



“NIIT Limited  
Q3 Results Financial Year 2012 Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the NIIT Earnings Q3 FY'12 Results Conference Call. As a reminder for the duration of the conference all participants' line are 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 the conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vijay Thadani. Thank you and over to you sir.

**Vijay Thadani:** Thank you. Good afternoon. Thank you very much for joining us on this call. We are here to discuss the quarter three results, but before I get into the Q3 results I thought I will just share with you that one of the most important milestones in this quarter was that NIIT completed 30 years on December 2 and when we were reflecting on the 30th that went by we realized that we have touched about 35 million people in these 30 years. All this with your support thank you very much.

The second thing which I have thought I will talk about is the fact that we are discussing the results of Q3 which is traditionally, given the seasonal nature of our business, the weakest quarter of the year. The third thing which I thought I will talk about is the fact that in this quarter in addition to normal operation there have been certain exceptional transactions. For example, the divestment of Element K, our US subsidiary, so I will cover all these things in the usual sequence which is I will start with the environment then I will talk about the Q3 business performance. I have been requested to share details of Element K divestiture and its impact on cash flow, P&L and balance sheet. So I would like to share those summaries, I must point out that the audit for these is still under completion, but whatever are the preliminary findings I would like to share those with you and then we would get into question and answers.

So with that let me just jump in. The Q3 environment, I think from an economy point of view does not require any elaboration from me. It is enough to say that the economic outlook was fairly uncertain, the economic conditions were fairly bad and everyday there was different sets of news coming from all over the world. This definitely led to economic uncertainty in India, the slower GDP growth along with high interest rates, lower investment coming in, currency volatility and government inaction on certain major policies, some of which affect us as well, were definite contributors to the economic uncertainty.

Global volatility also touched hiring sentiments across sectors in India. The net employment outlook was lower year-on-year in Q3 and for Q4 as per Manpower Employment Outlook Survey so large IT firms have not announced any slowdown in hiring they are cautious future outlook and actual delays in hiring by mid-sized IT companies, definitely had an impact on consumer sentiment. Having said that education and skills development remains a top agenda for all the governments including India, and many countries are looking at India at the skills development module that India is working on. So those are some parts of the excitement.

In US and Europe, given the challenge the economic environment corporate are exploring new training options with reduced cost structure and therefore innovative models are emerging. So these are the environment details. The environment choppiness has been visible for the last few quarters and NIIT, in response to the economic volatility, in response to the technology constraints and in response to competitive action had identified early in the year four platforms of growth; Cloud Campus, which was ensuring that NIIT training is available anywhere anytime and therefore is also a very cost effective way of reaching a large number of students and providing them with specialized training. Current year-to-date we have had 12000 enrollments given that the product launch happened in the May 2011. 300 centers have been covered and an impact of that is also in the NIIT inside offering in colleges in India, which in the last quarter reached 71 colleges. So cloud campus made a significant progress in the first nine months mostly in this quarter it was to do with NIIT inside colleges. Given the seasonal nature of the business this is not the quarter for long-term enrollment, as we all know. In Managed Training Services which was the second platform of growth, we added two new customers and therefore now have eight global customers with the revenue visibility over the next three to four years of \$125 million out of these contracts alone and the Managed Training Services just as a line item grew by 101% year-on-year so again a very strong progress in Managed Training Services. NGURU our offering for an IT based offering for schools where the focus is on non-government schools we added 123 schools in this quarter against 35 last year and having added CYD 429 schools we now have a 47% of revenue coming out of non-government compared to 80% coming out of government about 18 to 24 months ago.

Yuva Jyoti, which was the fourth platform of growth identified by us the 90:10 JV with NSDC got launched during the quarter and we have had five centers operational this uses some very innovative ways of student mobilization as well as delivery of training using technology. So on all platforms of growth in this quarter we saw a very good progress and these being the future of the company we do see a very exciting future on these platforms.

Having said that, let me just share with you a small piece of information. Last week there was a brand trust report, which was released and while in technology companies the number one trusted leader brand was its HP, in internet it was Google, in hospitality it was Cards, in food and beverages it was Pepsi, and in education it was NIIT. So we have seeing very proud of the fact that our customers acceptance continuous to remain so high.

Let me move on before I get in to the business results the three and four impacts of the Element K divestiture which we will once again get into the details in little after results. The divestiture of Element K as you know for as for a cash consideration of \$110 million; this resulted in cash coming into our balance sheet and the debt on our balance sheet reduced by Rs 2.868 billion and therefore we had net cash of Rs.706 million in our balance sheet as on December 31<sup>st</sup> 2011. And NIIT Yuva Jyoti I have already talked about. I also should mention that we received the first tranche of NSDC funding which was apart of their share of equity as well as the initial loan and other market development assistance that they were to provide.

