



NIIT Limited

Investors/Analysts Conference Call

October 27, 2005

Moderator

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

Vijay Thadani

Thank you Parimala. Good evening and welcome to the quarterly results call. Thank you for joining us here. I am going to quickly introduce you to the people around, that is Rajendra S. Pawar, the Chairman of our company; P. Rajendran, Chief Operating Officer; and Chetna Khuller, who is Investor Relations Manager. I will take about 15 minutes to take you through some broad outlines of our results this quarter and then I will open it up for question and answers.

Just to get into the highlights of the quarter. Before I do that, as usual I would like just describe the industry environment that we encountered and then get onto what our responses were. I look at our market predominantly as India, China, and while I call global it is predominantly US at this point of time. So in India, we saw a marked improvement in sentiment for IT career. I think there has been a lot of press coverage on how IT industry is growing, how sourcing industry is growing, and how some large contracts are coming the way of India. So, we saw the benefit of that in the sentiment and positive consumer sentiment with better quality students opting for IT careers this time. We saw more of this in metros than in smaller towns, but that is very normal to expect because these things percolate down to smaller towns over a few quarters. The second was that the newer courses that we had launched, especially the industry endorsed GNIIT and the short-term certification courses in new technology areas, these are attracting more and more students. There is a large requirement from IT services industry for quality people and we saw many more placement requests this quarter. In China, there has been a focused approach, which we can see where the whole system is in unison to create a large base of IT trained manpower, and there is a focused approach to make IT education as a part of the mainline university education system on the one hand. On the other hand, more and more software professionals are looking at higher end skills such as project management, process management, and quality management and we saw that in the environment as well. Globally, what we see is that outsourcing training or learning or customer training by organizations is becoming a larger reality, primarily driven by cost reduction but I think a newer thing which we saw with new technology announcements coming up for most of the large companies, global rollouts is becoming an interesting part where NIIT can play and we also saw that e-learning especially highbred e-learning was showing a greater demand.

So at the back of this, our business I think had a very strong volume-led and efficiency-led growth. We had a 12% year-on-year growth in system wide revenues, which are up at Rs. 2.08 billion. We had actually a much better quarterly growth 23% quarter-on-quarter growth, though I must point out that given the seasonal business, a 20 odd percent quarterly growth is normal between these two quarters. Operating profit grew at 25% year-on-year which is actually a compounding effect of the top line growth multiplied by better operating margin which improved by 146 basis points year-on-year and it was 14.1%. Impact of all this on the bottom line was profit after tax at Rs. 132 million for the quarter which was up 12% year-on-year.

In terms of businesses, if I go down to the next level of detail, the business mix has changed a little in this quarter, well actually a little more than a little. The Individual business has been the predominant contributor to the growth with 58% of the business coming from individual learning part of the business. System wide revenue in this business grew 27% year-on-year followed by Corporate which is 28% of the total business and there the net business grew by 15% year-on-year. In the six-month period, therefore if I see at each business level, Individual system wide revenue has grown at 22% and Corporate at about 6% in terms of the overall system wide revenue. I want to point this out because in the previous quarters I have been talking about the fact that the individual business should track the growth of the IT services industry and I think with the acceleration being seen in each quarter, this quarter we can say on a quarter-on-quarter basis at least or for the quarter basis at least the business is tracking the IT services industry pretty well with 27% year-on-year growth, but we think the potential is to go a little beyond this as well and we hope that we would be able to do that in the coming quarters. Within the individual business, India contributed 20% growth which is the India business grew by 20%, and China grew by 24% year-on-year. In the corporate business, the growth basically was a little lower than what we saw in overall terms, but fairly good with major wins in India and Europe.

Going down to some more level of detail in the Individual business, the most interesting part was the margin expansion. The margin in the Individual business was 13% this quarter and as I have been mentioning before we have a large operating leverage available in this business given the fact that there are fixed costs and we saw the benefit of that. So obviously the capacity utilization improved substantially. Just want to tell us all that last year at the same time, this business had just about begun to break-even, so we have come a long way from there and obviously it has been contributed both by India and China substantially. The other matrix in the individual business is enrollment and what I would like to talk about is the career enrollments, which is what we have been tracking lately. The career enrollments were up 20% year-on-year which is very substantial within which our flagship product GNIIT in fact the enrollments grew 84% year-on-year, the base is small so the percentage growth may look larger. The other redeeming feature in this quarter was the fact that the placements in our first six months exceed the total number that we did last year and that talks about the demand for quality people and the graduates of our industry endorsed GNIIT curriculum have been very well accepted by the industry and that is visible in the placement numbers.

In the Institutional business, we had a system wide revenue of Rs. 287 million and an operating margin of 10% essentially low order intake and delays in new orders in institutional business is contributing to this. As you are aware our Tamil Nadu contract got over end of last calendar and since then we have received smaller orders but not



large enough to compensate and to get the same growth rate. So we did get new contracts from Chattisgarh where actually 1202 new schools have been added, and Tripura small state and a small order as well. Overall in the institutional business, we had Rs. 356 million of fresh order intake and now we have closing order book of Rs. 1763 million, 42% of which is executable in the next 12 months.

In the Corporate business, I mentioned that the net revenues have grown 15% year-on-year and the operating margin has also improved a little bit, 18% this time, on a year-on-year basis. Essentially two kinds of wins, one in some of the Indian government contracts, there was one significant one for smart governance from Indian government, and the second part which is interesting which I mentioned to you about increased demand for e-learning. We have four multi-year hosted e-learning solutions contracts. The good news in this is that they give us a certain degree of visibility of revenue in the coming years as well and give us an annuity-based revenue stream. Even though it is very small but it is relevant because a multi-year revenue stream is something which we would like to see more and more of.

The order intake was \$9.7 million in this quarter. Our pending order book is now at \$22.58, 67% executable over the next 12 months. Overall in head count, we had a very small addition, net addition of 31 people, our total head count was at 1995 at the end of the quarter.

