



“NIIT Limited
Q3 Results Conference Call”

January 21, 2011



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Moderator: Ladies and gentlemen, good day and welcome to the NIIT Q3 results conference call. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vijay K Thadani. Thank you and over to you Sir.

Vijay K Thadani: Thank you very much, good afternoon ladies and gentlemen. First of all, I would like to welcome you and I am grateful to you for joining us on this call. We are here to discuss the results of Q3, which is October, November, and December 2010 for fiscal year 2011. This is, just to remind everybody, seasonally the lowest quarter in the year and given the seasonal nature of most of our businesses, this quarter has traditionally been the lowest in performance, and therefore for comparison purposes we always do a year-on-year comparison in this particular quarter. For that matter, even the rest of the [year] performance. As usual, I will start with the environment that we saw in Q3 and then get on to the results, and open it up for Q&A. As usual, I have my colleagues, Mr. R. S. Pawar, the chairman of the company; Rajendran, co-director; G. Raghavan, the President of the Individual Learning Solutions and India Corporate Solutions business; and this time on matters relating to schools Mr. Rajendran will be handling our questions and on other matters myself, Rajendra Pawar, and Raghavan will be taking up. I also have from investor relations, Kapil Saurabh; then from finance Chetna Khuller, and CFO, Jitendar Mahajan on the call. The environment that we saw during the last quarter was fairly bullish, very optimistic in terms of our businesses and also in terms of the real numbers. Indian GDP growth continued to remain strong and I think the discussion that still will perhaps become very big inhibitors to growth of GDP and therefore require special attention is a debate or a discussion, which is gathering momentum. On the other hand, inflation and volatile capital flows remained vis-à-vis. our employers, especially the IT employers, have very bullish forecast of hiring. We ourselves felt it in the placements that we did during the quarter, which I will talk about. Banking industry is on a massive hiring spree, especially the private banking sector and very soon the public

sector banks as well, and that has the benefit. The pace of decision-making in corporate sector is also increasing and improving. Execution of some of the government plans on the other hand has been slow, especially in schools and new policy of ICT at schools continues to remain slow, and for us the very redeeming feature was the positive recovery that we saw in US and European markets, in terms of training front. So in that context our consolidated systemized revenue for this quarter was up 5% year-on-year at Rs. 4.14 billion, net revenues were at Rs. 3.007 billion, up 6% year-on-year. This is because of a product mix, which was adverse; because some businesses did reasonably well and on the other hand the government school business continued to remain subdued, partly because of our choice and partly because of slow decision-making. EBITDA was at Rs. 370 million, up 19% year-on-year; our EBITDA margin at 12% improved 130 points over last year. Profit before tax was at Rs. 65 million, which was up 120% year-on-year and after taking into account the share of associates net profit was Rs. 129 million, which is up 36% year-on-year. Key drivers to growth were career IT enrollment, banking enrollment, and order intake of 33 million dollars in corporate learning solutions, growth in non-government schools, and a larger annuity and IP-based sales. So considering that we had a seasonally low quarter, margin improvement as well as some of the business growth parameters was fairly encouraging. Net revenues in IT training grew 12% year-on-year, EBITDA was at Rs. 228 million with a margin at 21%, an improvement of 142 basis points. We also have the benefit of some structural adjustments, which happened because of our introducing a new delivery module. In new businesses, net revenues were at Rs. 121 million, which grew 33% year-on-year. For schools, the total revenue is not a full indicator of school performance because in government schools, we did not add any new orders, partly as I mentioned because of our choice because of the selective behavior that we are giving to that, and partly also because of the delayed implementation of government policies on ICT schools, but are non-government school segment even though it was low quarter for new school addition, this is typically a low quarter. Our revenues grew 28% year-on-year. In the first nine months of the year, we have added more non-government schools in the nine months than we did in the whole of last year. In corporate, our revenues were at Rs. 1.446 billion rupees, which is up 8% year-on-year. Once again these numbers do not tell the whole story because there