Our balance sheet also has reduced in size by 23% to Rs.8.141 billion at the end of the quarter, obviously the debt reduction there will be a corresponding reduction in interest which will be a permanent gain that we will have going forward. Our results in absolute the net revenues were Rs.2.5 billion, EBIDTA was Rs.251 million, EBIDTA margin was 10%; it was depressed and we will talk about that. Profit before tax was Rs.1.703 billion which includes exceptional and because of Element K transaction and others, and profit after tax was Rs.407 million resulting in an EPS of Rs.2.5. Comparing it with that the declared results last year which was Rs.3 billion, Rs.370 million EBIDTA, 12% EBIDTA margin, profit before tax was 65 and profit after tax about 129 is actually not a fair comparison because last year's result included Element K financials whereas this years result had Element K only for 14 days. So for comparison purposes we have done a comparison of the continuing business and that is that our system-wide revenue is at Rs.3.844 billion which is 19% over the same period last year. Our net revenues will be at Rs.2.390 billion which will be a growth of 15%, our EBIDTA will be at Rs.244 million which is depressed and reflects a margin of 8% and we will get into the details of each one of these.

In the individual learning solutions the system wide revenue grew by 19% to Rs.2.78 billion, net revenues grew by 11% to Rs.1.327 billion. While 11% growth by itself in this challenged environment looks attractive. I must point out that our own expectation from this was little higher and Raghu will talk more about it in his part. EBIDTA was at Rs.173 million, partly contributed by an expectation that cloud campus implementation will continue during Q3 and margins will be depressed as we had spoken and partly by lower than projected growth that we thought we would have during this quarter. In the positives, Diploma enrollments grew by 10% and short-term modular enrollments grew by 14% Banking career enrollments grew by 20%. This quarter is normally not the quarter for long-term enrollment and therefore the enrollment focus that we had was on very strong placement driven courses, where we did encounter success. Lower hiring requests did contribute to a slowdown in the last 12 months placement. In fact placement this quarter was on a relatively lower side, coming from the low hiring request that we had. The pending order book was at Rs.1.774 billion about 65% executable in the next 12 months. The seats utilization was at 47%. We will talk more about this perhaps in the Q&A.

In the school learning solution, we had mentioned about our being extremely selective on government schools and in fact over the last couple of quarters have not added any school contracts and therefore some of the contract closures resulted in revenue degrowing year-on-year which is inline with the stated strategy but on the other hand inline with the stated strategy the non-government schools grew by 24% and we added 123 non-government schools compared to 35 last year.

The corporate learning solutions, here the results are on a continuing business basis which means Element K has been removed from both sides last year as well as this year and the revenue has grown by 34% year-on-year and the EBIDTA margin has improved by 100 basis points over last year. These are indeed aided by a strong dollar given that exchange rate worked favorably in our favor. The impact of favorable exchange was Rs.69 million so in volume terms the growth was 19% which is much higher than what was projected in the last couple of quarters.

One of this highlight of this quarter was two new deals for Managed Training Services one from a global oil and gas major and the second from a global technology player. This will now add therefore to six continuing deals that we are executing. These contracts have \$125 million revenue visibility, added up over the contract period. In the skilled building solutions while the revenues are extremely small it is important to share that five centers are operational. There was an innovative mobilization drive to cover nearly 5000 prospects in villages, in small residential hubs and areas, government schools and in a cluster of five cities, which resulted in very interesting feedback and also commencement of the first batch of NIIT Yuva Jyoti centre where free delivery has been strongly aided by technology, especially mobile technology.

So moving forward I just thought I will now talk a little bit balance sheets. As I mentioned the balance sheet size has reduced to Rs.8.141 billion, net cash in the balance sheet is that Rs.706 million, the receivables in the balance sheet are at Rs.3383 million and the CapEx during the quarter was Rs.204 million. At this time I would like to switch to the impact of the Element K transaction and other exceptional items. The sale proceeds first let me just explain in layman terms the sales proceeds from element-K transaction were \$110 million. There were expenses related to transaction and there were certain provisions made for the usual indemnity clauses in the contract at the end of which the net proceeds are \$95.81 million. The indemnity provisions are obviously being provided as a matter of caution there have not been any discussions on any place as those as yet but these are provided as a matter of routine practice. We are paid 36.5 million dollars including expenses for this acquisition and therefore our free tax profit was 59.3 million estimated tax under transaction and I am going to that detail it is 23.9, and therefore a net profit from transaction is about \$35.4 million which is in layman's term; however, when this is applied in the P&L and consolidated balance sheet, the treatment of these is slightly different so the consideration from sale is \$110 million, certain purchase price adjustment was 0.84, net realization \$109.16 million. After that there was a provision made for of this will be reduced by the Element K assets, which were in the books, the goodwill which was in the books and net assets in the books. After reducing transaction and other related expenses the net other income which will be visible in books of accounts of NIIT which is available in this quarter is \$41.44 million which translated at 49.08 conversion rate is Rs.2034 million, to be accounted for as other income.

