

NIIT LIMITED

Analysts/Investors Conference Call

June 05, 2007

Moderator

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

Vijay Thadani

Thank you Suresh. Good evening everybody. Welcome to the NIIT Limited conference call. Today we are here to discuss the Q4 results and since that is also the last quarter we will be talking about the annual results. I would actually spend just a few minutes on the quarter numbers and then get into an analysis on the annual numbers.

The results have already been with you through the stock exchange as well have been updated on the website niit.com. In case you have not been able to download them so far you can do that now while we are speaking, but I will be talking of most the numbers.

The highlights of Q4, which is January to March 2007: Our net revenues grew by 123% year-on-year to reach Rs. 2.566 billion or Rs. 256.6 crores. Our net profit was up 107% year-on-year to touch Rs. 171 million. Within this the two major highlights was China which grew by 100% year-on-year in systemwide revenues as well as Element K, which clocked Rs. 1.1 billion revenue and continue to be EPS accretive. The systemwide revenue growth in this quarter was 82% and the overall growth in the EBITDA on an year-on-year basis was 23%.

Just to give you a breakup at the next level, the current business of NIIT, which is the individual learning solutions, institutional, and corporate learning solutions business grew by 21% year-on-year in this quarter and had an operating margin of 16% which is an improvement of 195 basis points, the balance was made up by new business as well as Element K and I will talk more about those as we go forward. Overall, the profit after tax in this quarter was Rs. 171 million, which was reflected a basis EPS of Rs. 8.9 per share.

In the annual results, the global systemwide revenues has now therefore grown by 65% to touch Rs. 11.16 billion, which is crossing the Rs. 1000 crores mark. It also is coincidentally crossing the quarter billion \$ mark during this year. The net revenues have grown by 76% year-on-year to reach Rs. 7.95 billion and net profit by 43% year-on-year to touch Rs. 574 million. The EBITDA is up 28% to reach Rs. 774 million. Element K, which only had 8 months during the year with us, had Rs. 2.64 billion and an EBITDA of Rs. 72 million and is EPS accretive.

The major growth for this year was contributed by individual learning solutions which has clocked a 48% year-on-year growth in net revenues followed by corporate business, which has grown by 15% year-on-year. In fact the new business have clocked a systemwide revenue of Rs. 10 crores or Rs. 100 million.

Our systemwide order intake in this year was Rs. 12.47 billion and it was up 57% and we had a closing net order book of Rs. 5.3 billion which is up 53%. This is significant because

this puts us in a strong position as we get into the new year. So if you look at our overall breakup of revenues during the year, 66% of the total Rs. 7951 million revenue came from current business, 33% came from Element K, and 1% came from the new businesses. In terms of operating margins there was a 220 basis points improvement in the current business' operating margin to reach 16%. Element K which for the same period in the previous year, 8 months period, had a negative operating margin of minus 7%, has turned around and has become 3% positive, which shows a 1052 basis points improvement in operating margins.

At an overall level, our basic EPS is now Rs. 29.5 per share, which shows an improvement of 38% year-on-year.

It would be important to note that in overall productivity increases one of the factors was SG&A improvement, which over the years we have been working on. SG&A expenses have reduced from 29% to 25% over the 3 year period in a fairly steady manner. Within SG&A, S&M have increased and G&A has actually reduced even more substantially.

So at an overall level for the year the current business grew 16% with the 16% margin and I talked about the 220 basis points. Element K had a revenue of Rs. 2643 million with a 3% operating margin, which is Rs. 72 million, and the new businesses of course are yet to make profit though their growth has been very heartening and their launches have been very good.

In terms of our mixes, our individual business at a systemwide revenue level is 50% of the overall, our corporate is 17%, Element K 24%, institutional 8%, and new businesses 1%. At a net revenue level, corporate is 24%, Element K 33%, individual 31%, institutional 11%, and new businesses are at 1%. This was also the year where more than 50% of our revenue has come from outside of India. India now contributes only 41% of the total systemwide revenue, 59% came outside of India, of which US contributed 39%, EMEA 7%, and Asia Pacific Greater China 13%. China has had a particularly good growth and we will talk about that in my next part, which is the individual business.

Individual business is quite obviously the hero of last year's growth with a 45% growth in systemwide revenues and 48% in net revenues. The interesting part is that with the capacity utilization which improved from 46% to 54% this year the EBITDA has jumped up by 988 basis points to go from 8% to 18% this year. Within this there are two major growths, India systemwide revenues this year India revenues themselves had a 48% growth and contributes 59% of the total individual business systemwide revenue. China for the year has grown at 52% and contributes 20% of systemwide revenue, which is also coincidentally a \$25 million mark for China systemwide revenues. I have already talked about the capacity utilization.

In terms of the annual metrics of individual business which we share with you, GNIIT and engineer's program are the ones which contributed to the growth, career revenues were up by 62%, overall engineering and comp science students enrollment are up 32% year-on-year to reach 93,989. Our systemwide booking this year was Rs. 4.58 billion and we had a closing net order book of Rs. 1.3 billion of which 67% is executable in the next 12 months.

In the institutional business the most important thing in this quarter is that the degrowth because of reprioritization of our business to move from government to private schools has been curtailed and we now have non-government business contributing as much as 38% of our total revenues for the quarter. The reprioritization of government business has indeed worked out extremely well for the company as we invested in new businesses and acquisitions during the year and took advantage of the cash that got released because of this strategy. We now have an order book in excess of Rs. 1 billion for the institutional business of which 56% is executable in the next 12 months.

In terms of the corporate business during the quarter the corporate business grew 13% with an EBITDA of 14% and for the year the growth was 15% with an EBITDA of 15% as well. As we had pointed out we had launched new businesses like Litmus during the year. Litmus has had some very unique successes. The one which will affect the common man is the tax return preparer scheme where they tested 47500 potential tax return preparers for an exam conducted by the Income Tax Department and which was done over 100 cities simultaneously, that showed the power of Litmus methodology as well the Litmus capability. Having said that we have been constantly increasing our forays into the technology vertical and we signed up with nine new partnerships during the year. Some of these partnerships were visible in this part of the world as well where EMC and SUN did some joint announcements with NIIT. Elsewhere in the world we added these to start content development as well as learning delivery for these partners.