was a negative impact of the forex. If one was to take that into account the volume growth was 13%. EBITDA was at Rs. 121 million, which was up 37% year-on-year. The margin was at 8% an improvement of 177 basis points year-on-year. So, in overall sense the exchange rate's impact on our total revenues of Rs. 3 billion were about Rs. 66 million, which would have been 2% of the total revenue. In terms of operating expense, we had an improvement in margin despite making up for people cost rationalization and others, which we have talked about in the past, increase in rental rates, inflation, adverse exchange rate, which did all put together cost nearly 300 basis point margin impact, but despite that our margin was better at 12%. In terms of overall financial, return on capital employed was slightly better than previous quarter at 14%. Our net debt is approximately at the same level Rs. 3.484 billions. Net cash flow from operation was positive at Rs. 152 million. Accounts receivables once again had a marginal increase from Rs. 3.64 billion to Rs. 3.85 billion; however, this is caused by a very good quarter, which Element K had in Q3. So, seasonally higher invoicing contributed a part of this increase, which in the next 30 or 45 days would get settled. We added fixed assets of Rs. 116 million, much of that expenditure was in updating our education tender infrastructure to deliver the new delivery methodology, which I just mentioned and Mr. Raghavan will talk more about it. We are very excited about that project and we see that contributing both to our spread as well as our margin improvement in times to come. In terms of individual business segment, Individual IT business, some more color on the leading indicator, total enrollment was up 8% year-on-year. It was a good quarter for India where we had 12% enrollment growth. We do have some challenges in some parts of our international geography. Once again, Mr. Raghavan will perhaps tell us more. Our placements grew by 30% year-on-year and this has been our best growth performance in placement this year, which corroborates the response that our product is receiving with the employers, which are our trained students as well as the hiring pattern in the employee category. The star of this quarter was our 99 days job qualification or diploma as we call it, which had a 46% growth year-on-year. Our engineers segment, which is a somewhat fairly large segment, grew 24% in enrollment, and our career IT enrollment grew by 17%. We added 5% more seats and thanks to the diploma program, where the enrollment which we got towards the end of quarters two, we were able to execute them being an intense program at

a higher utilization than we normally have at this time of the year. SAP programs, which we had launched couple of quarters ago, have begun to show momentum and we see decent volumes coming up in that. The school learning solutions, I think the only point worth mentioning is that non-government revenue contributed 38% of the total revenue and grew by 28% year-on-year. So in schools, the government revenues coming out of existing orders, we did not add any government orders this quarter, and our focus has been in growing the non-government school business. In corporate learning solutions, we have a 13% volume growth, which is driven by growth in managed training services and this is to inform you that we now have five existing clients and one in contracting stage for the managed training services; three from Europe, two from US, and one more from US. And most of these have a global spread in terms of their reach. Our online learning products growth was 21% year-on-year and as you can see this has been accelerating quarter-on-quarter because of the annuity effect of every new subscription that we receive. Despite having an adverse exchange rate impact, we had an 8% growth in revenues and order intake of \$33.1 million in this quarter. So we are ending the quarter with a fairly robust order book at \$92.5 million. As I said, with one more managed training services order being in contracting stage. The new business, the segment or the product which is worth talking about is banking and financial services. We crossed in this quarter 10,000 placements that we have done, which means 10,000 bankers that we have provided to the privately owned bank segments. In addition to that, the growth in enrollment this quarter was 57%, which is signaling strong hiring and strong interest in the banking sector. Our executive MBA program that we had launched in collaboration with IGNOU, we added the second batch, so that program is beginning to catch momentum with the working professionals. If you see, our revenue mix nearly 53% of our systemized revenue are coming from the individual segment, 35% are coming from the corporate segment, about 2% from new businesses, and the balance from schools. In terms of EBITDA, the individual like always has traditionally contributed maximum part of the EBITDA, but now at the second place we have the corporate, followed by schools, and new business is yet to contribute positively to EBITDA in totality. I must say that IFBI as a business has broken even and is already generating small profit, which will grow as we go forward. Our India geography grew by 9%, US by 8%. We do have some

challenges in some part of the world, but those are more than made up for. As far as this quarter is concerned, in India we have peak quarter for international businesses coming up next quarter and we do feel the impact of both being felt perhaps in the next quarter. We increased the head count by 99 people to now 3973. I would like to stop here and open the floor for questions. My colleagues here will be happy to join me in answering your questions.