In fact, on the balance sheet there was a reduction of goodwill the extent of Rs.2557 million, fixed assets Rs.1157, deferred tax assets Rs.270 million, provisional for tax Rs.982 million, other provisions Rs.215 million and total impact therefore after accounting for increase in net current assets is Rs.2334 million in the balance sheet. Now in addition to this, in the exceptional items, while the Element K stake sale as I explained is Rs.2034 million there are certain exceptional expenses first is related to as we mentioned we have become extremely selective on government business in schools and government business in general and in this case we looked at the receivable's from the schools from a degree of figuring out, the degree of uncertainty while we do not have a track record of a single rupee having not come from the government so far we did feel that the uncertainty of certain receivables in certain contracts which is contributed by high political uncertainty in those states. The centre state dynamic changes in officials and diversion of funds used for this project by the government for other purposes that our board had approved

that we should take a provision for Rs.246 million in this quarter's account, which is a provision and still the efforts are been made to make sure that we collect this money and in case they do come those provisions will be written back. Service tax on rent, which is a case under dispute and is now in Supreme Court there multiple states has given multiple verdicts and recently the Chennai High Court had given an adverse verdict again it was felt prudent that we should provide for that amount which was Rs.38 million. So the total impact on net other income of the providing for the corpus for NIIT University as for the agreement was Rs 1.685 billion as net other income, so there was a query that I should explain this and I hope this is been clear. In case this requires details we can certainly discuss it in the Q & A session.

In head count turns we have reduced the net head count after taking away Element K head count the over all reduction is 668 and in the continuing business after excluding Element K it is 72 people. Overall direction as we go forward, we are excited about the cloud campus as well as the other short term courses placement driven short term courses in fact because the large number of engineering graduates are going to be coming out in the next quarter and next few quarters and given the economic uncertainty we do believe that NIIT offers a very compelling proposition for their training, and we are looking forward to gearing up using the cloud campus as well as the short duration programs. Having said that, the cloud campus implementation is continuing during the next quarter and given the economic uncertainties that we have, we do believe that the pressure on margins will continue during the next quarter also as we have said during the year. Cost control and improved product mix will offset some of these things and we do believe that we should see acceleration in growth over the growth that we have seen last quarter.

In terms of schools the growth in private schools on an improved offering set is also looking positive and focus on IP and annuity based revenue once we start achieving critical mark and implementation of certain projects which have been on hold, we should be back to a growth period during the next quarter as well, and in corporate we are opening the quarter with a very health order book and two new orders so we believe a similar growth would continue in the coming quarter as well.

Overall, the economic uncertainty in the environment is very high. Currency volatility will have it is own impact. We have of course assumed a constant currency going forward and we do believe that the organization's four platforms of growth will be a very important response to the economic changes that are taking place and yet our new businesses that will come out of these will continue to grow. On the other hand the traditional businesses that we have do have pressures of head win from through once decisions like government schools some like long-term course which are being less preferred by the student community and they are looking shorter and more intense courses those are changes which we will see and we will be handling these changes as we go along.

So I just stop here at this time and open it up for Q&A.

**Moderator:**

Thank you very much Sir. The first question comes from the line of Mr. Kaushik Poddar of KB Capital Market. Please go ahead.

**Kaushik Poddar:** You have not touched on the margin part of it in your presentation. Can you speak on the margin, why the margins are down?

**Vijay Thadani:** If you notice that the margins were higher in case of corporate learning solutions, which is in line with the projection as well as in line with the growth that we saw. In individual learning solutions the margins were down partly as I mentioned because of the projections that we had, that the cloud campus implementation will result in lower margins to the extent of about 175 basis point is what our best assumption in the beginning; however, lower growth, lower than expected growth as I explained and mostly the lower than expected growth is in what we call awareness courses, which are very strong in this quarter, would have contributed to a lower volume, which would have been resulting in the balance. So there is a 390 basis point margin reduction compared to last year in individual learning solution.

In school learning solutions, we had the now the government contracts getting over and the government revenues being lower on the same operating expense is that resulted in reduced margins and of course the private schools which are still as a point of time of gaining momentum are not yet making that kind of margins which the schools business requires. So school and individual learning solutions had challenges in margins; in case of individual learning solutions part contributed by a conscious design and part due to lower growth. In schools it was record of reduced emphasis on government. So that is how it is.

**Kaushik Poddar:** But in school learning solution you will be focusing more on the private schools, so how do you see the margin going forward. That will basically be coming from the increase in the revenue from the private school side.

**Vijay Thadani:** Very right, as we are adding more and more non government schools and the revenue is now 47% of revenue is coming out of a non-government schools; as that revenue goes and increases and we crossed the critical mass, then the sales cost that today we are bearing for increasing the sales force will come down to a reasonable level and therefore we will achieve the margin.

**Kaushik Poddar:** My last question in case of the individual learning solution how do you see, I mean you just said that for example there is lot of short term courses so will that result in the margin going up or how does it work? I mean students are interested both in the short-term courses and something of that sort you said?

