock.

Mr. Pawan: Hello...

Vijay Thadani: Yes.

Mr. Pawan: Yeah, sir the Indian economy is slowing down, do you see any pressure on your fees in the tier II cities? Hello...

Vijay Thadani: No, we do not see a pressure in the tier II cities. The important issue is the salary level in a certain sense determines what kind of fees we can charge. Salaries have increased, though not at the level at which they had increased previously, but they have increased. So, to that extent, the fee structure that we had designed for earlier would work. The other thing which we are also doing is still absorbing the impact of the price increase which we did last year in terms of product mix change. The third thing which I want to say is there is also an opportunity in getting better realizations through better product mix because different products have different margins.

Mr. Pawan: Okay. And sir in the pending order book that you have in the school learning solutions business....

Vijay Thadani: Yes, yes.

Mr. Pawan: ...what are the kind of margins that you expect?

Vijay Thadani: The overall margin in the schools business that we have projected for the year is in line with the order intake that we have because all these orders we had or we had them in sight when we came up with those numbers.

Mr. Pawan: Okay. And sir you have your English language training business that you have recently started...

Vijay Thadani: Yes.

Mr. Pawan: ...do you plan to take it to China in the near future?

Vijay Thadani: We are already doing English language training in China, but we do it along with IT training.

Mr. Pawan: Okay sir, that's it from my side.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Rahul from Lucky Securities. Mr. Rahul, you can go ahead sir.

Mr. Rahul: Yeah sir, I had questions on the IFBI and Imperia side, what according to you would be the sustainable stable margins in this business going ahead?

Vijay Thadani: We have mentioned before the sustainable margins in this business are 25%, but right now we are in a growth phase where we are adding capacity, adding products and the filling up capacity.

Mr. Rahul: And at what annual turnover run rate would this 25% be feasible, 50 crores, 100 crores, or 150 crores, what would be the instruction point where this 25% would come?

Vijay Thadani: Dr. Dey, would you like to comment on that, at what level would this be achievable?

Dr. Dey: About 200 to 250 crores.

Mr. Rahul: 200 to 250 crores?

Dr. Dey: Yeah.

Mr. Rahul: And my last question on this front is, is there an average, do you have a figure on the average tenure of these portions out here, 1 year or 1-1/2 years or something like that?

Dr. Dey: For the...this is Dey, for the IFBI set of program...

Mr. Rahul: Yeah.

Dr. Dey: ...the average duration or the typical duration is 6 months.

Mr. Rahul: 6 months.

Dr. Dey: And for the Imperia set of programs, the average duration is 11 months.

Mr. Rahul: Imperia is 11 months you said?

Dr. Dey: 11 months, yes.

Mr. Rahul: So, out of this 2500 enrollments that you have, how much would be the IFBI and Imperia roughly?

Dr. Dey: We don't provide the separate figures here, you know, but the two businesses together account for, as you said, 2516 and within that, we also have a retraining portion in the corporate side which is included in this, which is about 20%.

Mr. Rahul: Sir, I have one more question on this corporate learning solutions or the Element K, how much have we paid for acquiring Element K?

Vijay Thadani: About 40 million dollars.

Mr. Rahul: So, I mean, for this 40 million dollars, we don't seem to be getting too much down to the bottom line, is there any, I mean has it substantially underperformed our expectation?

Vijay Thadani: Well, it is on track in many ways till the end of last year, which is still...I think there is some noise going at somebody's background. It has performed on track as per our projections as of last year and we are discussing a revenue level of nearly 90 million dollars for which we paid 40 million dollars and last year I think their EBITDA was about 6 million. So, it is in line with the return that we were expecting.

Mr. Rahul: And what about sir at the PBT or PAT level, what is the level that we see that at this 90 million dollar kind of a sales level?

Vijay Thadani: Well, actually they gave us tax assets, so in fact PAT level, they would be much higher, but I would...otherwise, the depreciation levels are next to negligible.

Mr. Rahul: So, at 90 million dollars, what is the kind of number that we should see at the bottom line?

Vijay Thadani: Last year?

Mr. Rahul: No, you mentioned you are looking at a number of 90 million dollars, right?

Vijay Thadani: No, I am talking about last year they did 90 million dollars.

Mr. Rahul: Okay, okay.

Vijay Thadani: They would have generated about 8.5...8 million dollars PAT if you take their tax assets.

Mr. Rahul: And going forward what do you see the kind of growth rate in this company?

Vijay Thadani: Yeah, see the current year is slightly different because as I mentioned one part of the business is growing well and fairly robustly. The other side of the business which is to do with

custom content is not growing, in fact is degrowing, that is why the total is slacked. So, we have to make sure that they achieve their positive growth and we are able to achieve the guidance that we have given.

Mr. Rahul: Okay. And given the fact that the US market is going into a slump, is there any thought on divesting this business or restructuring it substantially?

Vijay Thadani: I think this is an opportunity for us to get our training outsourcing a larger thrust in terms of getting an advantage on getting large outsourcing contracts.