Overall, our revenue product mix has improved with content at 48%, learning delivery at 33%, and learning technologies at 18%. We call this improvement because that is a conscious product mix change to improve margins as we go forward.

This business has also been actively engaged in the Element K integration and in fact right now has a combined strategy along with Element K to address the corporate market in North America and in fact the corporate business sells the combined line of Element K as well as NIIT services into the rest of the world. The corporate business closed with an order book of \$40.9 million, last quarter's intake itself was \$11.4 million, and 62% of which is executable in the next 12 months.

I will switch to new businesses. As you know during the year we launched three businesses of which Litmus I covered as a part of corporate, the other two businesses are IFBI – IFBI is an equity partnership with ICICI, and NIIT Imperia, which is in strategic partnership with Indian Institute of Management Indore, Ahmedabad, Calcutta and to offer executive management programs. Both these businesses have taken off extremely well during the year and have both completed two enrollment cycles during the year even though the first enrollment cycle was as late as in October. The response for the enrollment cycles has been very heartening despite the fact that this is lean season for fresh enrollments, especially the JFM quarter for corporate people to be nominated for training program, but given the long-term benefit coming out of this we have had a very good success. IFBI in the last year has trained more than 2500 people for corporate training as well as have completed one full batch and are in the process of training the second full batch of the students they got through the regular admission cycle. Imperia enrolled more than 700 people in their two admission cycles of which some of their courses which were of 4 months duration have got over, the other are getting over, and the feedback so far is extremely useful. The methodology that NIIT Imperia is catching the eye of many organizations who were wanting to adopt it for corporate training purposes, in fact one unique example of using this technology was recently when NIIT's brand ambassador Vishwanathan Anand played simultaneous chess across six cities using the Imperia infrastructure and Imperia methodology, so that can tell us the power that this technology has for us.

Talking a little bit about Element K, we did an analysis of their 8 month's performance with the same 8 months in the previous year, that showed a top line growth of 7% and a bottom line improvement of 1052 basis points on a like to like basis. In that period Element K has now become the second largest content library provider as SkillSoft has acquired NETg, the #1 has acquired #2, and therefore they are getting invited to participate in large bids and we see an opportunity for us to grow this business faster and are looking forward to enriching their library through aggregation as well as fresh bids that we would be doing during this year. Element K also has a very strong technology platform and a services offering. The technology platform is getting integrated with NIIT's offering clicks and over this year we will

see that integration happen, but in terms of being able to use that for our customers we are beginning to do that even in this quarter. Our first stage strategy was cost savings. The cost saving strategy as well as program has been completely implemented. Our second stage was to look at some of our customers who can start using Element K offerings, and we have made good success in that. We are now working on the third phase where we are looking at opening some technology customers together to see if we can grow our business rapidly in that area.

Overall, at an order book level I mentioned to you that our order intake went up by 57% and over the same period last year our closing net order book is now at Rs. 5.3 billion, which is up 53%.

A few minutes on the balance sheet. Our balance sheet is stronger as we complete this year. Our cash generation from operations has improved by Rs. 81 million, Rs. 719 million versus Rs. 638 million last year. Our asset addition for the year was Rs. 754 million of which nearly half of it was on capacity addition and upgradation and nearly Rs. 75 million on new products and initiatives as well as the new centers of excellence that we set up during the year. Our DSOs have reduced significantly and part of that contribution comes from the reprioritization in the institutional business, our DSOs have reduced to 101 days from 153 days last year at the same time, and this has also resulted in an improved return on capital employed. If we don't consider the Element K acquisition the improvement in return on capital employed is as much as 3% from 13% to 16%, but if we take the Element K acquisition as well it is by 2%, which is 13% to 15% reflecting a 168 basis points improvement in ROCE. We have more cash on our balance sheet of Rs. 741 million as we close the year.

During the year we added 954 people net from 2259 to 3213; with 954 is also 609 people from Element K who became a part of the NIIT family from second quarter onwards.

In terms of our shareholding patterns have remained the same, except in recent days Intel who were holding an FCCB had asked for conversion of that into equity shares and that process has been completed and stock exchange informed already, so I am sure that is not news to you, but I just thought I will inform you of that.

Based on the performance that our board saw this year, they have recommended an enhanced dividend of 65%. Given the feedback on liquidity which we get from time to time from our shareholders as well as analysts they have recommended a split; each equity share of Rs. 10 will be converted into five shares of Rs. 2 each. Based on the robust performance also the fact that we crossed the 1000 crores mark in our systemwide revenues, a quarter billion mark, and our 25th year, we also felt a bonus of one equity share for every two held would also be appropriate. So those are the segmentations. With that I have done with my presentation and I would now like to open it for Q&A. I would like to at this time also talk about my colleagues who are here with me to take the Q&A; Rajendra Pawar (Chairman), P. Rajendran (Chief Operating Officer), Chetna Khuller from investor relations, and I would like to introduce one more friend of ours from investor relations whom you will be seeing very often now, Kapil Saurabh, as well as we have the business head Dr. Dey, who looks after strategic initiatives and new businesses, Mr. G. Raghavan who looks after the individual business, the hero of last year's growth, Mr. Jitender Mahajan the Chief Financial Officer, and Mr. Santosh Nair who looks after strategic marketing initiatives are also present in the room, and as we speak Mr. Vijay Kumar just walked in, and they will all assist us in answering your questions. With that over to Q&A. Operator you can please open it for question and answers.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now. First in line we have Mr. Ruchir Desai from Pioneer.

Ruchir Desai

Hi, good evening, congratulations on the numbers. My first question is on the Element K business, what kind of cost savings you achieved during the year and to get the profitability after acquiring a loss making company, and also what our cost savings are expected and mostly outlook on that going forward in order to achieve better operating margins for Element K?

