



NIIT Limited
Q2-FY11 Earnings Conference Call

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**MODERATORS: MR. VIJAY THADANI
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MR. G. RAGHAVAN**

Moderator: Ladies and gentlemen, good afternoon and welcome to the Q2 FY 2011 results conference call of NIIT Limited. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by press * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Vijay Thadani, CEO NIIT Limited. Thank you and over to you Sir.

Vijay Thadani: Good afternoon, this is Vijay Thadani. Welcome to the Q2 conference call. First of all, my sincere apologies for a few minutes delay. We had some organizing constraints right now. What I will quickly do as usual is to give a brief and then open it up for questions and answers. As usual, I will start with the environment and talk about the India story first. I think all of us are familiar with the fact that we have a very buoyant mood in India right now with GDP growth projected to remain strong at 8.5%, foreign investment inflows have been very strong and are expected to continue. In our business more specifically, the employee hiring trends are extremely robust. We have some very, very positive movements in IT hiring, in banking hiring and even in other services sectors that we service. The Big Three of the IT are expecting to hire nearly 100,000 people this year and this will be on top of many other including domestic projects which are creating large need for trained IT people. Banking industry is also set to hire over 50,000 as well as financial services industry which is showing upward trend. Government remains very committed to pushing the education and skills development agenda. A lot of new policies, about six bills in the parliament which have to undergo the parliament's deliberations before they become law, corporate sector also looking very positively inclined and willing to invest in training and other discretionary expenditure. On the other hand in US the mood is definitely improving but extremely cautious, US and Europe overseas markets. The currency environment continues to remain very volatile. So in this overall environment as a headline I would like to say is that the overall improvement in quality and momentum of business, revenue growth year-on-year has been 14% this quarter on a like-to-like basis and I will keep referring to like-to-like today because of a specific one time pass through revenue in government schools that we had experienced in the same period last year same quarter and talked about it. This was 56 Crores from a specific government schools contract, I covered the environment and in this environment the performance of NIIT we believe is an overall improvement in the quality and the momentum of business with revenue growth of 14% year-

on-year on a like-to-like basis after excluding the one-time pass through revenue from government schools which we had last year same quarter and if we were to look at in constant currency terms, the volume growth will be 16% year-on-year. I will go in to the details of the results, so overall consolidated system wide revenue was at 5.7 billion rupees which is a growth of 15% year-on-year on a like-to-like basis, 3% on the published basis. Net revenues were 3.458 billion which is 3458 million rupees, which is a growth of 14% year-on-year on a like-to-like basis, minus 3% on the published basis. EBITDA was at 532 million, which is up 7% year-on-year, and the EBITDA margin is at 15%, which shows an improvement of 161 basis points over the same period last year. Profit after tax is at 285 million rupees, which is up 9%, and this reflects an EPS of 1 rupee and 73 paisa. Key drivers for the growth have been a growth in enrollment IT, banking and management education part of the business. A robust order intake of \$31 million in the Corporate Learning Solutions as we start implementing our second large managed training services project, which we got during this year. Third was an order intake of 487 million in School Learning Solutions where a large part came out of the non-government schools which have done fairly well in this particular quarter, so overall there has been a growth in volume 13%, however the margin improvement has been there, but has been to an extent stunted by the increased cost structure and the negative impact of exchange. If you go down at individual business levels the performance is mixed, two large businesses have done well, which is individual. Overall system wide revenue and net revenue both of them are up 17% year-on-year, this is a significant improvement over the year-on-year growth in the last quarter and we had talked about the fact that delayed season and launch of marketing programs had affected the growth last quarter we have more than made up for that in this quarter and therefore at half-year levels have come back to a growth of about 10%. Our net revenues in IT are up 12% year-on-year; our EBITDA margin has improved in IT training, to 28%, an improvement of 52 basis points. What is interesting is new businesses, we have both banking and management and even the BPO training all have registered interesting growth and therefore 114% year-on-year growth in this quarter. In corporates the revenue despite a negative impact of exchange our exchange rate is up 11% year-on-year, the impact of exchange rate was about 300 basis points more, so in fact the volume growth of 14% year-on-year EBITDA is at 122 million which is up 15% year-on-year and at a margin of 8% an improvement of 34 basis points despite an adverse effect of the exchange rate. In schools however the net revenues are up 13% on a like-to-like basis which is after deducting the 56 Crores of Gujarat revenue, but the EBITDA is at