Mr. Rahul: Right sir, thank you very much and all the best.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Jamil Ansari from Lehman Brothers. You can go ahead sir.

Jamil Ansari: Hello.

Vijay Thadani: hi.

Jamil Ansari: Yeah, hello sir. Sir, just want to check whether we have taken any price hikes in our individual learning business this year?

Vijay Thadani: No, we have retained the same fee levels as last year.

Jamil Ansari: Okay. And on the IFBI and Imperia side sir, what are the kind of center additions that we have done in the last quarter?

Vijay Thadani: We already reported we were in 22 centers when we declared annual results in June sometime, that is the same number.

Jamil Ansari: Okay. And have we slowed down our plan to add centers on that side of the business by any chance?

Vijay Thadani: No. We have planned to reach 30 centers, we would be in 30 centers by the end of the year.

Jamil Ansari: Okay. And sir, I mean just some explanation on the corporate side of the business, I mean how come the profitability varies so much that, I mean, you end up making no profits, I mean some slowdown in revenues, I mean what is the reason for that?

Vijay Thadani: Very simple, we are in a transition situation, we are turning around the business, it is at a very low margin because it was a loss-making business which we turned around, got into a positive region. Right now, we are battling an economic situation as well. So, when there is a small spike in expenses, either in this case,

salary increase or like marketing campaign or new product introduction, the wafer thin...the thin margin which we have goes away in that quarter, but then it can recover also equally well because these are small numbers.

Jamil Ansari: Okay sir, but when we used to report separately for corporate and Element K, I mean your corporate business used to do around 15% to 16% margin till last year, so I mean at least half of your business does good margin, so, I mean, and you are saying that Element K ended up making some 6 million dollar profit last year.

Vijay Thadani: Yeah.

Jamil Ansari: I mean, what is the problem area, is the corporate side doing badly, or how is it going?

Vijay Thadani: No, last year, we had explained to...I think in some of the earlier calls, we had explained that this transition of moving from custom projects which is sustainable, which is very susceptible to a single project, single revenue, I mean if you get the project, you get the revenue. If you don't get the project, then you are sitting with the capacity. This is a situation which we wanted to change and we have been working and our business was large...a large amount of our business was that, so last year was one part of the transition. Element K is the other part of the transition, so at this point of time, when you take a stock of the situation, at the end of one quarter, you will see that change so dramatically. So, I think you would see the change over the year as you see the learning products and outsourcing business gaining momentum.

Jamil Ansari: Okay fine, thanks a lot sir.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Yogesh Parekh from ICICI Securities. Mr. Parekh, you can go ahead sir.

Yogesh Parekh: Good evening sir.

Vijay Thadani: Yes, hi, good evening Yogesh.

Yogesh Parekh: Sir, actually what has gone wrong since we have shown the growth on a sequential basis in the corporate learning by around 5%...

Vijay Thadani: Yes.

Yogesh Parekh: ...what has changed from the last quarter on the sequential basis itself because the margin has fallen by something around 4.3%...

Vijay Thadani: Yeah.

Yogesh Parekh: ...in spite of the rupee depreciating, and I believe we get benefit of around, in this segment by around 17 to 20 basis points per percentage change in the rupee.

Vijay Thadani: No. So, let me explain once again. As I mentioned, sequentially, the impact of rupee depreciation sequentially, if you do a sequential calculation, is 8 million rupees.

Yogesh Parekh: Okay, okay.

Vijay Thadani: Okay. The margin reduction is...or let's call it margin reduction, is affected by two things. One is salary increases. So, if you look at the salaries of last quarter and multiply them, let's take an average across the world by 7%, so 7% of that...of the salaries would contribute a significant sum. Then, the additional sales and marketing activity which is typically true for the beginning of a quarter and given the fact that we have new product rollouts and new campaigns, some of which we shared with you. That would explain the difference.

Yogesh Parekh: But sir at the time of the acquisition of Element K...

Vijay Thadani: Yeah.

Yogesh Parekh: ...we were expecting that our margins will go to the double digit by end of FY09, okay, and it will improve to the level of the company before the Element K acquisition by FY10.

Vijay Thadani: Yes.

Yogesh Parekh: So, I think...

Vijay Thadani: There is one change which has taken place to that and that is our current economic situation, but even then we are hopeful that we would reach an improvement in margin over last year, in the coming year, I mean in this year.

Yogesh Parekh: On the overall...

Vijay Thadani: As far as the guidance that we gave you one month ago, I think five weeks ago, that we did at the end of the...we are on track as far as that guidance is concerned. There is no change as far as that is concerned.

Yogesh Parekh: Overall corporate learning margin, are we going to achieve that 4.5% roughly, at least for FY09?

Vijay Thadani: Yes. I said we will improve 200 basis points over last year...

Yogesh Parekh: Okay.

Vijay Thadani: ...which we will for the year.

Yogesh Parekh: Fine. What will lead to this significant improvement in margin on the base of Q1 FY....