Moderator: Sure sir, thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. At this time, if you would like to ask a question please press “*” and then “1” on your touch-tone phone. All participants are requested to limit their questions to two per participant only. The first question is from the line of Rishi Maheshwari from Enaam AMC. Please go head.

Rishi Maheshwari: I just like to know what is your stance on the schools business, especially the government part of it. What is the IRR at which you want to work within the school business and within the contracts that had emerged in the last quarter, can you give some specifics, why did you choose not to participate in it?

Vijay K Thadani: I had mentioned this before as well. We definitely want to cover 15% plus IRR in the school businesses over a five-year contract. However, IRR and margins are not necessarily our single largest challenge. Our single largest challenge is the inordinate collection delays that seem to happen in the segment and we have a number of strange situations, where state government has gone ahead and placed orders, on the other hand has not receive funds. We have another situation, where the state government issues the cheque and then says please hang on to the cheque because the treasury has not still received funds. So there is a disconnect between the center and the state, and one of the issues that we want to be assured of is collection delayed. Our execution has been perfect, our client satisfaction has been perfect, and we therefore would like to work with states and would like to be assured that our collection is secure, so that is essentially the reason that we take or not take an order.

Rishi Maheshwari: Despite lower amount of the government school billing, why is it that the average debtor days have increased in this quarter?

Vijay K Thadani: No. There is a continuing government business, which is going on. We have an opening order book, 62% of our revenues in schools came out of there. So the continuing orders are going on. For example, there are states there is a log jam on collections and I do not mind sharing it because this is affecting the whole industry. Every player who is participating in that, and that is Andhra Pradesh and they have not paid bills. These orders were divided. We got the lion's share, and every other player got a little bit, and I think everybody's payment had been stuck, so we have been working on that. Our question is ministry of HRD that we have to work out with a policy, which support relationship and protects the risk of private sector player.

Rishi Maheshwari: What is the amount that is not yet received from the Andhra Pradesh government?

Vijay K Thadani: Andhra Pradesh is a large part of our receivables. I do not have the number right way, but it is a large part of our government receivables, and it goes on.

Rishi Maheshwari: Do you feel in the government business the need to make provisions for bad debts?

Vijay K Thadani: Fortunately for us they do give us confirmation every year, so that is the very important part. We had once, many years ago, taken a provision when we felt that there was a need and as luck would have it in the following quarter itself the government released that payment and we had to reverse the provision. So we are working and watching the provision closely, but we do not see any reason for that to happen. Also to let you know that even in Andhra Pradesh Ministry of HRD has recently released some money, so they will definitely ease down as far as in the coming quarter, so we expect this receivable situation to ease down fairly substantially in this quarter.

Rishi Maheshwari: Also if you can give us individual breakdown of the growth trajectory that you see in each of your businesses for FY'12 as well as for this year?

Vijay K Thadani: I think as far as the medium term as well as the next year, FY'12, is concerned as I said the overall mood is quite bullish and placement and all those are happening. There are new needs, which are emerging. Students are preferring high-intensity low-duration courses, so they would like to work and finish their

course faster. We are responding to those. We have new high-tech products coming up as well as each one of the businesses has a positive growth trajectory, so I would say that at a broad level, may be Raghu you would like to throw some more light on placement.

G Raghavan: Hi good afternoon, this is Raghu; I will talk about the individual learning business as well as the new business. As Vijay said, the market is very strong, the hiring outlook is very strong for the next fiscal year. The numbers that are being talked about are between 200,000 to 250,000 freshers hired. In addition to that, there is strong indication of very large lateral hiring that will take place in the industry. This all goes well for us both for training fresh graduates and graduating students for the fresher recruitment as well as look at hire-end opportunity for training the lateral moving people. We have been very successful with job-oriented short-term modular programs. Last quarter we saw a growth of 46% in the diploma program and 24% growth in the engineers. With this background, the outlook for enrollment growth in the coming year is strong. This is the same case in the case of banking sector as well. There are very strong hiring plans both from private banks as well as public sector banks, which are being put out. So we are well geared to take advantage of all this. So to answer the question, how are we looking at growing forward outlook for the next year, we are seeing a fairly positive indication.