Vijay Thadani

I think the fact that Element K was in their current state of affairs was largely due to the strategy used by the earlier owners where they were undecided about how/what they would like to do with their company. The cost savings that we achieved were essentially to do with looking at the unprofitable parts of the business and reduction in head count, releasing some space, and which were I must say not so easy to implement but were fairly visible and well done. Going forward I think our focus will be to achieve better margins through growth and a better product mix, which is what we are now focusing on. We reduced their cost structure by about 8% so the turn around of 1052 basis points that you see is about 8 coming out of the cost reduction and the balance coming out of the volume increase that you saw last year, which is about 7%. Going forward our product mix improvement will come in the form of higher catalogue sales and as I said their market position has improved as they became #2, and the second is a higher dose of service revenue coming out of stronger and more robust platform as well as the managed services that they are able to offer. In the medium to long term a higher dose of offshoring would also contribute as we move from selective outsourcing to our learning solutions to full fledged training outsourcing. So that is our three-part strategy.

Ruchir Desai

Thanks. Another question on the new business, what was the utilization rates achieved for the year and for the quarter?

Vijay Thadani

I will ask my colleague Dr. Dey to respond to that.

Dr. Dey

On capacity utilization, we achieved about 50% utilization by the end of the year as on March, that is the quarter figures and over the year, it would be about 38%.

Vijay Thadani

For the time that they were in operation.

Dr. Dey

For the time that we were in operation.

Ruchir Desai

Correct, any idea on what is the outlook on the new business, what kind of levels can be achieved, what kind of scalability can be achieved in this business, and also the kind of risks that you foresee in this business going forward.

Dr. Dey

I think we have a very positive outlook on the new business, we expect both these businesses to take off and grow very well as they have done. We expect to increase our top line significantly and as of now we have a visibility of about 350 million for the year and we expect to breakeven during the course of this year.

Ruchir Desai

Alright. Just a last question on the individual business, what sort of percentage increase you have seen in your cost base for your _____ and for the GNIIT and the other related programs?

Vijay Thadani

I would request Mr. Raghavan to answer.

Raghavan

The fee structure we have revised recently for the technology products between 8% and 15%. The fee structure change vis-à-vis the GNIIT career program is in progress, and the fee will be going gradually across the markets from about 105,000 to 124,500 for the full GNIIT program, the entire 3 year program.

Ruchir Desai

Okay, and also could you give us some insight on the new program you just launched for the infrastructure management space and networking space, what is the outlook on that?

Raghavan

We have launched it a few months ago. We have done a pilot in two cities with six centers, three in each of the cities. The acceptance of the program has been very very good, and we have launched a longer term career program, which is about a year in duration, and we have also launched shorter duration modular programs leading up to certain certifications, the responses have been good, and we are in the final stages of taking it national across the country over the next quarter or so.

Ruchir Desai

What would be the duration and fees for these kind of courses?

Raghavan

The longer duration course, which is like a career program, the fee structure will be in the region of Rs. 55,000. The shorter programs will be anything between Rs. 4000 to Rs. 10,000 depending on up to what level they want to do and so on and so forth.

Ruchir Desai

Lastly, what kind of seating capacity have you or are you planning to expand this year?

Raghavan

Last year our plan was to increase by about 12%, we actually ended up increasing by about 18%. Over the next couple of years we look at something like 12% seat capacity increase on a going basis, it could be give or take a few percentage points depending on you know it could vary within the year, but 12% is a good guidance for you to go with.

Ruchir Desai

Okay, thanks a lot and all the best.

Raghavan

Welcome.

Vijay Thadani

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Nitin Padmanabhan from ICICI Securities.

Nitin Padmanabhan

Hello.

Vijay Thadani

Yes.

Nitin Padmanabhan

Thank you, my questions have been answered. Thank you.

Vijay Thadani

Fantastic.

Moderator

Thank you very much sir. Next in line we have Mr. Sonal Kohli from Jain Capital.

Sonal Kohli

Hello Mr. Thadani, congratulations on a good set of numbers. Couple of questions; firstly, what would be contribution of GNIIT to your net individual revenues?

Vijay Thadani

Our career revenues grew 62% and would contribute nearly 95% of the systemwide revenues.

Sonal Kohli

And when you say your order book is this much, how much of that is contributed by career courses?

Vijay Thadani

Well, I would say the same ratio would be valid. Remember now a days career courses doesn't necessarily mean the full 3 year GNIIT course, it also means people take modular courses, collect credits, and make them equal. So now a days career courses are anything which leads to career.

Sonal Kohli

And what portion of your GNIIT revenues would be from more than one year?

Vijay Thadani

Raghu would you have that numbers, what percentage of enrollments are for more than one year?

Raghavan

It would be at least about 60%.

Sonal Kohli

60% of your GNIIT enrollments

Vijay Thadani

Enrollments for more than one year.

Sonal Kohli

More than one year. And what would be your advertising revenues as percentage of sales for this quarter and what was the corresponding number last year, because you have seen lot of increase in advertising expenditure by NIIT?

Vijay Thadani

In April to September period we normally have new product announcements, so in fact off late the more ads you would have seen will be of NIIT Imperia than anything else, other than of course the daily little piece which in Times of India you will see, which runs right through the year. So, April to September is typically a period when we make new product announcements, this is also the maximum admission cycle, and revenues normally happens in July-August-September period though, this is the time when people are making up their minds as exam results are coming out.

Sonal Kohli

And what was this number for 06-07 and what kind of growth?

Vijay Thadani

The growth in the advertising spend?

Sonal Kohli

Yeah.

Vijay Thadani

I would say about 30%.

Sonal Kohli

Okay. We have also heard that you have hired a couple of people from ISB for testing new concepts. Could you throw some light on that?

Vijay Thadani

I would ask my colleague Mr. Pawar to respond to that, he is just joining us in a minute, he is right here. (The ISB recruitment and what is its significance?)