Vijay Thadani: As I mentioned, there is one part of the corporate business which is growing at a good speed and it a higher margin. There is another part which is degrowing and has degrown to a level at this time and right now we are seeing the balancing effect of that. Now, if the one which has degrown which is custom content and custom projects remains flat and the other grows, that is what will cost margins. Third, you can see this impact from large orders. If you remember, in the last quarter, we had very large orders. Even this quarter, we have very large orders. There, revenue takes time to kick in, remember this is annuity-based revenue. These are three-year contracts, these are...so they may appear larger in value, but the revenue comes over three years. Good news is it is annuity-based revenue.

Yogesh Parekh: Okay. And sir second question is regarding this FMT business.

Vijay Thadani: Yes.

Yogesh Parekh: On a sequential basis because I believe it is less on the seasonality side...

Vijay Thadani: Yeah.

Yogesh Parekh: ...and plus the banking and all has done lot of the campus hiring in this quarter.

Vijay Thadani: Yeah.

Yogesh Parekh: So, on the sequential basis, it should not have shown the decline, but it has shown.

Vijay Thadani: No, it will show a decline for two reasons because it depends on the admission cycle which is in this quarter. The second is if you see the track record of our individual learning business for the last two or three years, quarter one is always slower than quarter four.

Yogesh Parekh: Right.

Vijay Thadani: Correct, so this follows the same...this is addressing the same segment of population.

Yogesh Parekh: Okay. And sir, can you give me the detailed breakup of the diluted equity, total number of share outstanding, FCCB outstanding, and ESOP outstanding.

Vijay Thadani: We don't have any FCCB outstanding.

Yogesh Parekh: Okay.

Vijay Thadani: We have ESOPs outstanding, and I will give you that in a second. We have 1.451 million outstanding ESOPs at the new equity level, which is 2 rupees a share.

Yogesh Parekh: And what is the total equity in this right now?

Vijay Thadani: 164.7 million equity shares totally.

Yogesh Parekh: Thank you sir, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Sunil from Credit Suisse. Mr. Sunil, you can go ahead sir.

Sunil Tirumalai: Hello...

Vijay Thadani: Yes.

Sunil Tirumalai: Hi sir, good evening. Sir, a couple of questions, I just wanted to get back to the corporate business margins again...

Vijay Thadani: Yeah.

Sunil Tirumalai: ...I think a lot of us are a bit worried about that.

Vijay Thadani: Yeah.

Sunil Tirumalai: Sir, you are talking about 10% Y-o-Y growth and you are talking about a 200 basis point improvement over last year and you had no margins this year. So, you are talking about something like 9% margins for the next three quarters...

Vijay Thadani: Yes.

Sunil Tirumalai: ...and we haven't done this since we took over Element K. I am just wondering where this would come from?

Vijay Thadani: So, a lot of this is coming from the order intake that we have. See, what we have been seeing in the last three quarters including last quarter are very healthy order intake, so one question which I was expecting which I might as well preempt and tell you, how is it that we have such healthy order intake in the last few quarters, but we don't have corresponding revenues. The reason for that is that earlier order intake in custom projects used to burn very quickly because these were individual projects, as soon as you get, you start burning them. Now, you have outsourcing projects which are over three to five years, so it gives you a better annuity revenue. Same thing with learning product

because they create a much...it is a subscription-based revenue which comes over the year. As we are changing the product mix and as we are looking at this order execution, that is what gives us the confidence.

Sunil Tirumalai: Okay. Sir, and...

Vijay Thadani: The new orders are for the products which have better margin than the custom projects.

Sunil Tirumalai: Okay, okay.

Vijay Thadani: Yeah, sorry, that was...

Sunil Tirumalai: Yeah. And could you just remind of your guidances on your various businesses on both the top line growth and on margins because you seem to be referring back to what you had said earlier, would we get...if you could just remind us over there.

Vijay Thadani: Oh yes. So, we had talked about the individual learning business and we had said that we would look at a 30% kind of a growth that we had experienced. We are ahead of that projection this quarter. We grew 34%. We had talked of a margin improvement in that by about 100 to 200 basis points over the year. We are 100 basis points above in this business. In the school learning business, we had said based on the order intake and the visibility that we see, we do see a growth which could be in excess of 40%. We are at this time 42%. We had once again talked about a 100 to 200 basis points, sorry more than 100 to 200 basis points improvement in margins. We are on track for that. Corporate learning solutions, we had last year grown at...sorry, last year's growth would not be representative, but we had said that we would grow by 7% to 10% range in this year. We are at this point of time flat. We last year had a margin of 5% and we had said we would improve that margin by 200 basis point. In this quarter, we had just broken even and as I explained just a few minutes ago, we would recover that as we execute the contracts over the next three quarters.

Sunil Tirumalai: And your new businesses?

Vijay Thadani: I included that in the individual learning solution...sorry, I did not talk about individual...

Sunil Tirumalai: Okay.