Rishi Maheshwari: Any numbers that you would like to share on ILS, what would be growth rate in the FY'12?

G Raghavan: I guess this may be a little too early for us to share the numbers for FY'12. We are in the final stages of our planning. We will have a little better handle on what we can guide, if we talk about this in the call three months from now.

Rishi Maheshwari: Thanks and all the best.

G Raghavan: You asked the question about FY'11, it is important for me to close that link with you. Basically, we have been having continuously low enrollment in the long-term courses, leading to lower long-term order book. As a result, if we look at in a very narrow box of Q4 executable order book support for Q4 revenues, it will be low. In addition, we are also facing some challenges in some selected international markets, which have traditionally done well in this

particular quarter, but we are seeing some challenges in selected international markets, particularly in Africa. As a result of this we expect Q4 revenue growth to be kind of subdued and lower than the recent growth rate. So it is important that I share this with you to answer your question completely. This is on the IT side. As far as the new businesses are concerned, there is nothing that is slowing down. There is going to be a pretty good growth rate and as Vijay alluded we are very happy to see the banking, training business that come off age and start to make profits, and then we look at the next quarter as well as the next year, the trends are going to be very as far as those businesses are concerned. The executive MBA program and the management program takes off into larger numbers, we see a very strong core products being offer through that business unit, around which lot many more programs to happen and therefore that is also another positive indication. Except the short-term Q4 point, which I mentioned, the overall outlook for the business continues to be very positive.

Rishi Maheshwari: One last question, with respect to the challenges that you mentioned in the ILS part on the IT side, you think this may not be one of your strongest quarters as it always have been in Q4?

G Raghavan: In absolute time, it may still be a good quarter. When I have mentioned about the potentially subdued nature of the growth, I am talking in terms of year-over-year growth in the quarter.

Vijay K Thadani: As you are aware, this is our second largest quarter traditionally. Largest quarter is Q2. Q1 used to be our second largest, but last year Q4 kind of competed with each other, and Q3 is the lowest quarter and we just finished that.

G Raghavan: I would like you to look at in the context of the cycle that you may be familiar with in the individual list.

Rishi Maheshwari: Thanks very much.

Vijay K Thadani: Since you asked about other business, I will ask Raju to talk about the school business, talk about the government schools, may be he would like to talk a little bit about private schools.

P. Rajendran: Vijay talked about the government business, which we kind of putting a little bit of break for the last quarter. However, there is government contract, which is stuck up for execution. If it comes up then we will see some traction on that in this quarter. We have also participated in one or two tenders, which are not BOOT type; it is a service type including content. The clear indications are there that is going to come always, we do not know. We will come to know in the next week to two weeks. If that happens, we will see some part of the revenue coming in. There is also discussion in creating teacher training for government that is another line, which we want to scale up next year. Some of that in fact may or may not be there in this quarter, but that is the internal work, which is going on. Vijay mentioned about the new ICT policy, which is delayed execution thereof. The interesting part of that policy would be that instead of typically in a BOOT model with 40% to 45% hardware related and the rest being services. This we start looking at probably 30% hardware related and 70% services, which is really our core activity. In the private schools, we have already seen that the order intake has been strong. We continue to feel that it will happen in this quarter also, but order intake to revenue will depend on finally how we are able to manage the delivered product mix. Product mix consists of on one side the licensed products; we have products like the Science Lab, the Quick School, which is a school ERP, and the Math Lab. We also have the interactive classrooms, so there is certain resumption on what is the licensed product value and what would be the annuity-based five-year business. So it depends on how that moves in this quarter in terms of how the revenue will get recognized. The last part, which is interesting in the private school, is that one of the internal initiatives to completely revamp the content and have our own content completely and that has started. We have started showing it to the customers. We have already had one or two clear wins from customers against competition products and we would complete the packaging of that production of that by end of this quarter, which means partly into this quarter some orders will come and surely this will help us in the future quarters.