Pawar

I stepped out, sorry for that. Really two hats there, one of course is the NIIT hat, which is to drive new ideas and to do some innovation, and another of course is to look at ISB's own growth, student getting entrepreneurial opportunity, as you know they have a center for entrepreneurship development which is building this capability in the students. From NIIT's point of view, basic idea is that we have a number of growth options in front of us. It needs a lot of creativity, which needs a lot of innovative steps, and the number of opportunities we see in front of us is significant, we have to add talent either internal talent to deal with this new opportunity or a combination of internal and external talent. The thing which we are going to work on this year is that there are two teams of four people each with experience, work experience of between 4 and 10 years, and these teams are very focused on the kind of work we are trying to look at. The idea is entrepreneurial teams working on new projects which we have identified, who can fall back on NIIT's competencies, and help us start up new business idea, so that is the concept.

Sonal Kohli

Mr. Thadani you have entered into banking and management education, considering the shortage in retail and insurance over next few years, have you looked at that space?

Vijay Thadani

Yes, we have definitely looked at that space and I will ask Dr. Dey to talk a little more about that. Insurance is here and now plan as far as IFBI is concerned, in fact they are working on the courseware development and would be soon out. Retail, we have actually in order our management programs, one of our very successful partnerships with IIMs has been a general management program for those who manage retail business, so that has already taken off. We also have actually in our corporate training offering some retail programs and more certainly retail is one of the areas we are examining for retail offering, mean retail for the retail offering. Dr. Dey.

Dr. Dey

As Mr. Thadani mentioned IFBI as you know is Institute for Finance Banking and Insurance, and we are working on the insurance program and we believe that the opportunity there is as big as banking, and we should be launching the insurance programs in a few months from now. As far as retail is concerned, we have already one program from one of the IIMs, which deals with retail, training people for retail at a slightly middle level. We are likely to announce another program with another IIM for a lower level training program on retail. So we are addressing retail through the IIM management partnership already.

Sonal Kohli

In terms of your tie up with IIMs is there any constraint to admission in terms of percentage of marks or past academic track record?

Dr. Dey

Yes, absolutely. As you know the programs are designed, taught, and certified by the IIMs, while we provide the supporting services, the technology, and the management of education; therefore admissions are the prerogative of the IIMs though we conduct the admission process on their behalf. Incidentally, this is the only time that IIMs have outsourced their admission process to someone else. So while we conduct it, the decisional admission is theirs, and there are certainly eligibility criteria in terms of graduation percentages as well as a certain cut off score in terms of the aptitude test that are conducted.

Sonal Kohli

In terms of this technology can you tie up with foreign universities and is that cross-country conferencing also possible on this going forward, is the technology capable of doing that?

Dr. Dey

Technology wise it is possible, however, there are some regulatory issues which we are looking at, but this is one of the options that we are studying.

Sonal Kohli

In terms of your private school business you mentioned that about 38% of revenues in this quarter came from the private school business in the institutional space, now considering that private school should logically be high margin business, the margins has still fallen, any particular reason?

Vijay Thadani

I think that is to do with the overall size of the business given the fact that the SG&A expense would not have changed, in fact would have only increased in the recent times, that is what is causing. Yes, you are right, the gross margins in private schools are much better. At the same time having said that, in the government business, operating margins are perhaps not a good indication of the real profitability, because in the BOOT model the depreciation goes below the line, so if you see in overall terms in operating margin terms even the government schools' business depending on how the contract is structured can also have comparable operating margins, but that does not necessarily mean the profitability is better.

Sonal Kohli

And in your private school business what portion would be through teacher's training and what portion would be through content supplying to the students?

Vijay Thadani

Our private school model actually offers four different offerings; one of them is to do with teacher training and that we normally do in collaboration with technology companies like Microsoft, Intel, Sun, and others, so that is approximately 20% of the total private schools pie, it is small, but it is growing well. The other is based on the subscription model that we have with our schools as well as in some cases the schools also have a business model of buying the content alone and not buying the rest.

Sonal Kohli

Hello.

Vijay Thadani

Yes.

Sonal Kohli

And what price would be the tax rate applicable for you in 2008?

Vijay Thadani

In 2008 the tax rate applicable to us should be between 12% to 17% depending on the product mix we achieve.

Sonal Kohli

And one last question in terms of your corporate hiring plan and individual hiring plans what has been the growth in these two segments over the year and what kind of capacity addition in the individual business?

Vijay Thadani

In individual business, answering your second question first, 18% increase in capacity and 8% improvement in capacity utilization from 46% to 54%. As far as hiring is concerned, we added 954 people net, of which 609 came through the Element K acquisition, so therefore in our own space it was 345 people, which is roughly 1% adding. We do believe that given the growth at which we are working as well as the new businesses we typically should hire between 150 to 200 people every quarter.

Sonal Kohli

Okay thank you Mr. Thadani.

Moderator

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

Priya

Yeah, good evening to the management and congratulations on good set of numbers. My first question relates to the Element K expectations going forward in FY08 and FY09 with respect to pricing discipline which has come into the market and also in terms of the deal sizes post acquisition of Skillsoft, if you could give some highlight on some of the RFPs you have been giving or the deal sizes where you have seen change rather?

Vijay Thadani

I would respond to this by saying that going forward in Element K will have a high single digit top line growth and I think a 2 to 3% improvement in operating margin as we go forward, which is in line with what we had mentioned 8 months ago when we had looked at, they are absolutely on track as far as that is concerned. The changes which we are seeing in our deal sizes is more to do with the kind of deals that they are getting and not necessarily the size. Just to explain you the context in which the subscription business works typically when a customer switches from one vendor to another, which is some of the cases which it will be happening, they would normally like to start small and as the usage of the library increases within the organization they would go for a larger and larger commitment. So I think it is the longevity of the client with the organization which contributes to a larger revenue. The second thing which I would like to mention is that now we are not only offering the library as a subscription library but we are also bundling some custom development services as well as other managed services, that does contribute to a larger deal size. It is too early for us to see the changes in deal size to see sufficient evidence of a much much larger deal size for us to talk about.