Vijay Thadani: Sorry, sorry, sorry, I have to add that. The finance management training business, we had talked about a growth of more than 100% and we had actually referred to a number of 70 to 80 crores which Sonal also referred to and we talked of a margin of 10%

Sunil Tirumalai: And all the numbers that you...the growth numbers you gave are based on rupee?

Vijay Thadani: They are based on rupee.

Sunil Tirumalai: Okay, thank you very much.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. We will take the last question from Ms. Subhashini from JM Financial.

Ms. Subhashini: Hi. My question was regarding the government side of the business. We have said that we are servicing around 6,643 schools in this quarter, but the revenue from, you know, government schools actually sequentially has dipped quite a bit despite the healthy addition in this quarter, so could you explain me the changes here?

Vijay Thadani: Yeah, the changes are because of execution of the government business has to start, so we are right now in terms of implementing many of those projects, so the full revenue of those projects would not have kicked in, it is only as much has got implemented during the quarter. So, that would be the difference. So, we had Maharashtra, Bihar, and Andhra Pradesh. So, Andhra Pradesh anyway is an order of this quarter, very little would have got executed, whatever little part. The Maharashtra order got, we have actually started delivering education there but we got very few days during this quarter and Bihar, we are in the process of installation and other things, so that has not yet started happening.

Ms. Subhashini: Okay. So how many schools...

Vijay Thadani: So, you will see that revenue pan out during the rest of the year.

Ms. Subhashini: Okay.

Vijay Thadani: And Gaurav, operator...

Moderator: Yes sir, I am here on online.

Vijay Thadani: I think if there are more questions, we should extend it...so just, if there are more questions, I would like to take those questions please.

Moderator: Yeah, we have five more participants in line.

Vijay Thadani: Very good, so let's take those questions, let's spend another 15 minutes then.

Moderator: Sure.

Ms. Subhashini: I just had another question, I just want to know what is the percentage contribution from custom content development in this quarter?

Vijay Thadani: In this quarter, just one moment....I just gave the number. Yeah, it is about 18%...19% I think.

Ms. Subhashini: Okay. And lastly we have added more than 2000...

Vijay Thadani: 17% sorry, it is 17%.

Ms. Subhashini: Okay. And this quarter, we have added, you know, around 2000 centers globally. So, I was just wondering could you give us a split between, you know, how many of these were own centers and how many are franchisees.

Vijay Thadani: No, first of all, we have added 2124 schools. So, schools have to be...schools are where we implement the government contract, those are not centers.

Ms. Subhashini: Okay.

Vijay Thadani: The centers which we have added are the education centers which are few in India and few outside of the country.

Ms. Subhashini: What would their numbers be?

Vijay Thadani: Two net...two additions in India and the rest are outside the country.

Ms. Subhashini: Okay, sure. Thanks.

Moderator: Thank you very much ma'am.

Vijay Thadani: I also wanted to clarify one more data point for the benefit of everybody. I think in the beginning of the call, I did refer to the scholarship campaign in Nigeria and I talked about enrollment, I was referring to the enrollment in the scholarship exam, not enrolment emerging out of that exam. Just a clarification.

Moderator: Next in line, we have Mr. Ankur from ING Investment. Mr. Ankur, you can go ahead sir.

Ankur Arora: Hi. Just a quick question, probably you may have answered it earlier, anyways, but still in the government contracts which you have got, which you have added this quarter, what are the kind of margins you are looking at that, will it be the average margin you have been maintaining at that segment or will it be something different, if you can throw some light.

Vijay Thadani: Yes, see in government contracts, the operating margin finally that you are left with is ranges between 10% to 15%.

Ankur Arora: Will it be the same for this 2 billion which you added last quarter?

Vijay Thadani: Yeah.

Ankur Arora: Alright, thank you.

Moderator: Thank you very much sir. Next, we have Mr. Devendra from Kotak.

Mr. Devendra: Yeah, hello Mr. Thadani.

Vijay Thadani: Yeah, how are you?

Mr. Devendra: Yeah, good. I have some questions on the depreciation side.

Vijay Thadani: Yes.

Mr. Devendra: We have seen the depreciation is lower for the quarter, any particular reason for that vis-à-vis Y-o-Y and either we could extrapolate this for the whole year.

Vijay Thadani: No, you cannot extrapolate this depreciation for the whole year because the depreciation on the new government contracts is yet to come in, those which qualify for that. So, right now, the depreciation will basically come on the basis of asset addition and we can, if you would like, we can separately provide a data point of how the depreciation will look on the basis of revenues that we are projecting.

Mr. Devendra: Okay. In terms of...you mentioned about your EBIT margins of 8% to 10% in the new institutional project business basically.

Vijay Thadani: Yes.

Mr. Devendra: Now considering that depreciation of 20% to 25% of sales in this, is it fair to assume that these businesses have a margin of 30% to 35% on EBIT side, EBITDA basically.

Vijay Thadani: No, no, no, it depends on how you do your accounting. That depends on how you do your accounting. When we do a project-based pricing, for us it is not depreciation at the bottom, but it depends on the project. So, if the project is strongly services driven, then obviously there is no depreciation. If the project involves depreciation, then you will get this....