**Vijay Thadani:** So short term technology courses will create a are normally at similar margin to long term courses; however, the important issue is that a short term course the ticket value is small, if you need many more enrollments to make up for the volume that you need in case the long term courses do not come at the same level. So that gross point is happening as you could see the individual had 11% growth, so where these volumes increase then we will get that benefit.

**Kaushik Poddar:** Thank you.

**Moderator:** Our next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.

- Chetan Vadia:** Sir my question is on NIIT One World and growth what is the outlook for the same for the step two quarters?
- Vijay Thadani:** NIIT One-world, I will ask Mr. Raghavan to talk about and then NGuru Mr. Rajendran will talk about.
- G. Raghavan:** As we have mentioned in the last quarter call, NIIT One World is aimed at bringing all offerings in the center that can headed to employability requirement for IT as well as non-IT skills that is banking finance and so on, so we have now about 40 centers which have been completely equipped for being one NIIT centers and the training that are done for individuals through various regions are also at the back-end integrated through the one NIIT centre. In terms of the number of locations that will come under one NIIT, we expect the number to be about 100 in about 12 months' time. So One NIIT is a good thing because, under one umbrella, the students who walk in for employability solutions will be able to pick from multiple career options and register for programs that takes them to their career. So if the potential is very good and we have started very well. Even the last quarter we concentrated on enabling each one of the centers become pleasant equipped to deal with a one NIIT approach.
- Rajendran:** So NGuru is really the platform for the schools business primarily the private school business so when we talk about NGuru it comprises many things there is the basic digital course material which goes in to the schools along with interactive classroom definition. It includes Math's class which was the key innovation from NIIT two years back which does improve the academics of the math subjects in schools, third is the Quick School. Quick school is the school level ERP, management system but it is a direct necessity for most of the school business plan and then fourth is the Mobile Science Lab, so all these put together we define this the NGuru platform. Vijay has already talked to you about our direction in terms of focusing on the private school's business and taking it from the current level towards a higher level in future. Like he said is already 47 % of the total business of school learning solutions and we are focusing on making them better on one side, second is as the sales fix up with experienced years people we intend to have a better EBITDA also.
- Chetan Vadia:** That was a detailed explanation and my last question is on the cloud campus you still that implement stage as I understand that margin is that margin would remain in the pressure because of that so within how much time frame can we expect the things to turn around for you?
- G. Raghavan:** We have mentioned that during these financial year we are expecting to spend between 12 and 14 Crores and we had spent up to end of Q2 about 9.5 Crores during the Q3 we had spent another about 2 Crores and there will be a little bit more less during the Q4. As we expect that the cloud campus readiness project will come to a close and we should start getting benefit of the cloud campus implementation across the centers from the next year onwards.
- Chetan Vadia:** Then Q1 FY'13 could be the same?
- G. Raghavan:** FY'13 will not have any enablement related cost associated with the clouds campus.



- Chetan Vadia:** I take that. That is it is from my side.
- Moderator:** Next question is from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah:** Good afternoon Sir. I wanted to know of the \$110 million cash consideration that you received for Element K are you want to receive everything in tranches or how is it can you explain the cash inflow and outflow for this transaction?
- Vijay Thadani:** First of all 110 million of cash is already received, and I have the cash movement so \$110 million less \$13.6 million for work closing it just meant expenses, options, bonuses and indemnification provident which are causes is lying in cash but we have kept it in the indemnification bucket. The net proceeds are 96.35 million, provision for tax is once again not fully paid \$3.9 million paid, \$20 million more to be paid for which calculations are going on, a bill will therefore leave with 72.45 million we have made debt repayment of 60.32 million therefore the net cash which was used up in operations was 12.13. As I mentioned the above numbers are tentative and it is under audit even the accounting numbers are under audit and there may be minor variations
- Grishma Shah:** What kind of investments would in to theses Yuva Jyoti project given that it is a fairly long gestation project and that too with the government?
- Vijay Thadani:** First of all it is not a long gestation project. The second is that we had talked about the NIIT Yuva Jyoti which is the joint venture with NSDC; it is a joint venture with NSDC and not a government project. It is a NIIT company. It is 90% which is owned by NIIT, NSDC is a private company floated by the government in association with industry associations and that is called National Skills Development Corporation. They are primarily a funding and promotion agency they have 10% stake in the company as well as have given a loan with to handle the viability gap which has a three year interest free period and then a very low coupon rate after that for a long term interest return. So the funding to that extent is supported by this venture. The strategy and it is rollout is completely that possibility of NIIT. It is assumed that 1500 centers will be set up over the 10-year period. Physical cost of setting up a new centre is about Rs.25 lakhs. It will take between 12, I would say more between 18 and 21 months for centers to become to get break even so those are the overall characteristics of this and we expect to set up 50 centers in the first year.
- Grishma Shah:** Sir, what is the revenue that you are targeting to break even?
- Vijay Thadani:** So at this time the revenue projections for this because the pricing is being tested in the market. The product line is being tested in the market so we have not started giving projections for revenues for these but over the current year, but enough to say that in next year the impact on revenue will be very, very marginal if at all.
- Grishma Shah:** So now going ahead as we have step into FY'13 we probably are without a lot of the government school business and also Element K goes away and you just have the Managed Training Services business. So with all the efforts across your various business segments where do you see this

company now three to five years hence in terms of revenue profitability and maybe the balance sheet side?