a lower level of 31 million rupees which is one of the discussion points which we will have as I go in to the details of each of the business, so overall consolidated financials I already talked about the revenue and EBITDA. Our profit after tax is at 285 million, which reflects a growth of 9% and an EPS of 1.7. The margins to an extent are affected by three factors, one is a lower margin in the schools business which is what we will talk about, second is the impact of the people cost increased which we had talked about a step increase which we had experienced during last quarter, last quarter it was on an average for a period of one-and-a-half months, I would say two and this quarter the impact has been over a three-month period, the same was the case with rentals, and also the impact of adverse exchange rates which have contributed to the nearly 297 basis points impact in the overall margin. If I look at the balance sheet, on cash from operations we have 326 million net cash from operations, which has reduced our debt by nearly 304 million, so net debt has reduced to 3.4 billion; ROCE is at 14%, which is in the same trend as we had in last year. DSO, given the peak quarter of the year are at a slightly higher level at 3646 million rupees and the fixed assets added this quarter were 265 million, so given the slower demand or the slower engagement in government schools business we have also been containing our capital expenditure accordingly. Overall, in individual business if I were to go in the business line total I already covered most of the aspects, so I will not repeat that, I will straight away move in to qualitative performance in each of the sections, so individual IT, the most interesting part is that a stronger affinity or engagement in longer term and more intense courses though to be conducted over shorter durations which actually is a very interesting paradigm for us because we get to burn the capacity faster and students took up the 99 day diploma program fairly well, we saw an overall enrollment growth of 5% year-on-year on a like-to-like basis and 9% in India, in many ways India IT enrollments grew faster than the rest of the world, rest of the world as you know have different seasons and therefore quarters in which different geographies have different peaks. Placements were up by 31%, we have now a pending order book of 1.4 billion rupees, which is up 20% and 68% of which is executable in the next 12 months. We added a small seat capacity, 4% year-on-year on a net basis; in fact we have been integrating and consolidating our centers to have larger capacity centers for improved profitability. In the Corporate Learning Solutions, the net revenue grew by 11% and as I mentioned the volume growth was 15%, EBITDA improved by 34 basis points despite an adverse exchange rate, order intake was \$31 million, this quarter we added our second managed training services order of the year, so right now we are getting about one order per quarter, this

was about a \$10 million contract to be executed over four years, a pending order book is at 92 million, 57% executable in the next 12 months. One thing which I thought I would point out for Corporate Learning Solutions that there are two contributors to growth, one is learning products which is Element K's online library which this year has grown by 21%, on a year-on-year basis and the second the fact that managed training services is becoming a fairly compelling proposition with one win in each of the quarter and a strong pipeline that we are working towards. All this as you can see the trend over the last six quarters we have been continuously improving in terms of volume growth from first quarter of FY 2010 where we had a negative growth to now having reached a 15.3% volume growth on a year-on-year basis. In schools, as I mentioned, even in the last quarter we have been extremely cautious on the government school segment, new tenders decision making has been extremely slow, we think there are three contributors, one the fact that decision making is slow perhaps because of elections or different political issues, two more where the government was to come up with a new policy of ICT schools which they have rolled out, however its implementation is taking a long time, states are not yet adopting it because it also puts financial burden on the state and the third is also the fact that central government has been very watchful of states implementation of this program and are not releasing money easily given the past performance of the states, all this has been putting a burden on our receivables, so our cash inflow from this business has been slower and given that situation and given the fact that there are other opportunities which at this point of time are also presenting themselves with much quicker acceleration possibility such as individual learning solutions as well as the managed training services, we have also allocated a part of our portfolio if I may say in terms of growth to those activities and have concentrated more. Having said that the non-government schools, our focus has been extremely strong, I am pleased to tell you that in the first half of the year, we have added 350 non-government schools, whereas last year we had added only 330, so we have completed last year's and more in just six months time, so that order intake as well as the momentum that we are seeing in private schools as well as the acceptance of our new product lines has helped us to allocate more resources for marketing, for creating feet on the street, to expansion in sales force. We improved our sales and marketing activity in private schools by 33% given the large opportunity it is important for us to scale faster, so that is our schools business. In the new business, the finance and management training, enrollment has grown at 172%, overall new business enrollment, overall new businesses have grown by 114%. We have had some interesting tie-ups, two important trends

which point to scaling up of this business, one of them is the banking recruitment, banking and financial services recruitment where there is a huge demand which the banking and financial services industry has for the kind of people that we are training, so we are not only servicing through our retail training center, but also servicing through large amount of corporate training, the second is the management training requirement in executives as well as companies who want to skill up those executives, so the launch of an Executive MBA Program which is perhaps the first full fledged Executive MBA Program launched in the country in collaboration with IGNOU is an important milestone and the third thing is that like we had mentioned we have increased the reach of all our new business activities to now 40 centers by elaborating our existing individual learning solutions network.