Mr. Devendra: No, my question relates to this particular contract which you have got recently from Andhra Pradesh.

Vijay Thadani: Yes.

Mr. Devendra: Would it be safe to assume since this involves CAPEX also...

Vijay Thadani: Yes.

Mr. Devendra: ...that the EBITDA margin in this project would be around 30% to 35%?

Vijay Thadani: If we were to look at assuming that 20% of the project cost is capital...

Mr. Devendra: Right.

Vijay Thadani: Right, 20% of the revenue is capital, then what you just did is valid.

Mr. Devendra: Fine sir, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivastav from Techno Shares. You can go ahead sir.

Lalithab Srivastav: Hello...

Vijay Thadani: Yes.

Lalithab Srivastav: Hello...

Vijay Thadani: Yes.

Lalithab Srivastav: Yes sir. Sir, most of the questions have been answered, just wanted some clarification on your corporate business, the two segments that you have mentioned was custom development and training, right. Sir, in the training, if you can throw some more light on the kind of billing structure or what is the gestation period that you see before the actual money starts flowing in, first thing, and...okay, I will go one by one sir.

Vijay Thadani: Okay. So, first let's look at a custom project.

Lalithab Srivastav: Yes sir.

Vijay Thadani: If you get a custom project, let's say you get a custom project for 200,000 dollars which is to develop let's say a one-hour course or two-hour course on a particular subject, you put a team together which will create, which will develop this course and you will try to do it as fast as you can, so that you can burn that 200,000 dollars as quickly as you can. So, typically one course takes about 3 to 4 months to complete, so you would typically finish this project in two quarters. I mean, I am just taking depending on the number

of teams that are in place. On the other hand, when you get...by the way, what I called the second part of the business is not training, training is in general the business we are in. I called it learning products and training outsourcing. Learning products is an e-learning library we have and we have publishing materials also. In that, a part of the business delivered immediately, which means if you are ordering published materials and published materials, as soon as they get delivered, you get that revenue, but a large part of that business is to do with an e-learning library. So, you sell a subscription for that library which is over a 3-year period, so you would typically, in one quarter, recognize one-twelfth of that revenue given the fact that it is three years and four quarters in each year, that is one-twelfth of that order intake would you recognize in that quarter. The second part of the business is training outsourcing. In training outsourcing, depending on what function has been outsourced to you, which could be training delivery, if it is training delivery, it could be doing let's X days of training over a period of a year or something or two years, in which case you would recognize it as you delivered that training. So, typically the contracts that you get in these two, you recognize revenue over a three-year period. The contracts that you get in custom content development, you recognize over a two-quarter period and that I would say is a broad understanding, a broad difference between the two.

Lalithab Srivastav: Okay. Sir...hello...

Vijay Thadani: Yes.

Lalithab Srivastav: Sir, in the learning part of your training outsourcing business...

Vijay Thadani: Yeah.

Lalithab Srivastav: ...give me the revenues that you had seen last quarter?

Vijay Thadani: Yes...what was it...is your question what was that revenue.

Lalithab Srivastav: Yes sir, what was the amount...

Vijay Thadani: Yeah, I have the revenue with me, I just shared it with...so, 17% of the revenue was custom content.

Lalithab Srivastav: Yes sir.

Vijay Thadani: 83% of the revenue was in training outsourcing and learning products.

Lalithab Srivastav: Okay, fine sir. Hello...hello...

Vijay Thadani: Yeah.

Lalithab Srivastav: Yes sir. Next question that I have, sir I believe you might have discussed this earlier also, but if you can just highlight what was the Forex benefit or impact that you had seen this quarter and under which line item do you show that as such?

Vijay Thadani: Okay. So, first of all, on a sequential basis, we had a benefit of 45 million rupees in revenue and 8...sorry, just one moment, on sequential basis, it was 45 million in revenue and 8 million in profit and in case of year on year, it was negative, 28 million in revenue and negative 6 million in profit. The revenue gets accounted for in the revenue itself.

Lalithab Srivastav: Okay.

Vijay Thadani: The profit part would typically be visible in other income.

Lalithab Srivastav: Okay, okay. Sir, lastly, how are you planning your hedging strategy and what should be the effective rate that one can take in?

Vijay Thadani: As far as we are concerned, our dependence on Forex hedging is lower given the fact that a large part of our expense also is in dollars. Element K, for example, have a very strong dollar revenue...

Lalithab Srivastav: Right.

Vijay Thadani: ...and dollar expense.

Lalithab Srivastav: Right.

Vijay Thadani: So, we don't have to hedge for that. They naturally balance each other, but we do hedge for the transfer pricing which we do, for the amount of work which Element K does offshore and the amount of work which NIIT does offshore. So, I think our current hedging is to the tune of about 16.5 million dollars over the next 18 months period.

Lalithab Srivastav: Okay.

Vijay Thadani: That is very small.