**Vijay Thadani:**

Madam in one line you asked us, a very, very large question. So let me say the following. We have identified four platforms of growth which are very clear definitions and focus areas where the company will grow. There is the Cloud Campus which is an implementation for employability as well as and delivering skills training, there is Managed Training Services, there is non-government schools and there is Yuva Jyoti. These are the four platforms of growth we did have some impediments to our growth in the past. We did emphasize that Element K had a slower growth profile and that as we said is the divested. Non-government schools had a very capital-intensive profile. We have deep emphasized that fairly substantially and will continue to do so. Our Cloud Campus will show a positive movement. Our traditional businesses are undergoing a transition and we have managed that transition through Cloud Campus and Yuva Jyoti for take of so all these are very strong pointers going forward not to mention that a debt free balance sheet will add nearly Rs.35 Crores to Rs.40 Crores in reduced interest cost going forward. So I think those are the pointers that we could share with you. We typically have a day long session with all of you in the month of May which we would be having this time and we would share with you obviously our five years strategy at that particular point of time because in the result call it is rather difficult to cover all that.

**Grishma Shah:**

Fine. Thank you and good luck.

**Moderator:**

Our next question is from the line of Sumit Podar from Birla Sunlife. Please go ahead.

**Sumit Poddar:**

Congratulations on completing the deal and having cash in our balance sheet. I just wanted to understand how would this cash be utilize going forward would it be primarily in NSDC or have we kind of made up some plans to deploy this cash. Also I have some more questions on with you I will ask after we discuss this?

**Vijay Thadani:**

NSDC is a self-funded venture, has received its funding, and NIITs exposure to NSDC at this point of time is limited to the equity capital that we have to pay for. The working capital as well as the asset funding is looked after within the contribution that we have to make and the rest is coming through the funding. We call that NIIT Yuva Jyoti NYJL. So NYJL funding is not coming out of this transaction. This transaction is essentially looking at funding the growth platform which is Cloud Campus and as we said you have only seen the implementation of Cloud Campus in GNIIT so far and as we go through the year once the readiness of the platform exists across the country then we see it getting implemented for every other offering that NIIT has and that is one growth. We would release money out of our schools business as the government receivables come down and we would be using that money to invest that for growing the non-government schools business which has had a very, very encouraging response. And then Managed Training Services does not have as much of capital requirement and a very small amount of working capital requirement, since these are large global majors with very automated systems there are never any payment or any other related issues that we have to look at. So essentially the growth this capital will be essentially used to service the growth of the future on

each one of these three. Of course in the short-term it has also resulted in the debt repayment so we obviously do not want to operate the company at the debt levels that we had gone it got into in the last 12 months or so.

**Sumit Podar:** Sure and as you said that you are still retaining some cash that needs to be paid for completing the transaction. So how much I mean what is the free cash that would be available in your hands to be invested?

**Vijay Thadani:** At this time it is \$12.13 million this is after payment of \$60 million of debt we paying \$60 million of debt and after paying all the taxes as calculated just now.

**Sumit Podar:** So I mean this is after paying taxes?

**Vijay Thadani:** So I will repeat once again we had \$110 million gross proceeds, \$96.35 million, net proceeds tax is \$23.9, debt repayment \$60.32, net cash \$12.13 used for other purposes.

**Sumit Podar:** Sir in the tax provision side I mean the overall tax is around Rs.145 Crores is there anything specific because that seems to be quite high?

**Vijay Thadani:** Just to explain you the \$23.9 million is the tax on the transaction of which let me break it up it is in two part \$20 million is the tax that we have to pay in US on the transaction, \$3.9 was the withholding tax which has been paid for bringing a part of the money back to the country, there was a DTA, deferred tax asset, of \$5.5 million in element-K balance sheet which will go away because of the accounting transaction so therefore the impact on tax if you add that up will be Rs 145.9 million. We can share these details with you much for but I am giving you that and all these we are not simplified and we are available. We are not yet audited so therefore we are not being put on the web as such but the time they are audited we will put them on the web so that everybody can then use them thus where they are. But unaudited accounts we can share with you.

**Sumit Podar:** Okay, and sir how about our dividend policy will that continue to be kind of on the same track or how would be we looking at it given the fact that now we are debt free company?

**Vijay Thadani:** Well currently I think our approach will be the same there is nothing in the board meeting that has been discussed which would point to the contrary.

**Sumit Podar:** Same in the sense I mean as a percentage of profit or is it that as a percentage of fixed value it will continue.