On awards and recognition we got our own share of awards and recognition but there is one on the Dataquest top training of the year, we have received that award every year from the year that it was instituted we got that this year as well, also got a franchiser of the year, our Element K content has been rated extremely high and is a finalist for best IT content by the e-learning magazine and there has been some more.

Overall, the real business contributors for top line came from the individual learning solutions, which are a high margin business, from corporate learning solutions, which is a high-volume, and now an improving bottom line business. The EBITDA contribution obviously therefore came from individual and corporate, so overall strong growth in individual and corporate and school business reinventing itself or reorganizing itself for the new reality which is of government spending. Our IP led revenue continues to go higher and has improved to now 45% of the total revenue in the first half the year. We added 154 people net during the quarter which has taken our total head count to 3874, this now makes that during this year we have already hired more than 350 people and that is more or less gets us ready for meeting the requirement of the new year, there will be some more recruitment as the new managed training services order gets implemented, maybe I will stop here and open it for Q&A.

Moderator: Thank you very much Sir, we will now begin the question and answer session. The first question is from Dipen Shah from Kotak Securities.

Dipen Shah: Good evening. I have a couple of questions, first of all in the individual learning business we have seen the second quarter growing at 12.5% on a year-on-year

basis that is the revenue on the IT business, now this and the previous one being the two kind of the quarters, we have reached about 12.5% or on an average about 10% growth, so what should this in to further full year like, should we be having a slightly higher growth in the next two quarters or should we be saying 10 to 11% would be the growth rate for the year?

G. Raghavan: Hi, this is Raghu, thanks for the question, basically we have maintained for the full year between 10 and 12% and during the last quarter we said we are likely to be at the lower end of this range, I think we would like to stay with it at the moment.

Vijay Thadani: So, in other words, the delayed things in first quarter have been made up in the second quarter, in H1 we are on track for our projections.

Dipen Shah: In the corporate learning business how do you see the trend going like we have shown a good performance in this current quarter but more in terms of EBITDA like how do you see the picture going ahead assuming that the rupees remains at the current levels?

Vijay Thadani: To remind you, we had talked of a single-digit volume growth in corporate at constant rupee rate and 100 basis points improvement in EBITDA. We are tracking at a much higher volume rate at this point in time, 13% actually in the first two quarters, however the exchange volatility has brought that down to a lower number. Important question which we have to see is that given the new orders that we have got, we think we will track to a higher than projected volume growth which we had talked of 6 odd percent but I think perhaps we will do better than that as it stands because we are already at 13%, so that would give us head room for higher growth. On the EBITDA once again if you adjust it back for exchange rates we are on projection nearly 100 basis points improvement, so even though we will have a higher revenue growth we think we will achieve the 100 basis point improvements that we have been looking at obviously assuming a constant exchange rate. In short in corporate we will be ahead of our projections and in some ways given the size of corporate and its impact on the total the increases in corporate and new businesses both of who are ahead of their projections I think will make up for the shortfalls that we can now expect to see in schools given the fact that government business does not have traction in many ways it is helping us conserve a lot of cash also.

Dipen Shah: So, that is the next thing in terms of the new businesses, how do we see the year panning out in terms of revenue and bottomline?

Vijay Thadani: We had talked about an improvement in revenue to the extent of 50% at this point we are tracking at a much larger number but given new businesses can become choppy in the next two quarters we would like to believe that we would definitely exceed the projection but not quite sure by how much. As far as our profitability is concerned, perhaps we would be at that or little more because of step increase in cost is perhaps going to affect the level of loss, the total amount will be in loss just to let you know some of the businesses have already started making money and are back in to black, some of them the new ones are still in red.

Moderator: The next question is from Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Hi Sir, just wanted to get an understanding on what is happening on the school learning side in terms of we had significantly increased investments on the private school side, if you could talk a little on that side and also let us know your thoughts on how do you see the new business panning out?

Vijay Thadani: We will go in to details of that. On private schools we are seeing very positive momentum. I will ask Sanjeev to talk about that as also the increased exposure we have to new products, new product launches as well as increase in sales head count as marketing initiatives and the success thereof.