Some balance sheet items. Our cash position has improved this quarter including the net cash position, so our cash position at the end of the quarter was 933 million from 865 million last quarter. We did have some additional loans which we took from the credit line that we have had secured a few quarters ago, some of which have gone for the development of our new Center of Excellence in Gurgaon which we have talked about before, and the second part was the fact that our operating cash improved this quarter and the net cash at the end of the quarter is Rs. 52 million compared to Rs. 44 million last quarter. We had a very small asset addition of Rs. 44 million in assets. Our return on capital employed has improved to 15%, debt equity ratio is at 0.33. So these were the significant numbers and trends that we saw in the last quarter. What I would like to do is to open the call for question and answer.

Parimala

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

Parimala

Thank you Parimala. We will now begin the Q&A session for participants connected to the SingTel Bridge. Please press 01 to ask the question. At this moment, there are questions from participants at SingTel. I would like to hand over the proceeding back to Parimala. Over to you Parimala.

Parimala

Thank you Zainub. We will now begin the Q&A interactive session for India participants. Participants who wish to ask a question, please press *1 on your telephone keypad. On



pressing *1, participants will get chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Saurav from Kotak. Over to you sir.

Dipen

Hello, congratulations on the good set of numbers. This is Dipen from Kotak PMS.

Vijay Thadani

Thank you.

Dipen

Just had a couple of things. First of all, the India individual business this quarter we saw 20% growth over previous year's quarter, just wanted to understand whether this kind of growth could be a sustainable thing. We believe that a higher part of the growth has come in from the international business, but going forward could this be a sustainable kind of growth rate or would there be some reduction going forward?

Vijay Thadani

I think this is over a period of time is the kind of growth rate that we will see, but I don't think it is sustainable every quarter right now because the patterns are changing and it depends on the initiatives we take in a particular quarter. So overall, we have explained that the growth rates will accelerate as we go on as a product mix, and that direction will remain but I think it will be wrong to assume that every quarter it will be beyond 20%.

Dipen

Okay, and in the same line, the corporate business this quarter we saw that it had a higher growth on a quarter-on-quarter basis, that is the second quarter versus the first quarter, we saw a significant raise, what would be the reasons attributable to that in this quarter?

Vijay Thadani

While corporate business is not as seasonal as the individual business, but typically even in this quarter, we normally have a better business given the fact that this is summer in most of the world and I think there are a lot of conferences and training programs that people talk about. So we do see a higher activity in this quarter.

Dipen

Okay, right. And once again the cost of repetition, I believe you said that the current quarter margins could be sustainable, am I right in understanding that that the current quarter margins operating level of 14.9%, would that be a sustainable margin going forward?

Vijay Thadani

First of all the current quarter's overall margins are 14.1 and not 14.9, I wish it was, and we will work towards trying to do that one of these days. The think which I wanted to say is that we have given a guidance at the beginning of the year, that for the year, we expect the margins to be a couple of 100-200 basis points better than the previous year. It should be in the 13-14% at the end of the year as well, but I also must point out that the margins do dip in the next quarter, coming quarter, because that is the weakest quarter. So the one which you saw was a peak quarter. So overall, we feel that the annual margins we would be able to match the guidance that we gave.

Dipen

Okay, thank you very much and all the best.

Vijay Thadani

Thank you.

Moderator

Thank you Mr. Dipen. Next in line, we have Mr. Dipen Mehta from Dipen Mehta Shares and stockbrokers, over to you sir.

Dipen Mehta

Congratulations on a good set of numbers.

Vijay Thadani

Thank you.

Dipen Mehta

I just had a few questions sir. In Q1 conference call and even for the March quarter conference call, you were quite hopeful that you would have around 15% growth in the top line. In the first two quarters of this system, we have seen a top line growth of around 12%, so what is your expectation of top line growth for the next six months?

Vijay Thadani

Let me remind you of the guidance that we had given. Last whole year, we had 11% top line growth and we had said that we are looking for a top line growth between 11 to 15% in this year. Right now, we are as 12% year on year basis, and we do believe that next two quarters, since the denominator will be small, it may be possible to get slightly better growth than that, but overall we would like to retain the guidance of 11-15%.

Dipen Mehta

It is a wide margin, I was just hoping that maybe with only six months to go, if you could narrow it for us because I think you are the lower end of 11-15%, a shade less than 12%. Would you like to comment?

Vijay Thadani

Yes, I agree with you that we are at the lower end of 11-15 at 12% and our focus has also been more on margins as you can see because in margins we have already reached where we wanted to reach, so we would like to see a higher growth in top line but one of the issues which is coming the way is slightly slower institutional order book and the reason for that is in many states where they have requirement, they are unable to go ahead with many of those requirements because of political uncertainties and elections and re-elections and stuff like that. Slower institutional order intake is contributing to us to our being on the lower side, but we are trying to make up for it by growing the others slightly better. But if the institutional side improves then yes, it is possible to do that.

Dipen Mehta

Okay, do you see any visible signs of that in terms of order intake or you are still waiting for even the orders to come in from the institutional side?

Vijay Thadani

Well we did see some new orders, Chattisgarh and Tripura. Tripura is too small to have any material impact, but Chattisgarh is yes in implementation, but we do not have any of the mega size orders, which we used to earlier have, I mean, just look at Chattisgarh, it is about one-fifth the size Tamil Nadu that we just finished executing two quarters ago, so we do believe that some of the larger states have to move. We must also realize that at this state even if a state gets into an order that not too much of revenue can be clocked in this year because of that. So we have to look for orders, which will kind of give us both revenue as well as the order intake at slightly less lead times.

Dipen Mehta

For over the past nearly two years of so, we have seen at least within the larger players lot of consolidation, I think SSI and Aptech now have got combined and even what we gather from the market place is that a lot of small players who have seemed to also have shut shop, so if you could give an overview of the competitive landscape in India especially because that market per se is your largest market and you do have a dominant position here, so has this consolidation helped in terms of better pricing power. Of course volume growth and market shares have improved, but in terms of pricing power specifically?