**Vijay Thadani:** I think what we tend to do is to as we have saying, to improve the dividend per share on a year-on-year basis and give it on a consistent basis because results do go through ups and downs depending on the investment phases of projects. Make sure that this shareholders receive our consistent and improving return. If you see our track record for the last 18 years that we have been public, we have always given dividend which is higher or at worst the same in the worst of the period it was the same as the previous year. So that is being the consistent policy. Now having said this let me also point out that while we are excited about the four platforms of growth

that we have and we see exciting opportunities the world at large is fairly concerned about the economic volatility that is being witnessed and therefore this will be prudent on our part to conserve cash and ensure that we do not face just in case we face headwinds of sometimes we at least have the cash this quarter.

**Sumit Podar:**

Great sir thanks and all the best.

**Moderator:**

Our next question is from the line of Parth Shah from ICICI Bank. Please go ahead.

**Parth Shah:**

Good afternoon sir. Sir actually in the presentation initially you have mentioned that going forward in the short-term and medium-term there will be pressure on margins. So could you just give some reasons which will lead to pressure on margins at EBITDA level?

**Vijay Thadani:**

Yes, so I will repeat I think once again if you go business wise. I will ask Mr. Raghavan to talk about the Individual Learning Solutions and the margin pressures which exist in the near term.

**G. Raghavan:**

Like we mentioned we kind of clarified about the Q3. Going forward for Q4, if you look at it primarily we are looking at further work on the as Cloud Campus and it will be the last bits of enablement that are planning to do. Second is this quarter also in terms of what we call as long-term career courses as well as call the college awareness courses we expect them to be under pressure. Long-term career courses are the one which come in through the order book as well as they contribute to in case there will be related revenues and our focus will be towards the following. One is short-term job-oriented summer program, second is we will expand into the colleges through the NIIT inside college model and banking enhance and insurance management courses. These will be important growth engine and as we go into the next year when the long-term career courses season starts we expect that in cloud campus space, long term career courses should start seeing growth. But this is how the future comprises now in terms of enrolment. Based on the mix of long-term courses the new courses that we talk about the margins we expect them to be kind of challenge during Q4 definitely that will going to the next year we expect the margins to start reversing towards improvement.

**Parth Shah:**

But these margins will be which under pressure due to had operating cost or because these courses and all will take care of the revenue part but operating cost will be higher in this business areas or?

**G. Raghavan:**

In the short-term I explained you, but in the long-term these enrollments which will take care of revenue will being improvements in margins as the volumes growth become robust and the mix becomes better, and as the Cloud Campus delivery model stabilizes our cost of delivery will start improving in case when we talk about delivery intake all of this as we might have mentioned on the earlier call we use the satellite based synchronous learning technology, which actually builds in phenomenal efficiency and in the colleges that we have signed up we have got little about around 23000 students so we fairly large volume model which is based on efficiency and scalability so these two things should actually drive improvements in margins as we go forward, but margin improvement in this case and that seems on that mix of product which will grow.

- Parth Shah:** Right and sir my next question is what will be your CapEx in the next one year?
- Vijay Thadani:** May I also, while Raghu explained his part of the margin. In schools we have had a particularly lower quarters in terms of margin as I said the turnaround situation from changing the product mix from private to Government. We believe that margin improvement will happen in the next quarter itself so over a period of time I think next quarter onwards they will be back improvement of margin and then the margin will continue to improve as we have aggressive growth in Private schools. As far as corporate is concerned we would have an improvement in margin over last year as well, depending on the dollar rate in volume terms over even on the last quarter. Overall impact on margin will be an improvement over quarter three and it still continues to go as we go forward.
- Parth Shah:** Right, sir my next question is sir what is the Capex amount you are planning in a next one-year?
- Vijay Thadani:** Typically our major CapEx which is on NIIT Yuva Jyoti project I am giving you one-by-one growth will be looked after by that particular project itself. It is not a very substantial our typical CapEx has been between Rs.60 Crores to Rs.90 Crores. The exact numbers planned for next year is under formulation and next time when we meet the end of the quarter we would be sharing with you once the board approves.
- Parth Shah:** Right, this Rs.90 Crores is only for Yuva Jyoti project Rs.60 Crores to Rs.90 Crores?
- Vijay Thadani:** No, our overall CapEx during the year is Rs.60 Crores to Rs.90 Crores Yuva Jyoti will be for Rs.10 Crores Rs.15 Crores out of that.
- Parth Shah:** Thank you.
- Moderator:** Our next question is from the line of Mr. Surendra Goel from Citi Group. Please go ahead.
- Surendra Goel:** Sir good afternoon. Sir just wanted to understand this School Learning Solutions margins better. Is it possible to have some kind of a breakup of what do you think of the private school business margins are at this stage and where do you think they can move going forward?
- Vijay Thadani:** Okay, at this point of time maybe we should have handled this question as of followup after this call as we will workout the breakups but typically just to give you an idea typically the gross margins in a private school project is a north of 60%.
- Surendra Goel:** Right, now what I am trying to understand is that closure of some projects from the Government school side how can it have such a detrimental impact on the margins of the overall school business like to be what I am trying to figure out?
- Vijay Thadani:** so let me explain to you at in broad-terms. First of all private school is not yet making money it is making small amount of money even though on a each project you may have a 60% gross margin given that your sales and marketing expenses are disproportionately high. It is not making the targeted 25% operating margin that we normally talk about for private schools. Second and part