Priya

So going by your thing where you know it achieve 3% OPM in the current year, what you are indicating is roughly around 5% to 6% OPM is possible for FY08 rather.

Vijay Thadani

Very right.

Priya

Sure. My second question relates to the individual business in terms of the pricing improvement which is there and more to do with NIIT leadership, you know the margin improvement you see 20% OPM, going forward what do you see in terms of network expansion in the international market and also if you could throw some highlight on China business currently?

Vijay Thadani

Okay, so I think in terms of products and markets I would ask or may be Raghu you would like to take.

Raghavan

Yeah.

Vijay Thadani

Okay, and then I can talk about China, go ahead.

Raghavan

Okay, first to address the capacity expansion thing that you asked for, last year we added 18% seat capacity, going forward over the next few years, we think we will add something around 12% capacity, #1. In terms of products as you might have observed we have been increasing the depth of technology for the engineering community, engineering and IT students. Last year we grew the number of engineers and IT graduates, IT students in our enrollment by about 32%, and we expect us to be continuously launching more and more product with higher content of technology, therefore we expect to be continuously increasing in our relevance to the engineering and IT students. Now you asked about fee, I think we mentioned about it.

Priya

Yeah what I mentioned was you know we have seen a pricing increase and we have a 20% margin, and this perhaps could be the 6th or the 7th quarter where you are seeing the pricing increase and obviously GNIIT being a 3 year course it yet has to reflect in the coming quarters. What I am trying to address from here is this 20% margin which you have in the current quarter where can we see it sort of peaking out or what could be the signals which you think would sustain going forward, obviously the demand is quite robust?

Vijay Thadani

Let me answer, the investments that we are making in new products as well as expansion, this is the kind of margin levels that you should look at as we go forward, the capacity utilization obviously plays a very important role and this year we are adding new capacity as well, so we tend to feel that a couple of percentage points improvement over last year, last year was 18% and as you know during the year also the margin waivers a little bit, and an improvement in capacity utilization is also likely while increase in capacity will happen, and therefore an improvement in margins is also going to be very visible.

Priya

Okay that is helpful. On the corporate business, is the margin decline only primarily because of the rupee appreciation or is it more to do with the investment continuing in certain new content delivery courses?

Vijay Thadani

Both; we did a calculation, the margin erosion because of strengthening rupee in terms of top line was to the tune of 2.5% and to the bottom line of course the impact would be much less, but there was a definite impact to the bottom line even though we had hedged against the dollar going weak already. So going forward again there is a volume which will cause a margin change just in case dollar continues to go weak against rupee, but I think in terms of its impact on operating margin part of that would be recovered through the hedging but there may be a small impact as we go forward.

Priya

Sure. On the China market on the individual business side, could you throw some highlights where we are with respect to new product launches and how is the market being seen now from over the next 2 to 3 years from now onwards?

Vijay Thadani

Okay, Raghavan.

Raghavan

In China we are continuing with the strategy of NIIT insight centers in partnership with universities, that is a very good working model. In terms of new products, apart from the career courses which we have been having which we will be refreshing and strengthening the curriculum as we go forward, in addition to that we have recently introduced the gaming curriculum under the brand name Magiccore, and that is also doing well, so as we increase the depths of content of the career programs there will be modular programs that will come out of them and this will be offered to students in the NIIT insight centers in the university model as well as NIIT direct centers across the country.

Priya

So what you are implying is that basically the blended pricing what tends you to go increase, puts incentive to increase rather?

Raghavan

Pardon me I could not hear you well.

Priya

The blended increase in pricing would continue in the China market with the fact you know gaming obviously has much more higher acceptance in China.

Raghavan

Well the mix of products both from a technology standpoint and the deeper curriculum in the career programs will continue and therefore the impact of that is something that you would continue to see both in terms of number of enrollments as well as in the top line.

Priya

Sure, and just a last question from my side on the new business you know 1 year back you were mentioning looking at around 800 to 900 million within the next 3 years, where are we given the fact that the response have been pretty good.

Vijay Thadani

Dr. Dey.

Dr. Dey

Yeah, we have said in fact the figures that I mentioned a little while ago reflects the fact that our confidence in the businesses today are greater than what they were a year ago, so therefore the figure that I mentioned for this year is higher than what we have said earlier and we are talking about 950 to 1000 million by FY09.

Priya

Okay, and also in terms of the mix could you give some highlight on eGurukul which could be one of the very prospective initiatives from your side?

Vijay Thadani

eGurukul is the part of our schools offering and that is a very important product in our private schools offering, but it is part of an overall product offering, so I do not think we would even have the revenues separately for that because that is part of the total solution.

Priya

Sure, thanks very much and just a data point, the cash which you mentioned was 741 million.

Vijay Thadani

Yes.

Priya

And the debt?

Vijay Thadani

Just one moment, yeah, the total debt is 2255, and in addition there is an FCCB, which has already converted now.

Priya

So that is nil.

Vijay Thadani

Well, on March 31st it is still showing as debt.

Priya

Yeah okay, and the outstanding number of shares.

Vijay Thadani

By the way this also includes the acquisition finance, which we did for Element K.

Priya

Okay, and the outstanding number of shares 22.1 million, right?

Vijay Thadani

Will become 22.1 million now that they are allotted.

Priya

Sure.

Vijay Thadani

On March 31st they were over 198.

Priya

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

Vijay Thadani

Thank you very much.

Moderator

Thank you very much mam. Next in line we have Mr. Nitin from Bridger Capital.

Nitin

Hi guys it is Nitin, congratulations. Could you just tell me your utilization for the quarter in the individual business, I think you said 54% for the year?

Vijay Thadani

52% for this quarter.

Nitin

52%, okay and then could you reconfirm the capex, I did not get the exact number you said.

Vijay Thadani

754 million during last year.

Nitin

Okay, and you said 50% was capacity expansion and 50% was the new product development.

Vijay Thadani

Yeah.

Nitin

And what...

Vijay Thadani

New product development as well as the new centers of excellence etc.

Nitin

Right, and what is your plan for that for going forward 2008-09?