Lalithab Srivastav: Hello...at what rate sir?

Vijay Thadani: I can share that rate with you, I will just have to check in the book.

Lalithab Srivastav: Right sir. Okay, fine sir, I am through, thanks a lot.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nitin Sehgal from Deutsche.

Nitin Sehgal: Hi guys. A question on China revenue, I think you said it was up by only 3% year over year, is that right?

Vijay Thadani: That's right.

Nitin Sehgal: Any explanation for that?

Vijay Thadani: No, I think it is do with the admission cycles. As we mentioned that quarter four and quarter two are the large admission cycles, so in this quarter you would not have had an admission cycle. We actually did open new centers, but their admissions we will get only in the next quarter.

Nitin Sehgal: The last year first quarter, was it any different with the admission cycle.

Vijay Thadani: Yeah, last quarter, in fact, I had mentioned also in last quarter because in the admission last year, our quarter four admissions had spilled part of them into quarter one.

Nitin Sehgal: Okay.

Vijay Thadani: Yeah.

Nitin Sehgal: So, that explains it.

Vijay Thadani: Yeah.

Nitin Sehgal: And then next question is on the 20 million incremental marketing spend that you said you incurred, was that all in ILS or was that across all businesses?

Vijay Thadani: No, I was only referring to ILS because I was expecting your delta revenue over delta EBITDA.

Nitin Sehgal: Ha...ha...ha...I figured that is why you gave the explanation. And then, the other cost increases, you said travel, energy, rentals, and standard salary hikes, is there any way to quantify what is above what you had expected, given the inflation scenario?

Vijay Thadani: No, actually...no, what I gave as the figure for salary raises...

Nitin Sehgal: Yeah.

Vijay Thadani: ...that includes everything because there are no...what I did mention was that the travel cost and energy cost and rental costs were much higher; however, what I didn't mention was that our salary increases were not as high over the previous year as it was

last year. So, to that extent, they are kind of balanced each other. But the salary increases, the fact that they happened in quarter one, they do affect quarter one.

Nitin Sehgal: Okay, got it. And then, the next question is in IFBI, have you seen any slowdown in, I guess, new enrollments not because of seasonality but because of what is happening in the banking sector, slowdowns or is that....

Vijay Thadani: What it does affect, is the product mix and part of this was already rolled into our plans and maybe Dr. Dey, you would like to say a couple of more words on this.

Dr. Dey: Yeah. So far what we have seen has been factored into our plans which were made in consultation with our partners and it has been countered to compensate it by product mix where we have ramped up our programs.

Nitin Sehgal: So, you are saying sort of new products and new client penetration helped, but actually same clients may have slowed down a little bit if you hadn't had new products.

Dr. Dey: Yes, that is correct, we always new products, in the sense, it is again the plans that we had made when we were making the plans sort of...

Nitin Sehgal: Okay.

Vijay Thadani: The other thing is you must know that for one of the banks, we were, one of the sources they had for requirement. Now, we are the only source. So, to that extent, even if they have had a slowdown in recruitment as far as we are concerned, it is a positive growth.

Nitin Sehgal: Okay, understood. And my last question is when will the Genpact JV start showing some revenues, is that this year or is that next fiscal?

Vijay Thadani: No, no, no, it would be in this fiscal and next quarter.

Nitin Sehgal: So, Q3...Q2 or Q3?

Vijay Thadani: Q3.

Nitin Sehgal: Q3, okay.

Vijay Thadani: We are in Q2 right now.

Nitin Sehgal: Yeah, okay. Thanks a lot guys, all the best.

Vijay Thadani: Thank you Nitin.

Moderator: Thank you very much sir.

Vijay Thadani: Okay, are we...do we have more questions still coming up or...

Moderator: Yeah, we do have sir.

Vijay Thadani: Okay. So, maybe we should just make it last three questions.

Moderator: Okay sir.

Vijay Thadani: Okay.

Moderator: Next in line, we have Mr. Vishal Agarwal from Citigroup.

Mr. Hitesh: Yeah, this is Hitesh here.

Vijay Thadani: Hi Hitesh.

Mr. Hitesh: Just wanted to understand the rationale of not taking the fee hike despite kind of volume growth we had seen in the new enrollment.

Vijay Thadani: Well, I think we had worked out based on our product policy and what we had seen as the emerging salaries that people were getting, that this is the right salary, I mean that is the right fee which we would like to charge, and I think that strategy has worked out well because we have seen good volume growth.

Mr. Hitesh: Sure. Secondly, most of the mid-caps have slowed their hiring plans. Also, you know, IT training is generally a late cyclical both in the upturn and in the downturn. So, have we seen any of the early signs in the consumer sentiments here?