of that is as we have grown from 38 cities that we were earlier into 88 cities where now we have the feet on the street. Government schools, on the other hand, have a certain EBIDTA margin but if a project closes down, the project team is still on our roles maybe not the direct implementation team which would have got disbanded but the project implementation team and the rest of the organization is still on us as we do the closing down formalities. So to that extent it has happened in the past if you would recollect in 2006 or 2007 where we once again at a situation where we had gone through this that in a couple of quarters you would go through a low margin period and then it will bounce back.

**Surendra Goel:**

Sir just to understand as you have not been signing too many orders in the Government school business so that business one would expect that gradually over a period it will keep coming down or remain flat whatever it is. So to that extent margins for the school learning business will continue to be muted for sometime till the time you essentially achieve a critical mass on that part of on the private school business. Is that a reasonable assumption?

**Vijay Thadani:**

It is a reasonable assumption depending on what as we have mentioned that during this year, we were expecting the margins in school business to be more around 12%. This quarter's margin is no way near that and the reason for that is that of the discontinuity that we faced during this particular quarter. In the Government business at this time we have one of the contracts which is on standby because of a certain decision which have got stuck in the Government and if that contract was in implementation we here would not have add the revenue number as low as this, because that is an existing contract. The second is, therefore, we would have had the margin which would have absorbed that revenue would have absorb part of the overheads and we would have more like 8% to 9% in terms of our margin. Now next quarter, if that contract comes back and gets going we would recover those margins if not there are other implementation which are at certain stages which would happen. So it is the temporary phenomenon that we have got.

**Surendra Goel:**

Right, and I have just second question on the ILS business. So there again a margins are has moved quite low so given that some of the reasons that you talked about the economy being what it is, jobs being what they are so should we expect a lower trajectory of margins to continue and on a year-on-year basis the kind of decline we have seen should that continue at least in the near future?

**Vijay Thadani:**

Well the answer to that is no, not as low because in Q3 these impacts are much more felt then they are felt in any other quarter, Q3 being the weakest quarter. But in Q4 and thereafter we do not see the impact of the kind that has been felt now. We do believe that margins will recover once the Cloud Campus implementation is over and we believe that in Q1 onwards you would see an improvement in margins going forward, because as it is the Cloud Campus implementation would have got looked after. Now having said that, we must understand that the market sentiment at this point of time is cautious and to that extent we should not assume a very, very heavy growth in enrollments going forward and at least we are not expecting. Now what we are focusing on is what we will sell at this time and number one any very strongly placement driven short to medium term course is the need of the hour and we are aligning ourselves to that.

- Surendra Goel:** Thanks that is it from my side. Thank you.
- Moderator:** Our next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.
- Kaushik Poddar:** I just want to clarify one thing are you a debt free company by when you say your net cash is whatever Rs.60 Crores or whatever that means you do not have any debt on your books is it?
- Vijay Thadani:** No, we have NCDs on our books which cannot be retired about Rs.110 Crores but the cash in our books is Rs.71 Crores in excess of the NCDs.
- Kaushik Poddar:** Long-term debt only Rs.110 Crores?
- Vijay Thadani:** Rs.110 Crores and those are NCDs which have a fixed maturity date
- Kaushik Poddar:** There was some disturbance can you just repeat please?
- Vijay Thadani:** We have NCDs on our books which are due for maturity on March, April onwards over the next three year period and we would be retiring those as we go along, but at this point of time the NCDs that we have which was standing as long-term debt on our books. NCD and there maybe other small debts in subsidiaries which are having debts in our books and the cash in hand is in excess of those by Rs.71 Crores that is why we said we have net positive cash balance of Rs.71 Crores.
- Kaushik Poddar:** No, but if you net those debt what will there be the net cash?
- Vijay Thadani:** That is what I meant by net cash balance we have Rs.188 Crores of cash and we have Rs.110 Crores of debt, we are a net cash positive to the tune of Rs.71 Crores I mean Rs.188 Crores and Rs.110 Crores perhaps for not the right numbers.
- Kaushik Poddar:** Okay and the Managed Training Service what exactly do you provide to this big corporate and how do you see profitability?
- Vijay Thadani:** Managed Training Service so why do not I ask my colleague Sapnesh who happens to be here from US to explain how does the Managed Training Service contract works.
- Kaushik Poddar:** Also the prospects?
- Sapnesh Lalla:** Managed Training Services enables NIIT to work on behalf of its customers to deliver all aspects of training to their stakeholders. There stakeholders might be their customers or their employees. So for a customer we would act on their behalf and deliver trainings that so far they have been delivering to their customers but when they outsource that operation to us we act on their behalf and wherever the training or different aspects of training on their behalf and if they have sort of variable basis rather than keeping their own headcount to offer that service to either their customers or employees they also outsource service to us and we in turn start delivering.