Vijay Thadani

Yes, it has given us a lot of benefit and we believe we have contributed to some of the happenings in the market place through some aggressive measures that we took. I would like to remind all of us that while I think the market was going down at that time we made some very aggressive investments in launching new products as well as some aggressive marketing campaigns, which helped us destabilize competition to quite an extent and I think today we have a much better market share, much stronger and much larger market share than before. The competitive landscape now in the market is that I think there are in terms of large scale players if I was to use the analogy of IT services,

then I think there is only one Tier I player, I would say there are two Tier I players left the country. One is the NIIT and the second is the formal sector, because I would like to put that formal sector together into a single player. Tier II, yes there is a little bit of cluster there with two or three and I am not saying in an arrogant way, but I am just saying in relative sizes, and then there is a very massively fragmented market. What actually BPO training and some of the high technology training has done is it has created small time entrepreneurs who are able to just kind of service with maybe one or two centers their nearby localities and try to run a business, so the market has got more fragmented. Even in the international front, in the individual business the leading players whose names used to be heard often are not in good shape, and without naming them, I would like to say that many of them are struggling to survive. So, in a sense after the economic downturn, the individual market place has got fragmented, which creates a very good opportunity for organized sector to come in and NIIT is taking advantage of that on one hand. On the other hand, I think lot of investment has gone in the formal sector and a lot of engineering colleges and my favorite statistics of 60,000 engineering seats to now, which has become 474,000 this year engineering seats is the formal sector which has kind of emerged. So that is the competitive scenario. Raji, you would like to comment anything on it?

Rajendra Pawar

I guess, if just seen from the brand perception viewpoint and also what has been talked about in the market, there is now our brand is getting a lot more attention and also reference and it was a bit cluttered few years ago, the market. I think the brand shines out now very easily as a very superior brand, so that's reflecting into a market share improvement on its own without big initiatives.

Dipen Mehta

Sir, also I have noticed that at least in this quarter, we seemed to have stepped up our advertising spends, so if you could just, if you are disclosing the amount is spent on advertising this quarter and now it has moved over Q1 that is quarter-over-quarter and year-over-year, just the ad spend?

Vijay Thadani

Yeah. See the ad spend has to do with when the customer is in the right frame of mind to make the decision. So in this quarter is the time when people make their decisions of having either first selected by college and then deciding to join the GNIIT or sometimes now even joining the GNIIT and then deciding to see which college they would like to go along with. So what we wanted to do this quarter specifically and actually we had a very strong demand and requirement from our employer base saying that they would like to see a higher class XII percentage in the NIIT students and we actually took that on as a key performance area for our businesses where we said we want the brighter students to come for IT industry because now students have many many more career choices, you know with banking and financial services industry opening up, your own services industry opening up. There are many more career choice and we wanted the brighter students to come in, so a lot of our focus was to attract the brighter students. This is the quarter in which we have our peak spend and that is in line with what we have done in previous years.

Dipen Mehta

What would be the ad spend sir.

Vijay Thadani

I do not think we disclose that as a statistic.

Dipen Mehta

Okay, and sir one last question relates to this new buzz word KPO, knowledge process outsourcing, does our company stand to benefit from that wave of outsourcing as and when that takes place. I think, it is in the nascent stage, but I think, I maybe mistaken, but just think you being quoted in the media that it is an emerging area, so if could just comment a little bit on what your opportunity means for NIIT?

Vijay Thadani

Well once again, I do not want to say we said it before or we told you so. I think when the whole market was talking about where is the call center training and where is the BPO training and we used to talk about the fact that has a limited scope because individuals are not considering BPO where BPO equals to call center to be a career. It is more like a hobby and more like an part-time work which you can do along side and make some extra bucks, and that is what is visible in their high attrition rates as well. KPO on the other hand is more stable and has a possibility of a career. It is also an industry in which we can play a much stronger role because we can do a lot of knowledge value add with our background in training and tech support for example in a BPO setup is a very clear example of KPO, of knowledge process outsourcing, so here what are you doing, you are actually making sure that the technology knowledge on a particular subject is being available as a service to your consumers worldwide. So that's a good example to tell you that we would and are benefiting from KPO.

Dipen Mehta

My question was whether we would actually get into KPO or would we restrict ourselves to training resources or manpower for companies who in turn want to specialize in KPO, what is our strategy, I mean, are we doing both or where?

Vijay Thadani

NIIT Limited focus is to be in training and education and training-related businesses, and therefore we would train people who would become a part of the KPO industry. Having said that, one of the KPO's is training itself where people are outsourcing their training. For example, a university outsources their education delivery that is a KPO. NIIT is already doing that. The second is an organization may outsource, its complete internal training to somebody, that is also a KPO. So KPO is a generic term, so I think we would work on both service the KPO industry in terms of providing them with quality manpower and quality people and secondly participate in the KPO called learning and training.

Dipen Mehta

Thank you and all the best.

Vijay Thadani

Thank you.

Moderator

Thank you Mr. Mehta. Next in line, we have Mr. Ashwin Agarwal from Akash Ganga Investments. Over to you sir.

Ashwin Agarwal

Congratulations to the NIIT management team on a good set of numbers, particularly on the India retail business. Could you fill us in on the university progress?

Vijay Thadani

Thank you Ashwin. I would ask Mr. Pawar to comment on that.

Rajendra Pawar

We had mentioned last time that we were in discussions with the government, so those discussions are progressing well. We also mentioned that we have identified a site and we have moved ahead on completing the transaction regarding the site. So, that part is progressing, but I should mention that, that is done by an independent entity, which is a society, so NIIT's role in that is to promote that society and then the society then has to take the idea forward.

Ashwin Agarwal

Is this site near Delhi?

Rajendra Pawar

Its in the neighborhood of Delhi, in the NCR region.

Ashwin Agarwal

Okay, so by when do you feel you would have all the permissions in place to start operations?

Rajendra Pawar

I wish I knew the exact date, but because this is government procedure, that think there has been a reasonable amount of controversy on higher education, but our discussions are I think going very well. So, it is difficult for us to put a date. I would like to do it tomorrow if I could, but I think it has to go through a series of steps in various departments, but all that I can say is that all our discussions are going well and the concerned team has put the plans together quite nicely.

Ashwin Agarwal

That's good. My second question was since the management aspires to be the #1 in training globally, are we looking at other than India, China, any acquisition possibilities or to reach that quicker?