Vijay Thadani

We now have Element K capex included when I am speaking to you, we are planning a capex of about Rs. 900 million during the year, though at the rate at which it is going it may

go past the 12 month period that we are talking about but we have about 900 million worth of capex projects which we would like to implement as quickly as possible, and within that is an upgradation of technology infrastructure as well as up gradation of Element K content library etc.

Nitin

Okay, and then finally the debt number you said was 2255 that you just mentioned?

Vijay Thadani

Yes 2255 is the debt excluding the FCCB, which is already converted now anyways.

Nitin

Okay, great, thanks a lot and all the best for the year ahead.

Vijay Thadani

Thank you so much.

Moderator

Thank you very much sir. Next in line we have Mr. Zubair Ali from Emerging Provision.

Zubair Ali

Hi guys, congratulations on excellent quarter. My first question was you guys talked about an 18% growth in the individual business capacity last year, was that in terms of seat capacity times pricing was it a combined effect?

Vijay Thadani

Our 18%, let me talk about all the 18% we mentioned, one 18% was to do with the operating margin.

Zubair Ali

No, I was just talking about in terms of the capacity growth in the individual business?

Vijay Thadani

Oh! The capacity growth, that is seat capacity. That seat capacity which means if we have a center in which 1000 students can study in 1 year, if we added 180 more that means we added capacity to add 180 more, that is an 18% increase.

Zubair Ali

Okay, and the next question was in terms of the utilization rate at the 50% you know where do you guys sort of see this going over the next couple of years given you are adding capacity and what sort of is the likely impact on margins at the level, like what is sort of steady state margins in this business?

Vijay Thadani

The steady state margins in this business are about 25% and you should hit 25% at about 60% to 65% capacity utilization.

Zubair Ali

Perfect, thank you, and best of luck for the rest of the year.

Vijay Thadani

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Manish from Brick Securities.

Manish

Hi sir, just a couple of points in the GNIIT program. First of all are you giving the enrollment numbers for that program?

Vijay Thadani

We can share with you the enrollment numbers for the program separately. Right now one of that numbers which we shared just now are the engineers and computer science graduates who contributed to our overall career courses, which was 98,000 plus number, but we can share with you GNIIT enrollment. We will give them to you, let us answer some other questions meanwhile.

Manish

Yeah the second thing I had was the profile of the program, as I understand it is a 2 year program plus the PP the professional practice, right, so could you give us a sense as to the most of the students finish the 3 year course or there are students who finish only 1 year, only 2 years, and you know some into 3 years, how is it typically?

Vijay Thadani

Typically, we offered this program on a semester basis, so there are 4 semesters within NIIT and then there are 2 semesters of professional practice like you rightly pointed out.

Manish

Right.

Vijay Thadani

In addition to that people do take up electives, because off late people look for specialization and that they may do as they are doing the semester or they may do at the end of these four semesters as well. Mr. Raghavan will share with us what percentage of students take up the full 3 year course? Typically, the GNIIT enrollment or the GNIIT graduates that we graduate every year it would be typically what number Raghavan, how many would have graduated this year?

Raghavan

This year will be in the region of about 7000 or 8000, but if you look at the number of people who have registered during the current financial year last year the number is little over 20,000.

Manish

That is only for GNIIT is it?

Raghavan

That is right.

Manish

Okay, so broadly speaking I just want a sense of what is the average duration of the student in the system?

Vijay Thadani

About 1-1/2 years.

Manish

Okay, and sir the third thing was looking at the Element K, now in Q3 it was positive operating margin whereas in Q4 it is again gone out to zero, is there a disconnect?

Vijay Thadani

No, I do not think there is a disconnect in this; Q3 is I mean we are also understanding the business as we go along and that is to do with the little bit of seasonality. October, November, December is typically the year end for most of the corporates in US, which is where their main focus is. JFM is the first quarter where the spending starts a little slow, and this could also be because it was the first year and so on and so forth, so we are yet to figure out what would be the most appropriate trend to look at.

Manish

So broadly I mean the guidance in terms of 5% OPM for 2008 and about 10% for 2009 will remain as of now?

Vijay Thadani

5% for 2008 most certainly, 10% for 2009 was not yet stated, but that is something which we would like to work towards.

Manish

Okay, and sir last thing, surprisingly this quarter your margins are very strong in the individual in the sense that typically Q2 is your best quarter traditionally, right, so you have done 20% in Q4 whereas Q2 was 17.5 odd, so has there been something exceptional or this is a seasonal trend we can expect now?

Vijay Thadani

No, I do not think it is a seasonal trend you should expect. As I said the margin is a set of multiple forces, of course volume and revenue makes a very big difference, but given the fact that we are on an upward swing at this point of time in terms of ramping up the business our corresponding expenditure on lets say student acquisition or enrollments or launch of new products would be less in this quarter and that is one contributor. Second contributor is I think we did exceptionally well in China, and China would have created a whole lot of additional margin, so those are some of the factors. You are absolutely right that Q2 should be our best quarter in every year, and by the fact that Q4 turned out to be such a good quarter, Q1 to that extent would have some impact.

Manish

Okay, and sir sorry I had one more question, could you just share the breakup of the employees between the corporate, individual, and institutional business?

Vijay Thadani

I would not have them straight away, but I can talk about. We have 609 people working with Element K. We have about 800 people in the rest of the corporate business. We would have about 800 people in the individual business, 800 plus actually 850, and the rest would be in the rest of the businesses.

Manish

Thanks sir, that is all.

Moderator

Thank you very much sir. Next in line we have Mr. Dipen Shah from Kotak Securities.

Dipen Shah

Yeah, congratulations to the management on a good set of numbers. Most of the questions have been answered, just a couple of thing. Once again just taking on the question about Element K, the fourth quarter, while if there is a seasonality in fact the revenues are up by about 19% QonQ whereas the margins are in fact down, so were there any one time expenditure which we incurred during the quarter which may not be incurred in the future?