- Kaushik Poddar:** Who gets the content I mean who originates the content?
- Sapnesh Lalla:** It depends on the nature of the deal, there are times when we create the content and there are times when we use the content that has been created by the customer.
- Kaushik Poddar:** What is the kind of margin do we see?
- Vijay Thadani:** These are typically multiyear deals so they are so you are assured of an annuity based revenue and it is typically they would also indicate the size of engagement because that allows us to do the costing over that multiyear period.
- Kaushik Poddar:** Okay, is it just a labor arbitrage or is there any kind of value addition. I mean you are delivering it probably out of India or something what the economics?
- Vijay Thadani:** I think there are two issues one is that we have three or four proprietary platforms for this which customer uses. For example, for training administration, the second would be content methodology, the third would be the virtual delivery systems that we have and Sapnesh you may want to add to that.
- Sapnesh Lalla:** When I think one easy way of thinking about it is say if our customer was a large insurance company their expertise lies in ensuring risk, their expertise does not lie in figuring out how to whenever the best trading possible that is our expertise. So if you were to think about it as who knows how to do training best it would be NIIT, who knows how to do insurance best that is our customers. So in terms of value instead of an insurance company learning how to deliver training they are able to get that for less than what they were able to do, but in turn receive substantially higher value in terms of quality, in terms of responsiveness and so and so forth so that is how I would put it. Our customers are starting to focus on their core competencies and their expertise and are trying to leverage others who can do things that they are that are not their core competencies for them.
- Kaushik Poddar:** It does make sense and what is the kind of margin you are looking right for this kind of business I mean study state margin?
- Sapnesh Lalla:** In the medium-term we are looking at going up from the current margin of 10 to 15 and then overtime improve up on that.
- Kaushik Poddar:** Okay and right now you have how many customers. Five customers or?
- Sapnesh Lalla:** Eight.
- Kaushik Poddar:** Eight customers.
- Vijay Thadani:** Of this one is public seven customers do not allow us to talk about them but they of similar stature and one customer is Philips.



- Kaushik Poddar:** That is the name we already know about and what about the marketing for this kind of service is it a big marketing spend required for this kind of service for future customers?
- Vijay Thadani:** It has moderate marketing spend but more consultative long sales cycle where you help an organization, make a choice towards moving towards an outsourced model and then helping them build a business model helping them by this the case and then helping them take the decision to get it made. The other thing I would mentioned is while we have eight Manage Training Services customers we now have in all twenty reasonably large customers who contribute about 90% of our revenues.
- Kaushik Poddar:** Okay, and what is the kind of growth you are looking at these businesses. See the point when you are talking of weakening economic climate in that case probably more companies we are looking at outsourcing because it is a reduction of cost. So do you see some kind of what is the kind of growth you are looking at in this kind of environment?
- Vijay Thadani:** So as you might think in the mode that we operate, every new customer offers an opportunity for set function growth as long as we retain our existing customers. It is are at this point in time looking at growth in the mid 20s but time will tell on a constant currency basis.
- Kaushik Poddar:** Thank you.
- Moderator:** We will take our last question for today from the line of Ravi Jain from B&K Securities. Please go ahead.
- Ravi Jain:** Good afternoon sir. First of all I would like to congratulate you for the completing 30 years. My question is for the Corporate Learning Segment which you look that you have mentioned that margin improvement in the segment is because of some Rs.19 million-currency impacts so could you elaborate on that?
- Vijay Thadani:** I will answer you question. The growth visible in the numbers is 34%. What I have mentioned was that include the benefit of currency appreciation, rupee depreciation which is to the tune of Rs.69 million. If you take that away, the volume growth is 19%.
- Ravi Jain:** Okay, and sir on the margin front you have mentioned that in Q4 margin will improved year-on-year and quarter-on-quarter it will depend on currency movement?
- Vijay Thadani:** We always assume a constrain currency going forward.
- Ravi Jain:** Thank you sir. That is it from my side.
- Moderator:** That was the last question participants. I would request Mr. Vijay Thadani to make a few closing comments.
- Vijay Thadani:** Thank you very much. Thank you very much ladies and gentlemen for being on the call and your encouraging remarks and insightful questions. As usual your questions do give us ideas of how

our strategy going forward should be handled. In case any further detail is required Kapil, Saurabh and our team is available to respond to any of these questions. I do want to invite each one of you to experience Could Campus because this is the best way of knowing NIIT, experience the NGuru solution which is the best way of looking at NIIT at school, experience the NIIT Yuva Jyoti Technology base delivery experience and help your organizations and becoming MTS customers of NIIT. With that thank you very much and we look forward to our next quarter's call.

**Moderator:** On behalf of NIIT Limited, that concludes this conference. Thank you for joining us you may now disconnect your lines.