Vijay Thadani

Yes, we are looking at them. Earlier we used to say that we are looking at them in a speculative or opportunistic manner, but now we are very closely looking at some of the geographical gaps we have as well as strategy gaps that we have and we are actively looking at pursuing some inorganic growth strategy as well.

Ashwin Agarwal

Lastly, Vijay you mentioned that the delays in the institutional side of the business, if you do not get in next two quarters, do you feel your internal business plans for FY07 could change?

Vijay Thadani

Well, if the dry spell is very long, then yes it may have an impact on 2007, but I think right now the good news is that the other side of the other two businesses are going better than what we had thought of, so they are compensating to a large extent, but we don't believe that that dry spell could be there for as long as that.

Ashwin Agarwal

Okay. Thanks a lot and all the best.

Vijay Thadani

Thank you Ashwin.

Moderator

Thank you Mr. Agarwal. Next in line, we have Mr. Rahul Desai from Deutsche Bank. Over to you sir.

Subratim Basu

Hi, this is Subratim. Do you hear me?

Vijay Thadani

Hi Supratim, how are you?

Subratim Basu

Vijay, I am fine. Thanks very much. This quarter's numbers, I just wanted to discuss a little more on the India or rather on the individual side. The year-on-year growth on

individual revenues has tracked up very nicely to 27%, but where is the operating leverage, why have costs gone up at the same time?

Vijay Thadani

Well, the operating margin has improved to 13%.

Subratim Basu

No that's on the company as a whole, right?

Vijay Thadani

No I am talking of individual business.

Subratim Basu

Yeah. Okay, I am using gross revenue numbers, gross numbers here...

Vijay Thadani

No, see what you have to do is, the gross revenue numbers does not help you determine the profit. For that, you should use the net revenue number. So net revenue numbers is Rs. 505 million for this business and we have an operating margin of 13%, and I think that tracks well with our operating leverage. In fact, I mentioned it.

Subratim Basu

Okay. Now here is the question right, you had a cost base of 359 million in the last quarter excluding all the franchisee pay outs and that has gone up to 438, so is the difference just advertising or is there increase..?

Vijay Thadani

Well, obviously, there will difference in advertising, as well as there will be a difference in variable costs associated with that. It will add up. If you like, we can take you through that offline.

Subratim Basu

Okay, and then on the individual side, if you could kind of split it up between what is the India revenues and then the China revenues, and the balance could be the other geographies?

Vijay Thadani

I can only give you China right now, because I have it that is 13% of system wide, but I do not have the India and other breakup.

Subratim Basu

And, if I remember correctly, you said that the China revenues grew faster compared to the total number?

Vijay Thadani

Yes 24%. No same approximately 24%.

Subratim Basu

Okay, if China grew 24% and the total revenues grew 27%, then India must have grown at a faster rate?

Vijay Thadani

No India actually grew less. It is the rest of the world, which was a small number, but grew faster.

Subratim Basu

Okay, and is there any geography in there, which looks particularly appealing or which could end up contributing more?

Vijay Thadani

Well, there are two geographies, which are doing very well and one of them did exceptionally well, which was Nigeria and the second is Vietnam.

Subratim Basu

Okay, and then one question on the institutional business side. You have got an order work of Rs. 1.76 billion of which 42% is executable in the next 12 months?

Vijay Thadani

Yes.

Subratim Basu

Now, is this executable evenly or is it staggered?

Vijay Thadani

It would actually be a seesaw because it depends on what is going to happen in each contract when. Raju, would you like to comment on this.

Raju

It is uniform. There are two things. One is like Vijay said, we have this Chattisgarh order, which has come, its revenues will start flowing from the next quarter. On the other side, over a period of time, there will be contracts which we will be closing. So to that extent there will be a dip in the revenues, which has to be compensated by new

contracts coming in. So, though we are trying to do this uniformity part here, but it tends to be based on contracts coming in and going.

Subratim Basu

Okay, and then finally on the margin side. You said that you expect full year margins to remain between 13-14%, which basically extrapolates to you being able to maintain the margins at least around 13.5% for the next two quarters. Given that these are much weaker quarters, is that, where is that going to come from?

Vijay Thadani

Next quarter is a weak quarter. The last quarter, if you remember even in the last year turned out to be a very good quarter because that is the year-end phenomenon and government buying and government purchasing contributes to that little bit of that as well. Not only that, that falls to a quarter where another new term starts in China, so those contribute, so we do believe that between the two quarters, that's the simple arithmetic that between the two quarters we would have to maintain the same margin that we have done for it to remain the same over the year. But it may not be that in the next quarter itself it will be that much. It maybe less in the next quarter and little more in the following or it depends up on actually the product mix. The product mix will decide that.

Subratim Basu

Okay. That is very helpful. Thank you very much Vijay and good luck guys.

Vijay Thadani

Thank you Subratim.

Moderator

Thank you Mr. Basu. Next in line, we have Mr. Alok Agarwal, an individual investor. Over to you sir.

Alok Agarwal

Hi, Vijay. This is Alok here.

Vijay Thadani

Hi Alok, how are you?

Alok Agarwal

I am fine. Thank you. My question is more broader. Like we have seen the operating leverage in the individual business, I am somewhat now reflecting from minus 1% to 13%, so how many quarters you do you see when 13 move to 30?

Vijay Thadani

Okay, many.

Alok Agarwal

How many. That is what I am asking you. I mean in my opinion, operating leverage is fairly high.

Vijay Thadani

I think the stable operating margin which we have been talking about to reach. See one quarter's operating margin should not be construed to remain the operating forever. The reason is that's the peak quarter that we had. The important question which is to be looked at is that on an annual basis our margins in steady state should be between 20 to 25% in this business when our capacity utilization would be between 65 to 75%, because when you are in 65 to 75%, you have two choices either to take your capacity utilization up and contribute to margins or grow your capacities. We are 6 billion Indian people on Mother Earth, we are hardly serving a fraction of that, so that is how we plan our growth, so that is why I always say that in steady state, our margins will be between 20 to 25%.