Vijay K Thadani: On the corporate, I think there are two growth drivers, learning products, I just mentioned to you, 21% growth year-on-year in the last quarter and the second is managed training services, so both these are showing very good momentum and we are of course banking on some more orders during the quarter. By the way, the Indian stream is also showing signs, Indian corporate spending on

training is increasing, and government focus on training and skills development continues to be there. So we see a positive movement there, we are well ahead of what we had thought we would do. So we are using this, we are hoping that we will continue with this momentum in this quarter as well.

Rishi Maheshwari: Sure sir. That is it from my side thanks.

Vijay K Thadani: I had forgotten to talk about future, since you asked the question I covered it for everybody. Can we have the next question please?

Moderator: Sure sir thank you. The next question is from the line of Mohit Jain from Alchemy, please go ahead.

Mohit Jain: I have two questions, first is on ILS. Can you help me to understand the geographical break up of the ILS IT segment and which geographies are struggling and why? Second in ILS is there a possibility of price improvement even that the hiring outlook looks strong. Third is if you can help me understand the tax rate because it seems like its fluctuating a lot from quarter to quarter, so how we do look at the tax rate going forward?

G Raghavan: On the geographical split, usually the ratios have been something like 70% from India and about 30% from international market, but this particular time the international market contributed only something like 16% primarily because we do have some challenges in some of the African market particularly a little bit with Asian market, but primarily African market, where we are taking some corrective actions and we are remodeling our presence in the market with the view to rendering our business more consistent going forward. So that is the work that we have engaged in the last quarter and it will continue till a good part of this Q4, so that is the kind of challenge I mentioned before.

Mohit Jain: Is there is a mismatch between offerings in the market demand or is there a higher competition or the macros are not supporting?

G Raghavan: No, fortunately none of those issues. This is what I would call as our own distribution-related issue, not market. Our reputation is very strong; we continue to get awards in this market. We have a fairly strong footprint there. Our products are good, although as a matter of refreshing our product we are

incidentally going to launch new products in those markets, but that is not the nature of the problem I am talking about. The nature of the problem is with respect to the distribution arm that we have in some of the African markets, which we want to render on a lot more solid base and therefore, we are going to slightly modify the ways that we go to those markets, starting with one particular market in the beginning. Let me answer the question on pricing, as you know, in the early part of this year we did move some pricing up and right now in the Q4 we have no plan, but we are currently working on a new model of long-term course GNIIT and when that comes out it is likely there the fee points may be different, the configuration of the products may be refreshed and to that extent there may be a higher realization, but that is not a news for Q4, but certainly when we go into the next year we will certainly revisit the pricing and the fee structures of all the products and I can already visualize GNIIT fee being different from the current levels. Did it answer your question?

Mohit Jain: Sure sir. Thanks.

Vijay K Thadani: Your next question was on tax rate. As you know, the tax is the summation of a product mix, which is to do with how much is the India-based business and how much is the export-based business or geography-based businesses. So that determines the tax rate. The quarter in which India business does better, tax rate is higher like it is this quarter, last year CYD was 22%, this year CYD is 21% and going forward it will vary between 21 and 25% depending on that mix.

Mohit Jain: PBT was 65, whereas the tax was 41. Is there any particular reason why it is like 63% in this quarter?

Vijay K Thadani: It is like this, you had the standalone profit of NIIT Limited was very high because of the good domestic business and there was a loss in international geography's consolidation because of the problems in international this quarter, therefore it appears 63%.

Mohit Jain: So the loss, which is incurred on international business...

Vijay K Thadani: That in next quarter you will benefit.

Mohit Jain: So that can only be offset against profit.