Sanjeev Pandey: Hi, this is Sanjeev. Basically as Vijay said and as the charts indicates, we have had a very robust growth in terms of both order book as well as revenue in private schools in the first half and we are seeing significant traction as we get in to Q3 and Q4 in terms of acceptance of our products, in terms of our overall pipeline etc. We have significantly expanded our reach. We were present historically in about six branches in India. We have gone significantly above that in terms of covering the territory. We have added significant head count and we have significantly increased our marketing spend in terms of establishing a pull for our products and in parallel we continue to focus on launching new offerings, on developing new products for the private schools market, so overall most of our offering if you see in the private school space are annuity kind of offerings, so we will start seeing the revenue impact of this incrementally as the quarters go by but we are sitting on a significant order book that has been created because of the 350 schools that we signed and the significant order book growth that we have had in the first half, so we will continue to do that. As far as government schools are concerned, even though your question was not on government schools, I will take the opportunity to sort of restate what Vijay has stated. We will continue to adopt a very strong

diligence of where we put our investments and how do we go and work with various governments. We are seeing slow down as Vijay pointed out due to multiple reasons and so we will look at renewals, we will look at IP based solution sales which is part of our overall government strategy, so in the short run it may have a revenue impact on us in the government school side but in the long run even the government portfolio would overtime become less capital intensive and more profitable for us. I will now give it back to Vijay to comment on new businesses.

G. Raghavan:

New businesses as you know we basically refer to three significant businesses, one is banking and finance, Vijay already talked about the significant growth in the enrollment and that is the business which has turned around and has in fact a small profit last quarter. When it comes to the management training business, we have been doing very underlying things from the long term, the executive MBA of IGNOU that we have launched through this institution is a very significant one, we expect that to be significant volume giver over the next few quarters and seasons. We will have two launches in a year for that. The BPO business is increasing in volume, if you look at the business of management training as well as BPO business they should be reaching in quarter break-even anytime between the last quarter and first quarter of next year, so essentially all of them are going in a good trajectory, if you look at the first six months whatever the numbers you are seeing here, we should expect improving rates for the second half of the year and that should be a steady-state trajectory to look at as far as the new business are concerned. What is important is that with the banking sector coming back very strong, the enrollment is a reflection of that and we see that continuing if you look at the large banks, they have announced recruitment plans of more than 50,000 for the coming 12 months and they expect a very large retirees, retirement happening in many of the banks, that is going to create another big pressure in terms of talent requirement, so we have fundamentals which are extremely strong for the three new businesses we are talking about.

Moderator:

The next question is from Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar:

On the private school front, can you just talk of the revenue model; are you giving some software licenses to the school or what exactly, how you are earning the revenues?

- Sanjeev Pandey:** There are multiple products and services that we have in the private school space, some of them and a significant number of them are the annuity offerings where the model varies from per student per month kind of basis to per classroom per month kind of a basis, so there the revenue kicks in quarterly as an accrued revenue over five years, however there are certain licensed products and shorter revenue duration products that we have launched like school ERP solution Quick School, we have a mobile science lab that I talked about last quarter, we are seeing increased traction of that, so that is a three-month implementation cycle kind of a solution and we have our Maths lab also which again takes about 12 weeks to implement, so we have a combination of products and services and that is the revenue model for the private school market.
- Kaushik Poddar:** How much of your revenue from private school is continuing and how much is one time.
- Vijay Thadani:** Most of it is a continuing kind of revenue.
- Sanjeev Pandey:** Majority of our revenue is a continuing kind of revenue, we have tried to balance the portfolio and again it is early days. On quarter-on-quarter basis, we have significantly changed the mix to some extent and if you go forward we will continue to drive a mix of both annuity products as well as short-term revenue products as well.
- Moderator:** The next question is from Nihar Shah from Enam Holdings. Please go ahead.
- Nihar Shah:** Just a couple of questions on basically the new business initiative, one was on your press release you have mentioned the fact that you started a new online advertising sort of certification and partnership with Google, can you give us some more information on that in terms of what the business model is the and the potential could be?
- Vijay Thadani:** It is not like the Google's business model, it is very simple, it is actually part of our management education series, what we essentially look at or what are the opportunities which organizations are focusing on and given the fact that we are a non-formal institution our ability to come up with curricula which are very relevant in the current setting we had two quarters ago launched a diploma in digital marketing and that was one initiative. This partnership with Google is to help marketing professionals become familiar with what are the competencies required to become good in online advertising. In Google's search engine

optimization is one of those important techniques; a lot of good subject matter expertise from there helps.

Nihar Shah: The information I wanted was in terms of what is sort of the fees that you charge the students, how many do you have at this point in time?