Alok Agarwal

Okay, Vijay. Vijay, but looking at the market as you rightly said and that traction we see in the IT services industry and China I would rather see in IT doing well, but not as well as compared to the competitors service is going 100% which is from India. I think positively there is a scope out there as well as to increase the rate of growth. I think 20 to 25%, how many quarters let's say FY 08 and FY 09, is that possible?

Vijay Thadani

I think competition in China is weakening I would tend to feel in a certain sense, but at the same time, we must know that there we are pitched against the local entity and we are the outsiders and therefore we have a little uphill climb, but we do believe that some of our newer strategies should enable us to accelerate. Another thing which I would like to say is China market is a market in flux where big things can happen at very short notice and big things can disappear at very short notice, so one has to be very very watchful. It is a very small part of a total business today, but we do believe that over a period of time it should play a significant role.

Alok Agarwal

I mean do you see China becoming let's say some point of time as big a market as India is as of now?

Vijay Thadani

I mean theoretically absolutely true. With their desire to be part of the IT outsourcing industry definitely true. It depends on what government regulations come up, when do they decide to clamp it closed for outsiders to come in, or what new policies they come in, but theoretically absolutely yes.

Alok Agarwal

Vijay, my last question on this individual basis, 65 to 75 when do you see that happening?

Vijay Thadani

Which 65?

Alok Agarwal

I mean the capacity utilization in the individual basis.

Vijay Thadani

Okay, well it can happen very quickly. If we reduce the number of centers, but if we were to continue the same centers and grow which we are now adding more centers, we do believe that in the next 18 to 24 months we should be at that level.

Alok Agarwal

Okay, that is on the individual business. On the institutional front, I mean like bigger states like UP or Madhya Pradesh, I mean the Tamil Nadu going, do you think a state like UP will wake up and try to give some big orders, I mean some point of time down the line?

Vijay Thadani

Yes, can't say about UP specifically, but yes bigger states and some of the bigger states like Gujarat, Madhya Pradesh, these states have been more than willing to look at it, but they have had so many changes of chief ministers and uncertainties happening there that some of these projects are delayed. The second thing which I want to say is there is the Sarva Shiksha Abhiyan, Rs. 5000 crores which has to be spent and I am sure lot of it will be spent for other activities and primary education and other things, but I think a portion of that is available for IT education, is that right Mr. Pawar.

Rajendra Pawar

Yes, they are waiting to spend somewhat. They are trying to find a method to structure that, so I think they want to use more and more on technology. We want to find ways to access it.

Alok Agarwal

One last thing on the university front, I mean in the scheme of things as far as NIIT is concerned, directly for the shareholders and society as a separate entities, how are these two are going to work together as such so that some kind of money can flow to the shareholders of NIIT Limited?

Vijay Thadani

Yeah, I think Raji would answer that.

Rajendra Pawar

Yeah I think, there is some disturbance.

Moderator

Mr. Agarwal's line is muted. Let me check again. Mr. Agarwal, okay, sir he got disconnected actually. It was coming from his line.

Vijay Thadani

Okay, so when he gets back we can.

Moderator

Yeah, I will take up next question. Mr. Manoj Singla from JP Morgan, over to you sir.

Manoj Singla

Hi, congratulations to the management on a decent quarter. My first question actually relates to your number of centers and I see a significant increase this quarter after they remaining flat and I thought the strategy was to consolidate across centers, can you just explain that?

Vijay Thadani

Yeah, actually we are now, this number of centers statistic we have mentioned this before and I am glad you asked me this question, are three types of centers. There are our own centers, then there are business partner owned centers, and then there are what we call the school delivery points where some schools, lot of them actually, also act as education centers post the school hours but otherwise we service the school children to those centers. So the 1089 new schools which got added because of Chattisgarh got operational is the new centers. Actually there are some more which part of that order which are still to be added, so that is what contributed to it. I think you are referring to the business partner and our own centers. There actually there was a net reduction of a few, but the addition in capacity because we added 18 new centers which were of much larger capacity.

Manoj Singla

Sure, that explains it. The second question actually is as you referred in the beginning of the call regarding some seasonality in the corporate business and obviously all of us know about your individual business where normally your December quarter is the weakest. Can you explain just in a little bit detail on the corporate institutional side, which quarters are good and which quarters are bad, just because the classification has changed in last quarter?

Vijay Thadani

Okay, so the individual side you understand completely. Institutional, it does not have a seasonality, but individual institution is dependent on how new order intake takes place. So if a new order intake takes place in last quarter, then in this quarter onwards you will see a revenue increase; that's easy to understand. In the corporate business, the seasonality comes very little in two parts. One in October, November, December where lot of our corporate business is in US and in US in October, November, and December a lot of training activities close down, the reason is because people go on Thanksgiving holidays and Christmas holidays and stuff like that. Some part of that gets compensated because its also fiscal year end for some people and people have to make some year closing decisions, but those are normally do not affect us too much. They normally benefit the product companies because they can make a one-time sale. In our case, since it is mostly services, which is content development services or training delivery services, and hosted services of course remain constant because those are subscriptions people pay for the whole year. In the training delivery services, you would see a small reduction, so if one was to consider if like any other services business where there should be a steady quarter on quarter growth, in our case you will see a small dip in October, November, and December and then gradually kind of get made up in January, February, March, so overall if you look at our first half and our second half, our first half would be typically a little better than our second half in the corporate business.

Manoj Singla

Sure sir, thank you.

Moderator

Thank you Mr. Singla. Next is a followup question from Mr. Rahul Desai of Deutsche Bank.

Subratim Basu

On the China trading business side, we actually had one of your competitors in China talk to us recently, and what he was saying is that your pricing in that market is at a premium to where they are at, so is that actually a correct assessment and do you intend to continue occupying a premium pricing position in that market?

Vijay Thadani

I mean I would like to be a little better educated on who that competition is.

Subratim Basu

That's offline.

Vijay Thadani

So then my response will also be offline. I need to understand what premium pricing in what market?

Subratim Basu

Okay, and then the other thing again on the China market is that you are saying that you had a new term starting in the fourth quarter and is that as substantial as the gains that you would expect to get in the September quarter?