- Vijay K Thadani:** Yes, of course, and fortunately they will all make profit; it is in this particular quarter we have that. The point is when you have a loss [in a subsidiary], you cannot put a negative tax figure, you cannot create a deferred tax asset. You can create a deferred tax asset if you have current Capex or something and that is the reason.
- Mohit Jain:** Can you please remind me the forex impact on your margins?
- Vijay K Thadani:** On margin Rs. 14 million.
- Mohit Jain:** Rs. 14 million. Thank you.
- Vijay K Thadani:** Thanks for pointing it out, I should have highlighted that taxation in this.
- Moderator:** Thank you. The next question is from the line of Sonaal Kohli from AIM Capital, please go ahead.
- Sonaal Kohli:** Firstly, on the institutional business do we expect decline in EBITDA with institutional business in Q4 and also in 2012 versus 2011, or our cost structures are such that, where we have dismantled the fixed cost structures, and if we do not do further business, the profitability will at least be at similar levels as 2011?
- Vijay K Thadani:** Partly what you are saying is right, but you must realize that the IP-based business of ours is increasing, so to that extent there is a balancing effect on the margin. So it will depend on the product mix.
- Sonaal Kohli:** Sir IP-based business, as in the private school business?
- Vijay K Thadani:** There are three components to our offering, one is infrastructure hardware and software, minimum margin, second is services medium margin, and third is IP - high margin. So if IP portion is high and on the other hand hardware and infrastructure is not there, it therefore creates a benefit on operating margin in any case.
- Sonaal Kohli:** Sir, I am actually referring for the absolute amount rather than the margins. What would you expect based on the current environment that your EBITDA may be less than what would you have done in 2011? Because you are not

bidding for the government business and the fixed cost structures would be similar?

Vijay K Thadani: Government business has relatively low fixed cost, but I do not have the projections in front of me or what will that add up for the year in EBITDA. By the way we are continuing to execute the current orders that we have.

Sonaal Kohli: In the private school business in the interactive classroom area what would be the number of schools and the classrooms that you would be covering?

Vijay K Thadani: We added 385 schools this year in the first nine months.

Sonaal Kohli: Sir would be a classroom size; would it be similar to the number of schools?

Vijay K Thadani: No, not 385 classrooms per school and neither is it one classroom per school. I would say on an average 5-10. The good news is in many of these there is a lot of uptake.

Sonaal Kohli: Sir so you are saying that about 5 to 10 classrooms per school and about 300 schools, about 1500 to 3000 classrooms is that what you are saying?

Vijay K Thadani: No. 385 schools got added, not everybody brought interactive classrooms.

Sonaal Kohli: This is not the interactive classroom....

Vijay K Thadani: My thinking is about 70% perhaps would be interactive classrooms and then we have math lab and quick school. We are talking about new schools, so the upgrades are not inside.

Sonaal Kohli: Sir, as far as the new business is concerned, at the time of making our estimates we do not break up into IFBI and BPO business and Imperia, could you give some color on which quarter or whether for 2011 as a whole the entire segments which comprised of these three businesses, would it be profitable at EBITDA and when is it likely?

Vijay K Thadani: Okay, at overall level, at this point of time on a CYD basis the segment is in red as you know, and I personally feel that the next quarter while components of the business are doing well, which is IFBI, Imperia, which is management

education doing well, but on the other hands there are other which are not right, so we have minus 88 million CYD in all these business put together and I tend to feel that even in the next quarter we would have an negative impact.

Sonaal Kohli: So would you expect yourself to break-even in 2012 in this business as a whole?

Vijay K Thadani: Yes my feeling is as each business matures, which is what we should perhaps do. We should be putting it on the other sides and therefore have an overall outlay for new business. For new businesses, we are right now continuing with the same mix. Last year they had lost 129 million in the same period last year. This year that number is 88. So they are on a recovery part, no doubt, and we tend to feel that in the next two or three quarters at least this set of businesses, which we are running, should all put together be in a positive range.

Sonaal Kohli: So you mean that you may be adding up further business in this segment and that is very difficult to project overall.

Vijay K Thadani: Absolutely, we have a plan to aggressively look at skill development and in fact we have had small forays and we have been trying out various experiments and now we are putting all that together, and would be launching a series of skills development initiative.

Sonaal Kohli: Sir is this is the government section or this is skills for the companies or for individuals, what you are targeting?