G. Raghavan: Still early days to talk about the volumes but the fee is 31 thousand rupees and this is aimed at working professionals and you might have also seen in the press release that Google is willing to give a little funding to these students to try their hands in creating marketing engines and natural usage and so on and so forth, we wanted it to be really hands on, so over the next few weeks we should be able to get a steady-state prediction for this. As Vijay alluded, this is not the first time we are entering in to this customized program. We had a digital marketing program, which we constructed and offered with the help of experts, it was very specific with the Google collaboration the specification will be by Google as well.

Nihar Shah: Second question is on the Executive MBA with IGNOU, just again the similar kind of information. You had your first batch come in, just wanted to know how many students and what is the potential for this going forward?

Vijay Thadani: Raghu will talk about that. Once again these are beginnings of very exciting opportunities for future, but we always start with small batches because we just want to make sure that we are able to do justice to them.

G. Raghavan: Executive MBA is again focused on working professionals. The advantage of this is that it is for working professionals who do not have to leave their job and it is very easy for them to do on a Saturday, Sunday and we have assembled one of the best curriculum and fantastic professors who are going to be part of the various modules that are going to be offered in this. The fee structure is in the region of about 1.85 lakhs and it is spread over a period of 18 months with a lot of hands on opportunity, so it is a very, very robust course and our intention is to carve out a very specific niche for this particular program across the country. The volume can be very large but as Vijay said right now we have just started with the first pilot batch with a modest beginning and we are already working with IGNOU for the second batch which will probably start in the month of February or so, so we will have two admission cycles every year and the first batch students are extremely happy more from the convenience standpoint as well as the kind of quality of contents and the professors we have lined up, so we think that this has got a substantial promise but when the second cycle of

admissions get over sometime in February or little earlier, we will have a much better picture on this. These are early beginnings, but fantastic promise.

Moderator: The next question is from Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Hi, thank you very much Sir. I had couple of questions, sorry if I missed this out. In the school business the reason for the low margin this quarter?

Sanjeev Pandey: I think Vijay alluded to that when we talked about the impact that we had on school learning solutions business this quarter. There were three factors which impacted our margins this quarter, one is there has been an overall drop in revenues and Vijay mentioned there was delayed execution, so that has contributed to part of the drop. Second, there is a cost inflation factor that Vijay also alluded which were fully factored for this quarter and that also impacted our margins but I think the biggest of the three reasons is that we have significantly ramped up, as I was talking about to an earlier question our presence and reach, we have invested in people, we have added almost 33% additional sales and marketing capacity which has gone operational this quarter and we have also increased our marketing spends significantly compared to the past and last year, so we are investing in the private school space and there has been a decline largely in the government space because of delayed execution as we talked about and the diligence that we are adopting, so these are the factors that have contributed for the decline in margins this quarter.

Sunil Tirumalai: So if we report the impact of the one off project in the previous year what extent of a decline are we seeing and over how much time we can recover that because I think it is purely going to only growth which can help you recover that because most of these investments that you talked about they are not one time, they are long-term investments.

Vijay Thadani: I think if you look at the NIIT point of view we have always been very, very concerned about the capital intensity of the government schools business and we have often talked about it and you have actually suggested getting out of it whereas what we have maintained is that it is a huge opportunity but we would like to take that opportunity at our own terms, I think in this current period, we see an opportunity to reallocate a part of our portfolio, we are seeing a phenomenal traction in corporate, we are seeing a very good traction in individual, we are seeing good traction in new businesses, so what we are trying to say is that, is this the time for us to make that switch so that at least there will be more cash on the balance sheet, it will give us a much better

ROCE and we will also be therefore having more liquidity. Having said that the schools business if you were to examine the schools business in isolation and say fine we have a slower government business, how do we make sure that we make up for that, there are the private school initiative and Sanjeev will talk to you more. I thought I will give you a response at two levels, one at the corporate level, corporate level is reallocation of portfolio, our own belief is that our revenue performance this year will not get affected because of this change and of course if the government business improves then we should be in a better shape than what we thought we will be but overall I would tend to feel maybe Sanjeev should explain from a schools point of view what will be his recovery plans.

Sanjeev Pandey: As I mentioned earlier we are exercising very strong diligence as far as the government business is concerned even as we work with several states on coming opportunities. We have also invested in a couple of new offerings. One is an internationally certified program on teacher training and we are targeting the large mass of government schools for training and enablement through this offering. We will also go and participate in some of the BOT and BOOT projects in a few states but exercising due diligence, exercising caution and looking at the funding availability etc., so from a full-year basis, if your question is how will business pan out for us, the private school business will continue to grow significantly. We will add significantly good number of schools in the second half and it should be much higher than the number of schools that you have added in the first half. We will continue to grow at a very strong double-digit growth that we are growing in terms of revenue in the private school space and that growth will continue from the second half. If you look at the overall mix of our business, mix of our business historically was largely towards government and last year we had this huge exception transaction that we had closed with one of the governments and what had significantly stood our revenue, if we discount for that we will overall as school learning solutions grow in single digit this year but the private school's market out of this will grow in strong double digits this years.