Vijay Thadani

No typically September quarter will be better, but in the NIIT inside model where you have colleges there are two enrollment points they have, one is September and one in March, it is like saying you have semester starting in July in India and then there are some colleges which start in January. The January colleges are much smaller in number, so that is the same, but there is a little spurt of activity you see in January, February, March.

Subratim Basu

Okay, that is great. Thank you.

Vijay Thadani

Thank you.

Moderator

Thank you. Agarwal if you are back in call please press *1 to ask a question sir. Go ahead Mr. Agarwal.

Alok Agarwal

My question pertains to the university only as I missed as I had lost the connection. Mr. Pawar was trying to answer that, if you can do that again. Thanks.

Vijay Thadani

No, we came to know that you got disconnected, so we didn't go ahead with answering the question, and so know Mr. Pawar will answer the question.

Rajendra Pawar

So as you are aware, even now NIIT is engaged in interaction with about 60 universities worldwide in some form or the other. We have relationship of credit transfer or student transfer and so on. So at one level the idea is to construct a similar relationship with an institution which will be an institution of excellence, which will create a lot of new knowledge, and in the similar kind of the relationship which we have with some universities in UK or US want to build a relationship, but obviously we would be in a position to harmonize given that the Indian market and the Indian situation and so on so forth. So I think it will be a relationship where we would reinforce the capabilities of each other through an arm's length relationship. So it's a question of looking at for example research related work happening at the university and vocationalization kind of work happening in NIIT and harmonizing it so they do excellence in their spheres, but they help the overall activity and therefore that's the way we expect derive value. So in the



early phases, we will create value for the university out of our brand experience and understanding and going forward as they build their own capability and competence and intellectual property, we expect two-way movement.

Alok Agarwal

My related question is going to be like is it the university is going to be let's say like IT engineering college or IT IIT, what is going to be the model?

Rajendra Pawar

Well we do not have too much time for details, but let me summarize and say there is going to be a research university. Its going to do Ph. D. and Masters first, and therefore we are the creator of technology in the knowledge space. That is the key focus of the university and that is how the two are differentiated, and that is how the two will be in force.

Alok Agarwal

Thank you very much. Thanks.

Vijay Thadani

Thank you.

Moderator

Thank you Mr. Agarwal. Next in line we have Mr. Hitesh Shah from ABN-AMRO, over to you sir.

Hitesh Shah

Congratulations on a very good set of numbers. I just had a few questions. First related to your institutional business, you said that whenever you had an order booking, the very next quarter the revenue would be much better, but if you look at the current quarter, last quarter you had done new order booking of Rs. 503 million, but this quarter still did not do so well, I was trying to understand what went into it?

Vijay Thadani

Thank you Hitesh. Yes obviously the order intake will contribute a part of the revenue but we also have some orders which are closing. As you know, these are multi-year contracts and some of the multi-year contracts like Tamil Nadu closed and the new orders should be making up for that much should I say revenue stream going away and it obviously did not make up as much and that's why you see the difference.

Hitesh Shah

All right, and just how many centers were there in India individual; last quarter we had 548 of which 46 were NIIT operated.

Vijay Thadani

No, I think your numbers are wrong, let me just give you the exact numbers. I will give you the exact number, if you have another question go ahead.

Hitesh Shah

Yeah, we had been speaking about the capacity utilization. Last quarter we had something around 38-39%, what was the same for this quarter?

Vijay Thadani

It would be more like 50%, around 50% this quarter.

Hitesh Shah

Okay, and this was more because of the capacity rationalization as well.

Vijay Thadani

No capacity rationalization was very little actually. The total number of education centers we have this quarter are 531.

Hitesh Shah

Okay, and of which how many are NIIT operated?

Vijay Thadani

46.

Hitesh Shah

46, and you said my last quarter numbers were little off, what are the corresponding numbers?

Vijay Thadani

No, your last quarter numbers were 548 and 47 is that what it was?

Hitesh Shah

548 and 46.

Vijay Thadani

46, you are correct.

Hitesh Shah

Okay, then so the capacity utilization, you said 18 new centers were added and a few are closed down right?

Vijay Thadani

Yeah, we added 18 new centers, but I think smaller centers about 30-35 of them their terms would have expired and we wouldn't have renewed, but those were small. I think our overall capacity has increased marginally this quarter. 35 were not renewed and 18 new have been added. The new ones are much more capacity than 35 lost, I can give you the exact capacity increase capacity separately unless we have it somewhere. You can ask me the next question, I will just give you that answer.

Hitesh Shah

Sure, under the corporate business, we had been running on an very thin order book, maybe around few quarters of our quarterly run rate, I was wondering is that we get a very smaller transaction based orders and we executed immediately or what is the proportion of an annuity based order and transaction orders here in corporate business.

Vijay Thadani

A large part of our business incorporate is transaction-based orders. I mentioned to you that we got four hosted e-learning assigned with multi-year engagement those are multi-year contracts, but since they are not for a fixed value, we cannot take back into our order intake straight away, not all of them, some you can because there is a minimum commitment. One moment, overall our seat capacity increased over first quarter by 2% positive.

Hitesh Shah

Okay, like last quarter you have given break up of manpower between those working in your corporate business and those in S&M and indirect manpower, can we have that for this quarter?

Vijay Thadani

Yes, we would have we have 1268 in the direct, and S&M were 310, and indirect were 417.

Hitesh Shah

Okay, thanks a lot and all the best.

Vijay Thadani

Thank you Hitesh and all the best to you.

Moderator

Thank you Mr. Shah. Next in line, we have Ms. Sonal from AIM Capital.

Sonal

Hello, congratulations for the management and good numbers. A couple of queries, you mentioned that currently you are running at 50% capacity utilization?

Vijay Thadani

Around 50, yes.

Sonal

Now going forward in a steady state, we are talking about 65% capacity utilization, is that for the year or for the best quarter we are talking about, typically Q2.

Vijay Thadani

I would tend to feel that that will be for the year and in the best quarter it may go up a little which is what we should reach in 18-24 months.