Vijay Thadani: No. In fact, this is something which we are very concerned about and we constantly keep a watch on that. I had mentioned to you there were three indicators that we look at. Number one is the response to our IT aptitude exam. That response was very positive. The second is what happens to those who take a break to take exams, who are the one who are studying. We have had exactly the same or better return ratio than we normally get. And number three is the response which we get to a rather season, should I say campaign called career scope where we invite people to come and get career guidance and figure out whether they like IT as a career, do they have the right aptitude and stuff like that. Even that response has been very good. The hypothesis which I shared with you as well was that the number of engineering graduates, the number of those who wanted to take IT as a career has not reduced. It is possible that the recruitment may have got delayed, but there are recruitment and large number of recruitments to be done. So, obviously one of the psyches which are working in peoples mind is also that if I have to be competing

in a more aggressive manner for the same job, I better be better equipped with appropriate skills, and I think that is playing out and is visible in our numbers. The fourth thing which does matter is how people do the enquiries as we advertise, as we do all the campaigns, what do our contact centers collect as enquiries, we are not seeing any change...any change other than what we had planned for. So, I think we are on track as far as we can say. Of course, this quarter is an important quarter. We are already in the first month of that quarter and we see positive signs all over the place. Having said that, let's talk about the finance, banking side of the equation, where I said it does happen when you see news items, it does raise questions in peoples' mind because that is a new industry in many ways, but there, the product mix changes and the new product launches is making up for that difference.

Mr. Hitesh: Sure. On the corporate business, there should have been a...there was a positive impact of the ILS which we just discussed.

Vijay Thadani: Yeah.

Mr. Hitesh: So, were there any particular head wins that impacted us and how do we see those for the next three quarters?

Vijay Thadani: Yeah, see the head win that we were talking about was our custom projects which we had talked about earlier also.

Mr. Hitesh: Right.

Vijay Thadani: Custom projects and by the way that is an experience which everybody who is dealing with custom projects in the industry, in US, all custom software development, custom content development, all those are affected by much slower decision making cycles, much slower spends, much slower funnels. So, we are also affected by that and we had anticipated that and that is why we had started working on changing the product mix. In our plans for the year, we had anticipated the fact that it is possible that custom content in this transition, custom content at one point of time may be low enough that overall growth may be hampered, but for the overall year's plan, we don't see any change or we don't see any impact. Why do we believe that situation would, in custom content, be better because we are at this point of time very close to what we have in hand and of course need more business in custom content for us to continue, but we do see that coming in at much lower rate than what we would have done last year, so I think it is in line with what we have achieved so far.

Mr. Hitesh: Sure. What is the percentage of our pending order book that has custom content in it?

Vijay Thadani: I will just tell you.

Mr. Hitesh: Maybe I will ask a further question as we go along. In the corporate-based business, we said India business grew 114%, so what was the quantum of the India business during the quarter?

Vijay Thadani: 114 million rupees.

Mr. Hitesh: 114 million.

Vijay Thadani: Is that correct... Yeah, it is 114.

Mr. Hitesh: How much came from Evolv?

Vijay Thadani: Evolv would be 19 million out of that.

Mr. Hitesh: One nine?

Vijay Thadani: Yeah.

Mr. Hitesh: Okay, sure. And in the individual business IT part, how much was the India revenue in the net revenue?

Vijay Thadani: India revenue in the net revenue, it grew 39% year on year. We will just give you in a second. Hitesh, I don't have the order book, I have order intake for the last quarter and what was the percentage of custom project, it was 16% but I can pull out the order book also.

Mr. Hitesh: Sure.

Vijay Thadani: Not right now, I may have to give it to you separately.

Mr. Hitesh: Yeah, not an issue.

Vijay Thadani: Yeah.

Mr. Hitesh: The net revenue for India you said grew 39% right Y-o-Y, IT part of it.

Vijay Thadani: No, just one moment, let me just give you the right number, I have it somewhere. Actually now IT India is the third level detail, so that's why...okay, system-wide revenue grew 39%...

Mr. Hitesh: Okay.

Vijay Thadani: ...and net revenue grew 28%.

Mr. Hitesh: Okay, sure. Lastly, a couple of book-keeping questions, what was the sundry debtors in rupees million?

Vijay Thadani: Sundry debtors in rupees million, just give me a second please....2243.

Mr. Hitesh: Okay. And lastly, can you break up the debt between dollar term loan, working capital loan, and rupee term loan.

Vijay Thadani: Just one moment, I can do that. 36.5 million dollars...so the balance would be the rupee loan right...Hitesh...

Mr. Hitesh: Yeah.

Vijay Thadani: So, I said 36.5 million dollars is Forex.

Mr. Hitesh: Okay. Did you raise any further loan from the Forex because I remember we paid off little bit of it last quarter.

Vijay Thadani: Yes, we did. We paid off a little bit. There would have been a working capital component, which would have got added perhaps. That was before March itself. I can reconcile...we can reconcile that with you if you like.

Mr. Hitesh: Sure, not an issue.

Vijay Thadani: Yeah, yeah.

Mr. Hitesh: Thanks a lot and all the best.

Vijay Thadani: Thank you Hitesh.

Moderator: Thank you very much sir. Next, we have Mr. Ruchir from Pioneer.