Vijay K Thadani: No, we do skills for individuals and companies even today, which is IT skills and banking skills. This we are looking at the 21 sectors which have been identified by the government as priority sectors, where skills are required and we are trying to focus on a few of those and what we are also seeing is that in many of those with a common infrastructure, you can actually run a multiple series of course. We have done a lot of work in that area. We have run a lot of experiments. We worked with some of government projects so we now have our act ready, if I may say, and I think in the next quarter call we would perhaps be talking about it in higher degree of clarity and specific business plan.

Sonaal Kohli: Sir we have already been talking that we do not have any intentions to enter into a school business because the regulatory framework is not clear. A few months back Mr. Deepak Parekh commented HDFC is going to enter into school segment, he verified that HDFC is entering into school segment would imply that. More or less it is clear that there would be no interference from the government side as far as the current structure in the regulatory environment is concerned. In light of that, have you internally debated and discussed, do you feel that you would now want to enter to the segment?

Vijay K Thadani: I do not think there is any change at think which we had and I will ask Mr. Pawar who works very closely with the policy maker, so he can give you a very clear indication of what is happening.

Rajendra S Pawar: So I think there is no improvement in the clarity on policy in education and the bills are not debated. They have not gone through any serious discussion yet. They have not become laws, and we do not know when those discussions will happen. So, I guess the risk perception has not changed in our view at all, and our involvement is only to do with IT and IT based education in these institutions, in schools and colleges currently. Whatever clarity exists there is what we are operating within. Now what larger change has happened to permit for profit organizations to interact with education entities, I think we have to wait. We have not seen any clarity.

Vijay K Thadani: I think in every forum, our government has been absolutely categorical in saying that education will remain and a not for profit entity.

Sonaal Kohli: So that may be case of public posturing because government may imply something else and the public posturing maybe something else.

Vijay K Thadani: We do not want to do conjecture on that. It does not improve the clarity as yet.

Sonaal Kohli: Sir as far as salary hike in Q1, would you expect our overall margins would come down, assuming product mix does not change because of this, our profitability will decrease because of salary increase?

Vijay K Thadani: Are you referring to 2012, Q1. Q1 typically, you will always have the effect of a step increase in salaries, and salary costs are going to go up this year as well,

but as you know that we make up for that in the second or third quarter, which happened in our case by second and may be part of tired quarter, so that is a natural phenomenon. Last year was a particularly larger step up because the year prior to that people had taken a cut in the salary, so you restored the cut and you had an increase on top of that, so that gap was larger. This year, I do not think the gap will be that size.

Sonaal Kohli: Lastly, how many enrollments have you seen in the new program, is it large for us or it still at very early stage?

Vijay K Thadani: I think it is early, it is in 100s, it has not yet become significantly large numbers, but it is escalating and it is a positive movement. Institutions take long to build on these, especially if you are into a formal degree program, but Raghu you want to add something.

G Raghavan: Yes, I think what I am happy about is the success of our entry into this space and also not only launching in the first cohort, we have also launched the second cohort, and both these have given us proof of concept and going through the whole cycle, and the students are extremely happy, so it is giving us a very solid foundation to go towards what we think as a large segment.

Sonaal Kohli: So, are you targeting the masses through this course or this is also going to be little niche kind of program?

G Raghavan: Working professional, three years experience, who cannot resign from their jobs, but they want an executive MBA. You cannot call it completely niche.

Vijay K Thadani: It is fairly broad based.

G Raghavan: The contents are very robust and the best part of the program is the content and the faculty designed it, in addition to their ability to get the program on a synchronous learning technology platform delivery.

Sonaal Kohli: So my last query is do you expect anything significant from this budget, for your sector, based on whatever feel you have?

Vijay K Thadani: I have a wish list, but not necessarily everything happens. There is an irritant in skills development and training. There is no clarity on service tax and I think

that my one expectation is that if service tax can be removed from skills. Second, the industry counsels have given some wonderful suggestion to use skills development like R&D, which gives us the tax advantage, which R&D expenditure gets, and if that was to go through it will really give a bump to that. There are multiple others, but I just thought these two are sounding interesting to me.

Sonaal Kohli: Thank you so much.

Moderator: Thank you. The next question is from the line of Premchand Rao from Axis Bank. Please go ahead.

Premchand Rao: Can you throw some light on your inorganic growth plans?