Sonal

So typically in a good quarter you could go as high as 75% to 80% kind of thing?

Vijay Thadani

80% normally means that you are sending people back because then you are not giving all the choices to the student.

Sonal

Okay, but isn't your business a little seasonal in nature especially your December quarter is on the lower side?

Vijay Thadani

Yeah, not little season, it is very seasonal.

Sonal

So, I mean if on an average you are doing 65% then...?

Vijay Thadani

No, average is 65, then you can swing between 55% and 75%.

Sonal

Okay and going forward, we are talking about 65% growth rate, what is the kind of capacity increase are we talking about 24 months' time?

Vijay Thadani

I do not have any numbers to suggest right now.

Sonal

Okay, and in terms of the growth rate?

Vijay Thadani

I also want to tell you that 65% is not a targeted number, but I was responding to Alok's question saying when do you think we will be able to see 65 to 75% capacity utilization and my response was 18-24 months from now. We should be in a steady state and I was therefore referring to a steady state saying in a steady state when things are happening well and no tsunamis and 9/11s are happening elsewhere in the world and life is going steadily, then that is where we would like to operate which is what we used to do for 9-10 years before the bad times came.

Sonal

Right, Sir going forward would your capacity expansion led by your own center or by franchisee center?

Vijay Thadani

At this time, we have been putting up own centers in the previous quarter. Last quarter specifically we added business partner centers because we do want to make sure that in strategic hubs we create our own capacity because that becomes the proof of concept. The business partners community had had a very bad time in the time when economic downturn happened, so we wanted to be in the commanding position rather than in a position to go and sell them the idea. So you can see that there is a momentum which is building up but, we are very cautious in adding more capacity because we want a very high success rate, and at this point of time, we would like to create institutions which would last for generations rather than institutes which can close down after three years or four years or five years. So that's very important strategic direction from our side.

Sonal

In terms of university plans, are you going for deemed university kind of the setup?

Vijay Thadani

That is one of the options.

Sonal

Okay, and in terms of university, are you going for the central universities or you have tried for some university in Madhya Pradesh also?

Vijay Thadani



In Madhya Pradesh actually the Madhya Pradesh assembly as passed the bill for NIIT University, but then after that so many court rulings and various other things are changed and have happened that is in kind of pending status. So we are in touch with on a number of fronts with states and center and we are looking for the best option for us.

Sonal

So, they are couple of states where you are trying for a university kind of _____?

Vijay Thadani

We have been in discussion with a number of states and number of states have been approaching us as well.

Sonal

Okay, and in terms of your China revenues at net level what kind of revenues what you have drawn in the last six months from China?

Vijay Thadani

I would not have that numbers, would have that numbers. We do have that cut right now and I don't think we track that as a statistic in our investor numbers.

Sonal

And in terms of your tax rate, because some of the tax shelters are going to be gone once you have reached a steady state, so what kind of tax rate do you think you would be having in 07. Would the buffer be still there?

Vijay Thadani

Well right now the buffer is there, and I think in 06-07, we will carry forward a large part of that. The point is FBT does not allow any buffer, our FBT is irrespective of that and so next year it would be safe to assume that we would have FBT, we will have MAT, and we may have a small taxation may be couple of percentage points above MAT.

Sonal

Okay, and in terms of again coming back to your central university plan, would it be a UGC kind of funded university kind of setup along with NIIT or would it be in entirely funded by NIIT and that kind of setup?

Vijay Thadani

Okay, first the university will fund itself. Obviously it has to receive some funds from somewhere, which could be loan funds, which could be corpuses which it may receive. We are not looking to have any state or center supported financially supported university. That will not fit into our game plan because that does not give you any degree of freedom.

Sonal

Okay, and what kind of debt level and cash would you be having on the books now?

Vijay Thadani

Right now, we have Rs. 933 million of cash and our debt at this point of time secured and unsecured is Rs. 81 crores.

Sonal

Okay, this includes the Intel convertible portion also?

Vijay Thadani

Very right, it includes the FCCB.

Sonal

Okay, thank you.

Moderator

Thank you sir. Next in line we have Mr. Dheeraj Sachdev from HSBC Mutual Fund, over to you sir.

Dheeraj

Hello, congratulations on a good set of numbers. I just wanted to know are you witnessing an environment where the average realization per student is also improving because of shift to long-term courses or career concept courses?

Vijay Thadani

Actually there are two trends. One trend is for us we have more enrollments for longer term courses, but actually if you go by student needs, the larger number in volumes are coming for shorter term courses, because the attention spans have reduced, patience spans have reduced, and re-skilling and retraining is increasing, so those are contributing to shorter term courses actually in much larger quantity within the career segment.

Dheeraj

In terms of pricing, do you think the pricing power is back? Are you able to raise your prices for the flagship course like GNIIT or would you like to wait for capacity utilization to fill up more therefore you start thinking about rising prices?

Vijay Thadani

No, see from our point of view, the rising prices is a three-pronged decision. To start with, it is a value decision. What is the value which the student gets at the end and the value that we look at the student getting is an NPV of his future earnings based on the starting salaries that he gets. The second decision is competition, in the competitive environment where we are, today our largest competition is formal sector. The third is the capacity related and the commercial decision of saying now that we have a stronger position in the little space in which we have, can we increase the salary, so it is a mixture of all these three. We are noticing that overall realizations are improving and what we are able to get from every student is increasing as well as what every student on an average pays for an hour of NIIT instruction is improving.

Dheeraj

Fine, that's it. Thank you.

Moderator

Thank you Mr. Sachdev. Next in line, we have Mr. Manoj Shah from Parag Parekh Finance, over to you sir.

Manoj

Good evening sir, congratulations on a very good set of numbers. I needed to help with something. Like you said that the India individual business will shadow the IT services growth right?

Vijay Thadani

Yes, well the shadow or lead whichever way.

Manoj

Right, I was trying to understand that some of the IT companies, actually most of the IT companies I have spoken to none of them are actually hiring NIIT graduates for their software programming jobs, so I just wanted to know what are the jobs that the employers are coming to hire for?