Ruchir Desai: Hi, this is Ruchir from Pioneer. Just a couple of questions again on the corporate learning solutions, you mentioned your learning products grew 15% year on year, so I was wondering if it would be possible to give the growth rates for the other two segments of the corporate business, that is training outsourcing and custom projects?

Vijay Thadani: I gave you learning products and training outsourcing put together at 15%, right.

Ruchir Desai: Correct, correct. And would it be possible to give the margins in this business, what kind of margins you would be having if you could break up the margins....

Vijay Thadani: No, it would be difficult to break margin at OM level.

Ruchir Desai: Okay. Just coming to the pricing in the corporate learning solutions, what is the kind of pricing environment you are seeing in the market for both these segments?

Vijay Thadani: Frankly, the problem is not with pricing, the problem is with decision making and the sale cycle.

Ruchir Desai: Alright.

Vijay Thadani: So, we don't see any softness in pricing.

Ruchir Desai: Alright. Earlier, in your opening remarks, you mentioned that custom projects are seeing sluggish trends, but they are expected to improve going forward, just wanted to understand why do you expect this to improve going forward, what are you seeing the market for you to expect these things to improve going forward.

Vijay Thadani: Yeah, so I will repeat that statement. What I did mention was that our corporate business on one side, we saw positive growth, 15% growth in learning products and training outsourcing which was balanced by a sluggish custom content, custom projects business which is what caused it to remain flat. Going forward, we see the growth in learning products, in training outsourcing to actually exceed that obviously the share of the total business and that is why we see positive growth going ahead of us.

Ruchir Desai: Alright, great. Alright, great, thanks and all the best.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Should we say last question or are we done?

Moderator: We have Mr. Vishal from Centrum Broking. Okay, so that is the last question. Thank you.

Moderator: Okay. Mr. Vishal, you can go ahead sir.

Mr. Vishal: Hi, good evening.

Vijay Thadani: Good evening.

Mr. Vishal: Sir, I would like to know what were the exact number of schools that were added in the form of Andhra Pradesh and what is the total number of schools that are there under your government, what we call, product.

Vijay Thadani: Okay. Total number of schools that we service...

Mr. Vishal: Excluding the ones which have already been terminated.

Vijay Thadani: ...6643.

Mr. Vishal: 6643 government schools?

Vijay Thadani: Yeah.

Mr. Vishal: And this is inclusive of the 2005 which you have signed up with Andhra Pradesh recently?

Vijay Thadani: This includes the 2005, yeah.

Mr. Vishal: Okay. And what are your prospects in terms of looking forward and how do you see the payments from the government coming in as in has the time period decreased or is it still the same as such?

Vijay Thadani: No, no, no, we can't live with the time periods that we had lived in the past two-three years. So, obviously you have to keep very close watch. We have been...as you can see our overall receivable days are only 79...

Mr. Vishal: Right.

Vijay Thadani: ...so we have been fairly particular on collections and that is what we hope to continue to do. It will, of course, require monitoring, that's all.

Mr. Vishal: Okay.

Vijay Thadani: We do see the payments are much more favorable than they used to be. They are early mobilization payment so that you don't, you know, put all your money at risk.

Mr. Vishal: Right, right. That's about it. Thanks a lot sir.

Vijay Thadani: Okay. Thank you very much.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Vijay Thadani for the final remarks. Over to you sir.

Vijay Thadani: Thank you very much for a very engaging question and answer session. My friends in individual learning solution business are feeling a big neglected because they received very few questions. On the other hand, my friends in corporate learning solutions are feeling very encouraged by your remarks and of course the challenge that they have in front of them. I must point out that even though it may appear that the corporate learning business in this quarter would have shown a trend which can look not very encouraging, but we do want to say that less than six weeks ago, we had spoken with you on the investor day as well as in the subsequent meetings and talked about the trajectory for the corporate business over the year. We remain committed to that

trajectory and the current economic situation is already factored into that. An improvement in that situation would obviously help us better. A further deterioration of that situation, we will cross the bridge when we reach there, but I think at this point of time, the current economic situation, the current business situation is already factored in, and I think we remain committed to what we had talked about. On the individual learning business, I do want to repeat the fact that we are ahead of our projections and to an extent, we can see that the higher profitability and faster growing businesses where we have strong market situation are doing better, which in a sense derisks the overall business to a large extent. The slower growing businesses where we are at the...where the environment is hurting us, we do have firm plans to deal with them and you will see those panning out in the next few quarters. Once again, nearly 90% of our profit is coming out of businesses where we are very strong. So, we are fairly hopeful of achieving what we had guided the market for and guided all of you for. So, with that, I would like to close this session right now. I am sure there will be followup questions and data details which will be required at next level. We would be very happy to provide them. Kapil, Chetana, myself, Mr. Vijay Kumar, all of us are available to you and both in person as well as through e-mail. The respective business heads are also at your disposal for more details or demonstration or sites that you would like to visit. Thank you once again. We learnt a lot in today's conversation like always. All the best.

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.