Vijay Thadani

It is something which we would need to examine, it could be a product mix issue as well, and because see there if you look at the 6 or 7 offerings they have, they have from very low gross margin to very high gross margin, so it may be something to do with the product mix as well, the way we looked at it was that this is the first year of operation in the third quarter if there are just so many moving parts for us to derive a trend from there will be too early.

Dipen Shah

I understand, fine, and then the last part was basically once again our reputation about any developments which have happened on the strategic sale front in NIIT Technologies, whatever developments and what is different from what you told in the last quarter. Thank you very much.

Vijay Thadani

Mr. Pawar would you like to comment on that?

Pawar

Well, no significant change.

Dipen Shah

Okay.

Pawar

But as we mentioned at that time I think that is something which we are committed to, we just have to have an appropriate situation and of course as and when that happens you will hear it from us.

Dipen Shah

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

Vijay Thadani

Thank you so much.

Moderator

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

Ruchit Mehta

Yeah, hi, good evening gentlemen, and congratulations on a great year. Sir just a couple of book keeping questions, in the quarterly results you mentioned you have a negative other income, I assume that has some interest cost included in that, if you could speak for us?

Vijay Thadani

Yes, it has the Element K interest cost added into that, and do you want the breakup of the other income I can share with you.

Ruchit Mehta

Yeah.

Vijay Thadani

Okay, may be Chetna why do not you explain?

Chetna

Okay, for the year if you look at it, are you talking about the quarter Ruchit?

Ruchit Mehta

Fourth quarter and the full year.

Chetna

Let us talk of the year. For the year we have had the 35 million facility, which as we stated has an interest which is linked to libor, so the cost that we born for that for about 8 months is about 90 million.

Ruchit Mehta

Rs. 9 crores.

Chetna

Yeah Rs. 9 crores.

Ruchit Mehta

Okay.

Chetna

So the net negative is 55, so if you really look at it, it is because of the Element K interest cost. There are some other interest costs also which is in our term loan and on the FCCB, which is about Rs. 7 crores over the year.

Ruchit Mehta

Okay, Rs. 7 crores is from the other existing business and Rs. 9 crores is from the Element K.

Chetna

That is right.

Ruchit Mehta

And the same figures for the quarter please?

Chetna

For the quarter it was about the normal cost would be about 20 odd million and the Element K cost would be about 35 million.

Ruchit Mehta

Okay, and just for Dr. Dey, I believe you mentioned that fiscal 2009 you are looking at the business, the new business in generating close to Rs. 90 crores to Rs. 100 crores of revenues.

Dr. Dey

Yes.

Ruchit Mehta

Did I hear that correctly?

Dr. Dey

That is right, you heard it correctly.

Ruchit Mehta

Okay and at that level what sort of margin should one expect the business to deliver?

Dr. Dey

As we have said earlier we expect this to have margins around or in 25% and higher.

Ruchit Mehta

25% range and higher, okay, just for the fiscal 2008 what sort of order backlog do you already have for the new businesses?

Dr. Dey

We have an order book going into FY08 of 43 million.

Ruchit Mehta

Okay, and this is executable over what timeframe?

Dr. Dey

It is all executable during this present financial year.

Ruchit Mehta

Okay and just for Mr. Thadani, overall if you look at the individual business has grown about almost 50% for the year, so incrementally going forward would it be reasonable to expect probably something in the range of 25 to 30% growth for the business?

Vijay Thadani

That is right, 30% is more appropriate.

Ruchit Mehta

For fiscal 2008?

Vijay Thadani

Yes.

Ruchit Mehta

And you would expect margins to improve to closer to say 19.5 or 20 odd percent for the full year?

Vijay Thadani

Yeah, it should improve by 100 to 150 basis points yes.

Ruchit Mehta

So round about 17.5 for 2007 we did, we should improve 150 to 200 basis points?

Vijay Thadani

Yeah.

Ruchit Mehta

Okay, and just on the institutional side of the business when should one actually see the improvement in both revenues and in margins for that business?

Vijay Thadani

I think you should see it in the coming two quarters.

Ruchit Mehta

Okay, that is great, and just on the rupee dollar thing, how does it impact us because you will have revenues for Element K and then also the corporate side of the business, so how does it impact margins on the structural basis because the rupee still stuck in the 40 odd level?

Vijay Thadani

So if you look at our overall top line, it is 59% comes out of dollar revenues, dollar denominated, most of it is dollar denominated; however, if the dollar weakens then our top line is affected but most of that gets recovered because in expenses also lot of expenses are local in those countries wherever we are operating, so our overall exposure to dollar in a year is to the tune of about \$20 million, you know \$20 million out of the \$250 million that is our total size of P&L is would be affected by dollar in terms of impact on bottom line, and there we do a 6 to 12 month hedging based on the rates which we get and what we hedge for there can be a little variation, so our dependence on dollar for bottom line is actually very small.

Ruchit Mehta

Okay, that is great, and just a couple of other things you mentioned Rs. 90 odd crores of capex for this year?

Vijay Thadani

Yes.

Ruchit Mehta

Okay and you had about....

Vijay Thadani

It may actually spill over to 15 months.

Ruchit Mehta

Okay so probably this year would be over Rs. 80 odd crores or something like that?

Vijay Thadani

Okay yeah.

Ruchit Mehta

And you would need further funding for that, considering whatever you grow and the free cash you generate from the business, would you need further funding, some short-term debt requirements?

Vijay Thadani

Actually we are paying back debt based on our term loan already, so our debt has reduced as far as term loan is concerned. Given the fact that we have sufficient cash being generated from the business there may be a marginal requirement for additional funding but that will also be very, very situational.

Ruchit Mehta

Okay, that is great, thank you very much and wish you all the best.

Vijay Thadani

Thank you.

Moderator

Thank you very much sir.

Vijay Thadani

Should we look at closing the call?

Moderator

Sure sir.

Vijay Thadani

And may be last two questions.

Moderator

Yes sir. Next in line we have Mr. Kaushik from Kotak.

Kaushik

Yeah, hi. Actually a question on the institutional side of the business, you have seen that actually overall profitability has been hurt by the institutional side actually degrowing this year, how do you see that shaping up next year and do you think the private school business will help possibly revive this part of the business?