Sunil Tirumalai: Just earlier on that you said if you discount for the contract you would grow in single digit. What would be the margins on a like-to-like basis?

Sanjeev Pandey: Overall, we are looking at a margin of about 15-16% in the second half

Vijay Thadani: We do expect improvement in margin in the second half.

- Sunil Tirumalai:** Just now you said that this year you might not have too much of margin uptake; that was there my concern was.
- Vijay Thadani:** Yes, that is because of the first and second half put together, that is what we meant by that.
- Sunil Tirumalai:** My next question is rather silly. We are having for the quarter the rupee depreciated, was just wondering why you are talking of an adverse impact on the corporate business?
- Vijay Thadani:** Okay, on a year-on-year basis since all are comparisons year-on-year.
- Sunil Tirumalai:** Okay, got it. Thank you Sir. Thank you very much.
- Vijay Thadani:** By the way there is no question, which is silly. It is silly of us not to have clarified clearly.
- Vijay Thadani:** Yes I said since we are in errors and omissions my colleagues just reminded me that I talked of net cash as 386 million, it is 326 million, I am sorry about that.
- Moderator:** The next question is from Mohit Jain from Alchemy. Please go ahead.
- Mohit Jain:** My first question is on the schools business specifically the private schools business. Which solution or software is seeing most traction in terms of sales and is there a regional bias to your growth in schools?
- Sanjeev Pandey:** As I mentioned earlier in the call, we have a number of offerings for private schools. Some of these solutions are cyclical, so they are linked to a time and academic year point of view, so in the first quarter and second quarter we have seen very good traction of our annuity products in terms of our teaching learning solution for classrooms as well as our IT training program for schools, the IT wizards portfolio of products. Again on Q2 versus Q1 basis we have had significant growth in our Maths Lab and our Mobile Science Lab and school ERP products, so overall we are seeing the mix as both the annuity products being very strong in the first quarter in the classroom solution as well as the IT Wizard Program. In Q2, we have seen our lab solutions and our ERP license going significantly and the mix of that improving from a second point of standpoint.

Mohit Jain: If you have to choose one solution for example if I look at the growth rates on a year-on-year basis excluding seasonality, which would be the strongest product in your portfolio?

Sanjeev Pandey: Strongest product portfolio historically was our IT wizard program where we had three or four variants of the IT program that we were doing. What has gained significant traction this year is the interactive classroom solution that we have launched with new content as well as our Math Lab and Mobile Science Lab, our lab solutions that we launched, so these products have taken off significantly and our schools ERP have good run rate solution that continues to sell well over the quarters. And in terms of regional bias we have had much stronger growth in West and South compared to North and East and as a part of our organizational restructuring as well as adding reach we will address that from our priorities as we are spending on marketing spend as well as expanding our sales force.

Mohit Jain: Do you see any resistance from the parent's side or the school's side depending on the region, what I mean to ask is probably it is easier to sell in the west than in the North?

Sanjeev Pandey: No, I think the parents; the students and schools want to adopt solutions and technology in teaching learning. I think our problem in North and East was that we did not have significant reach, which we have expanded significantly now, I do not see a buyer behavior issue significantly.

Vijay Thadani: I would tend to agree with what you said rather than what Sanjeev said because that is an interesting insight. If you notice, most of the schools in South and West are the early adopters of new technologies and new solutions traditionally. Even our Maths Lab the first one was Vidya Mandir in Chennai and stuff like that, so given the fact that some of our solutions are fairly unique which even the big competitors do not have an equivalent six months after our launch like the Maths Lab and Science Lab as well as the school ERP, these are very unique solutions, so the early adopters for that tend to be in West and South. To that extent I think you have a point that you made. Of course in addition to that Sanjeev did say that the reach in North and East in our case has been a small case but that we are correcting.

Mohit Jain: So, now you are seeing equal traction in all the regions?

Vijay Thadani: We will.

Mohit Jain: My second question is related to corporate training large project, which you discussed. What kind of projects are these and can you give me an indicative margin range for these products?