Vijay Thadani

Okay, I just want to make one comment and that is that if you add up the total number of people that work in the software services industry and subtract all the people who went through a formal IT education, which means got a computer science degree, then you would see nearly 60% of people unaccounted. So obviously these people came from somewhere. Now there are two reasons and two possibilities which organizations may like to say and we do not like to confront them on this issue because they are the employers who give our people their jobs. It is for a number of competitive reasons sometimes and sometimes it is a positioning issue and sometimes it could be the fact that people join a user organization first and then they join the IT services organization. Okay, so all these three reasons contribute to this phenomenon, but what is very important is that we have at any point of time about, well right now nearly 5000 job openings from the same software services companies that some of which you referred

to, I don't know which one you referred to though, but from the software services industry which are unfilled right now, and we do place students in all and when I say all I mean all companies.

Manoj

And these would be for software development program?

Vijay Thadani

It may be for a variety of roles. It may be for roles ranging from development, it may be for roles ranging from system administration, network, it may be testing, it may be technical support, it may be internal helpdesk, it may be all kinds, architect, all kinds of people get hired.

Raju

It is the same range from engineering colleges also.

Vijay Thadani

Yeah, it is actually tracked very well and now since we have courses for the engineering college students also, it is quite likely that when the guy gets placed he gets place because he was Vishweshwaraiah College of Engineering student, but gets forgotten is that he was also an NIIT student. As far we are concerned, its an NIIT placement because we placed them and as far the company is concerned, in their records he may be a Vishweshwaraiah College of Engineering student, so that may be as well.

Manoj

Sir, and from the India individual business from that how many number of students will be non-engineers. If I could

Vijay Thadani

How many will be not engineers?

Manoj

Non-engineers?

Vijay Thadani

Non-engineers, okay, we track two segments. One is engineers and IT qualification, we bunch them together, and then we take non-engineers and others. Our majority of students today would be non-engineers.

Manoj

Any percentage number sir?

Vijay Thadani

I cannot drop, I can drop a number but, it may be I mean this is a just a gut, I would say 80-85%.

Manoj

Right sir, and the research lab that you planning to have for the Masters and Ph. D., would this be like a subsidized education research thing or would you charge full market prices in this?

Vijay Thadani

It's a self-funded activity.

Manoj

All right, thank you very much and all the very best for the future.

Vijay Thadani

Thank you very much.

Moderator

Thank you Mr. Shah. Next in line, we have a followup question from Mr. Sonal of AIM Capital, over to you sir

Sonal

A couple of queries, what could be the kind of capex you would require on the university front over next one or two years?

Vijay Thadani

The total funding for the university that we have shared with you over the three-year period was about Rs. 60 crores.

Sonal

This is for the Delhi Central University not the State University.

Vijay Thadani

No, this is for a university. We do not know whether it is a Delhi University or a State University or you know those are what we are attempting at.

Sonal

So, so you may not go for two to three universities tie ups at the same time?

Vijay Thadani

No, sorry, I think I need to clarify. We are talking about setting up a university right. As far as tie-ups are concerned, we have many tie-ups currently and we will have more tie-ups as we go forward, but for setting up the university by itself, what is a university? University is an institution by itself. That institution gets accreditation through a state government, it could get its accreditation through the central government, it could get accreditation through a foreign university or a local university collaboration. So all these are multiple ways by which this institution gets created. Why is it called a university because it has the power to give a formal degree. Now to get that power of formal degree you need one of these accreditations and I am using the word accreditation as means of saying you need the permission of something and you need a statute and a declaration and a notice which says that you can do so.

Sonal

So in Madhya Pradesh were you planning to go for a university or were you planning to go for a tie-up?

Vijay Thadani

When I referred to the Madhya Pradesh story, I was referring to Madhya Pradesh asking or allowing NIIT to setup an NIIT University which will be in Madhya Pradesh and for which the state legislative assemble passed a bill.

Sonal

Okay, Sir am I correct in understanding that Rs. 60 crores capex could be for a multiple of universities combined together?

Vijay Thadani

My feeling is it is for one campus of university in which you can have multiple buildings, but it will be safe to assume that it is a single university instead of assuming it to be multiple universities.

Sonal

Okay, what kind of capex you have already incurred on the university?

Vijay Thadani

University has not incurred any capex so far, because it has a small transit campus facility but that is a very small facility, its like a project office.

Sonal

For the operating expenses because we understand for getting any deemed university permission, you need to hire a lot of Ph.D. and professors so has that already been done or it is?

Vijay Thadani

The university has a compliment of people who are associated with the university, and it has the necessary qualifications.

Sonal

So that part is through. In terms of your cash now is Rs. 93 crores, has the cash increased because your institutional business has decreased and hence the working capital requirement has..?

Vijay Thadani

That's a good one. Well no, the cash has increased because the collections were better and also we took a part of the loan on the other hand the things which decreased the cash was dividend pay out last quarter and the assets which would have got added.

Sonal

So there is no reason to believe that except for the capex, the cash levels won't come down because of the change in the working capital once our institution business picks up?

Vijay Thadani

No, I do not think so.

Sonal

Okay, any plans for in case you got a international acquisition opportunity I mean what you go for further raising of capitals to finance that?

Vijay Thadani

It depends on the acquisition opportunities. At this point of time, we do not have anything which we say we need cash for.

Sonal

Any development on stake sale of NIIT Tech any thing significant you expect over the next couple of quarters?

Vijay Thadani

I do not think there has been any announcement from our side which says that the stake is on the block

Sonal

Okay, thank you.

Moderator

Thank you Mr. Sonal. At this moment, I would like to handle the floor back to Mr. Vijay Thadani for final remarks, over to you sir.

Vijay Thadani

Thank you very much Parimala and thank you very much for very encouraging remarks by all of you and also very good questions and as I often mention I would once again like to repeat, we always go back with some new thoughts after we have finished answering your questions. Good news is I do not think we have a backlog of any answers, we have answered all the questions that we had to. So if you have any more comments or questions we will be very happy to receive them, Chetna is available 24x7 for any responses that you may need and we look forward to your continued encouragement, cooperation, and guidance. Thank you very much once again.

Moderator

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