Vijay Thadani

So first I want to make a statement that it is a conscious decision to reprioritize that business. The business is still available, but we are unwilling to participate in that business because of its high capital intensity and since we have better options for growth we are participating in that business selectively, I am referring to the government side of the business.

Kaushik

Sure.

Vijay Thadani

On one hand yes the business has degrown, obviously it has hurt the bottom line a little bit, but we have more than made up for it in terms of releasing cash which we invested in new businesses, which we invested in our other traditional businesses, so the performance in other business is more than made up for it. The cash released is very, very significant in fact it is significant enough to make up for the loss of margin more than sufficiently given the fact that we have other opportunities. Having said that we do not think we are vacating the space, we are just being more selective and we would like to focus on better margins as we go forward and lower risk profile and lower capital intensity. We are at a level at which we can now start growing over the level at which we are and the private schools are showing that improvement, so this year we should see a growth in the business rather than the degrowth. So it may be of the order of 5 to 10% only, given the fact that we are trying to make up for the government business which comes in hundreds of schools simultaneously whereas the private school we have to win one at a time.

Kaushik

So there would be marginal growth both in revenues and profits, right?

Vijay Thadani

Very true.

Kaushik

Okay, and one question on the individual business, how is the mix in terms of how much is the international business contributing this year?

Vijay Thadani

In the individual?

Kaushik

Yeah.

Vijay Thadani

Do you have the breakup? It is 60% India, 40% international in systemwide revenue.

Kaushik

And how has the growth of each been?

Vijay Thadani

China has grown the fastest, 52%, India would have grown by 48%, and rest of the world is little lower.

Kaushik

So much does China contribute now?

Vijay Thadani

China over the year is 20% of systemwide revenue.

Kaushik

And are our margins comparable in China compared to India?

Vijay Thadani

China, the margins are actually slightly better, but it depends again at the capacity at which we are operating.

Kaushik

Okay and correct me if I am wrong, you said that in 2009 you are looking at about 25% margins in the new business, but 2008 what sort of growth are we likely to see there because that is kind about Rs. 10 crores of revenue in the current year?

Vijay Thadani

In 2008 the improvement in individual business part?

Kaushik

No, the new business.

Vijay Thadani

The new businesses, Dr. Dey.

Dr. Dey

Yeah as I said we are expecting as of now we have a visibility of about 350 million, and we expect to break even during the year, and that is it.

Kaushik

Okay, so 2009 will be the year of reckoning for that business.

Vijay Thadani

Well 2008 is fairly, 350 million is about 6 times last year, so it is a year of reckoning in any case.

Kaushik

Right, thanks.

Vijay Thadani

Thank you.

Moderator

Thank you very much sir.

Vijay Thadani

May I take the last question now?

Moderator

Sure sir.

Vijay Thadani

Thank you.

Moderator

Next in line we have Mr. Hitesh Shah from Citigroup.

Hitesh Shah

Hi, congratulations on a good set of numbers. I just wanted to understand why the growth in the corporate business had slowed in this quarter, was there anything one off, because we were kind of expecting a growth acceleration in this business from last 2 to 3 quarters?

Vijay Thadani

Little bit of dampener because of exchange rate 2.5% or so, if you see the top line change that 15 would have become 17.5, so to that extent yes. The other issue is most of the growth we are doing by modifying the product mix to make it more aligned to our technology partners, and we think that on that front we are doing pretty well, in fact we are adding new technology partners and our product offering is also very well accepted, so we think we are on track with that, of course dollar rupee ratios may have caused a little bit of change.

Hitesh Shah

Apart from that you had just mentioned that we had paid some of the debt, however, the debt number that you gave was higher than what it was last quarter, so just wanted to check if 2255 the debt number given includes FCCB, if you could break that number into in terms of secured debt, the debt on Element K, and anything else?

Vijay Thadani

I will give it you right away, last quarter our debt was 2068.

Hitesh Shah

Right.

Vijay Thadani

And this time it is 2255, so we have paid back a part of our term loan when you know I was talking about paying back it was paying back a part of our term loan, and when we are referring to the debt now it includes (how much is the term loan reduction over last quarter - Rs. 4 crores over last quarter), so the rest which you are seeing here is since it is the year end balance sheet you would be seeing the cash credit as well.

Hitesh Shah

Okay, so if you could break up 2255 in terms of secured debt and any other Element K debt and anything else that is where?

Vijay Thadani

Hitesh can we give that to you separately, we may not be carrying that with us right now?

Hitesh Shah

Sure not a problem. Also if you could tell me the hedged position at the end of last quarter and forex gain that we had in the last quarter?

Vijay Thadani

Last quarter we had a forex gain of about Rs. 5.5 million because of the hedge.

Hitesh Shah

And what was the forex hedge?

Vijay Thadani

I am sorry, 4 million not 5.5. (And what is the hedge we have now?) \$6 million.

Hitesh Shah

Okay, thank you and all the best.

Vijay Thadani

Thank you.

Moderator

Thank you very much sir.

Vijay Thadani

So with this operator I would like to close the call since we have flight to catch.

Moderator

Sure sir.

Vijay Thadani

May I make the final comments?

Moderator

Yes sir.

Vijay Thadani

Okay, so I would like to thank each one of you for being here on the call and obviously also with your focused question which as usual are very educative for us. I think we have answered most of the questions other than the breakup of the debt, which we would perhaps add in the transcript in any case. The important thing which I did want to mention here was that tomorrow in Mumbai at 5 p.m. we have an analyst meet at The Hilton at Nariman Point on the roof top and we would like to invite each one of you to come and join us, and there we would be talking in much more detail on the 3-year perspective rather than covering the financial year that went behind. And I would have many of our colleagues with us, so I would like to invite each one of you. Other than that I would like to thank you for being here on the call and please do not hesitate to ask us any more questions that you would like by e-mail or on our website www.niit.com. Thank you and good night.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a pleasant evening.

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