Vijay Thadani: This is part of our managed training service offering what we are trying to do is to offer a significant part of an organization's training department. Typically these include a set of learning delivery, learning technologies, LMS kind of a platform as well as learning content facility. The one, which we have been allowed to talk about and have talked about, is for the last four years we look after managed training services for Phillips Worldwide and have been addressing those. We got the Phillips contract renewed, not this quarter; it happened earlier and was renewed for another three years if I am not mistaken. We added a large European client in the first quarter and we added another one during this quarter. We also have a good pipeline. Typically these are multi year engagements, about \$10 million. Margins have to be understood in a larger context and perhaps the margins of the business are more relevant because there are lot of common expenses which need to get allocated since we build common facilities for some of these, so we do see them overall as more and more part of this business comes, just the fact that there is certainty of revenue gives you an opportunity to allocate your resources more efficiently and you can see therefore as larger and larger percentage of revenue comes from these contracts our margins will continue to increase. We have always maintained that our corporate business in steady-state should run at 15.15. I am happy to say that that in 15% volume growth terms, at least the business demonstrated that it can do it and it is very close to even achieving 15% in margins, managed training services will give us more certainty of business compared to project based business

Mohit Jain: Is the billing based on a ticket training request based or is it fixed for a year irrespective of number of request for employees?

Vijay Thadani: It is typically a combination of both. You have a minimum level of service that you have to provide. That does not depend on how many people are there are how many tickets are there. The ticket service is not used in any of the contract that I talked about but yes it is a prevalent practice. You have a minimum requirement and then if you go beyond that then you get excesses.

Mohit Jain: My last question is on K12. Do you plan to set up your own schools in the near future?

- Vijay Thadani:** No.
- Mohit Jain:** Any particular reason?
- Vijay Thadani:** We have never had any inclination for doing that because the statute does not permit it for private companies to be in this business, so we are not in it.
- Moderator:** The next question is from Rishi Maheshwari from Enam AMC. Please go ahead.
- Rishi Maheshwari:** My question is regarding an observation that I have noticed that the government has been very proactive in initiating programs where companies would take initiative to take on vocational practices. I would like to know if NIIT is already in there and if it is there then what is the scope of the market and how does it build its own revenue model over there?
- Vijay Thadani:** Skills development, I will ask Mr. Pawar on it a little bit but let me just give you the headline. The headline of this is skills development is a huge opportunity, however there are no viable business models which are emerging because as you carry skills and try to deliver them that skills especially low-level skills the business models are not viable and the government has set up a National Skills Development Corporation which helps people with viability gap funding, that is just to make sure that those models which are not viable financially at least some kind of viability gap funding can be given which is typically in the form of a debt and that debt can be repaid over a longer period at concessional interest and so on and so forth. So far NSDC has funded by and large not-for-profit organizations. They are open to talking to for-profit organizations as well and obviously we would be very glued on to that but we do not have anything specific which we can the this point of time has been finalized. I will ask Mr. Pawar to anyway talk about the skills development initiative and government funding on this.
- Rajendra S. Pawar:** I think Vijay has more or less covered it. The overall skills number that we talk of and the government talks of it include things like plumbers and carpenters and drivers and mobile repairers and so on and the government emphasis quite clearly and for the right reasons is on inclusive growth, below the poverty line kind of activity, so it is very important not to start looking at those numbers and try and ascribe a market place for that scale or size, I think it is very important because we have had a lot of conjecture being done on what is the size of the school and so on and I think it tends to mislead the market place, that is a

general statement. Now within that quite clearly, there are segments where viability would be more visible and if you look at the many sectors in which the industry is already being operating for the last couple of decades starting with IT and the financial sector and so on and so whenever viability has been clear and visible, we have seen a lot of entrepreneurial activity happening already and the initiative of the Skill Development Corporation is to look at ideas where support can be given and they have of course a big thrust for NGOs as well, so I think it is important to start segregating when you look at this market for the scale and size of self-sustaining models as distinct from those which will need subsidy, those that are below the poverty line and in my view an overriding percentage, 80 or 90% belongs to the kind which is BPL and so on, so I think it is very, very important for everyone tracking this area to be extremely careful about drawing conclusions of the scale and size.

Rishi Maheshwari: Thanks so much, but Mr. Pawar while on one hand this is government who is initiating this program for the below poverty line on the other hand there are also industries which are equally inclined towards giving opportunity for their own employees. Did you look at that opportunity as well?

Rajendra S. Pawar: See, the new businesses that Raghu has talked of whether it is Imperia and so on, they are all aimed at people who are in service wanting to add skills either on their own accord for their self improvement or through the company's initiative, so those exist then I think that area we are not likely to find too much of the funding going in to that space, that entrepreneurial activity is already at work and when we talk of this big skill thing I think we should carefully plan and take a look at where the corporate sector would move in. The growth if you look at the retail area, the health care area, areas like that which are going to become clearer as you go forward, I think there will be entrepreneurial activities coming up in those areas but when we look at areas which have largely been in government control like the ITI and so on and so forth, that scale is large, but the viability is in question, so we should segregate that activity.

Vijay Thadani: In addition to what Raji said if your question was when corporates are interested in looking after their particular needs of skilled people are specific industry sectors that are certainly of great interest to NIIT, two examples in point already on the table. ICICI Bank which is a privately owned banking sector's requirements of trained needs people and we have actually created a specific entity which is meeting banking and financial services requirement, similarly in the BPO sector which is in partnership with Genpact we have

created a capacity and facility to look after those needs, so those are indeed sweet spots for us and indeed we would be addressing those.

Rishi Maheshwari: Persisting on private school if Sanjeev can reply to this, while you have spoken about solutions that you have and one of which is the Teacher Learning IT wizard etc., ERP stuff do you have full fledged program for CBSE or ICSE learning program which covers all the curriculum that is present because some your competitors are offering these kind of courses, so what is the answer to those courses?

Sanjeev Pandey: eGURU portfolio is where we have the solution. Teaching learning solution that I talked about not only there we have solution where the teacher can use the content and teach the students using technology as well as our pedagogy and our content but you also have Learning Labs and other solutions which students can use to learn and we have sort of taking that for the next level by giving them the facility of learning anytime anywhere whether it is from school to home we are going to address the entire paradigm when it comes to the learning solutions for students.

Rishi Maheshwari: Are those learning solutions priced and when you approach a school how many classrooms would you pitch for?

Sanjeev Pandey: We would go and do a study and discuss with the school in terms of what their current state is and what is the overall requirements in terms of solution. It is very easy to go and tell them that you can take it from kindergarten and do it till class XII; we do not take that approach. We typically go and study in terms of the maturity of the school as well as their ability to embrace technology. Typical if you look at the last six months the typical number of classrooms per school would be around five to six.

Rishi Maheshwari: How much will you charge for such products?

Sanjeev Pandey: It depends on the use. It depends on the way you structure it. There is a per classroom, per month kind of a price. It varies, I do not want to give a figure but it varies depending on the number of modules that they buy, the school size and the number of classrooms etc., so we have a tiered pricing mechanism which we price for the schools.

Moderator: The next question is from Vishal Agarwal from Citi Group. Please go ahead.

- Vishal Agarwal:** Hi Sir, thanks. Actually you have already mentioned these data points but just wanted to make sure so could you give the gross cash, gross debt and debtors days, I just want to make sure I got them correct.
- Vijay Thadani:** 548 cash, 3952 debt and therefore net debt of 3404, the debtors number is 3646.
- Vishal Agarwal:** Just wanted to understand one simple thing, that our school business which seems to be more capital intensive and has longer working capital cycle has actually shown degrowth and still our sundry debtor number has actually gone up. Could you just reconcile that for us?
- Vijay Thadani:** That is actually number one associated with slower collections coming from the school system because there are past receivables which should have got cleared, so one is that and second the fact that this is the peak quarter of the year, so those are the two contributors.
- Vishal Agarwal:** Additional data point, could you give the capacity utilization for the individual business?
- Vijay Thadani:** 67%.
- Moderator:** The next question is from Kaushik Poddar from KB Capital Markets. Please go ahead.
- Kaushik Poddar:** I just want to highlight what our education minister has said in Kolkata, I happen to be Kolkata, he had said that “we will need 800 more universities from the present 504 and 40,000 more colleges from the present 26,000” does NIIT plan to get in to the college stream?
- Vijay Thadani:** As you know Colleges and Universities are reserved for the not-for-profit sector, at this point of time for-profit organizations cannot be engaged in that. You also know that on the other hand that two years ago we promoted the NIIT University, if you wanted to know whether academically NIIT is engaged in this activity, yes, but if your question was financially whether it will impact our results or projections going forward at this point of time no.
- Moderator:** Sir that was the last question, would you like to add a few closing comments?

Vijay Thadani: I would like to thank you for spending so much of your time with us asking us incisive questions. As usual we learn a lot from your questions. Thank you very much for your encouragement, support, guidance and if there are any more questions please do not hesitate to contact Kapil Saurabh, Investor Relations or anyone of us for further discussions. So with that thank you very much and all the best.

Moderator: Thank you Mr. Thadani, thank you gentlemen of the management. On behalf of NIIT Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.