Vijay K Thadani: Our eyes and ears are always open for any inorganic or strategic growth opportunity, and we normally talk about them when they get cooked. At any point of time, we are always considering alternatives. At this point of time I have nothing else to share with you.

Premchand Rao: That is all from my side.

Moderator: Thank you. The next question is from the line of Vishal Agarwal from Citi Group. Please go ahead.

Vishal Agarwal: I have two questions, if I may. The first was more on the data point kind of questions, you already talked about some of them, but I was hoping if you could give the gross cash, gross debt, and the sundry debtor's figures.

Vijay K Thadani: Yes, I will give it to you right away, cash was 500 million, debt was 3984, and debtors were 3853.

Vishal Agarwal: Secondly on the pricing side, last year if I recall correctly, we took some price increases for some of the new products, new enrollments. Given that the market demand environment for the IT services companies are especially buoyant. Do we see price hikes even this year this calendar year?

Vijay K Thadani: I like to call it price realization hike in contrast to price hike; Raghu just answered this question before, but may be Raghu can repeat it.

G Raghavan: If you look at the calendar year, I do see that being potentially there, but certainly it is not there from a Q4 standpoint, but we will always do this in conjunction with as often as possible with new products, additional value, etc., but taking Vijay's point about realization basically we also need to keep improving the way that we deliver to students and bring in efficiencies, so that for the same fee point overall value inside the company becomes better. But to answer you're very, very specific question, calendar year 2011, will there be possibly fee increases, the answer is possible.

Vijay K Thadani: Vishal in continuation of your question on debtors and debt, one of the discussions that you have been having is how do we reduce the size of the balance sheet, and there are a number of efforts underway and many of them will bear fruits during this quarter itself, so we definitely expect that over next two or three quarters, our debt levels will come down significantly because of our being very, very selective on the school business, which is where most of our debt and debtors therefore. The second is in this quarter itself there should a reduction in the capital employed because of certain restructuring, which is going to happen to certain loans, so we do see 40 to 50 Crores reduction in this quarter and then may 50- 100 Crores in the following three or four quarters.

Vishal Agarwal: And just very quickly on the school side, obviously this quarter we had a decline on a year-on-year basis, but any reason to believe that these kind of levels cannot be sustained going forward or can there be any further decline from here?

Vijay K Thadani: I do not think so because the growth in the non-government schools has been very decent and as you can see there is a declining curve and there is ascending curve. At this time the growth rate of ascending curve is higher, though the denominator is small, and by the way as we said we are being extremely selective about the kind of work we do for government schools, so some of the opportunities which Rajendran talked about also, some of those may materialize and will materialize. We of course will remain extremely selective. Our concern is the capital intensity of the business, as long as that fear is looked after we would definitely play this and therefore we are waiting on the sidelines to see what happens to government policy also, but in short answering your question we do not think so.

Vishal Agarwal: And just to confirm a data point the last two quarters that Q2 and Q3 for us we have not added any government school is that right?

Vijay K Thadani: Yes.

Vishal Agarwal: Okay sir. Thank you very much.

Moderator: The next question is from the line of Mohit Jain from Alchemy. Please go ahead.

Mohit Jain: Sir as a follow up to previous question on SLS as we understand it, there are two revenue streams, 62% from government and 38% from private, 38% is going up, but 62% is shrinking and as per my understanding it is shrinking because the existing schools are going out of the system as you complete your BOOT contract. So in that scenario I guess whatever has been added over the last three to five years' time- out of system and so because you are not adding it will continue to decline for the coming quarters is that interpretation correct?

Vijay K Thadani: It will depend upon which contracts are getting over, so Raju may be you want to answer that question?

P Rajendran: It is not simple because in a few cases in the states that we choose it is also possible and we have done it before, that post this five years BOOT model, when the assets get transferred to the government we are given many times an opportunity to continue purely on services basis, and there are examples. Chattisgarh is one such example. That is also very good for us because our overall realization improves in that. Typically the government takes a price from us at that point typically, so our method overall in government schools going forward wherever the contracts are ending our first endeavor if that is the state of choice as in we have been playing and we know that we can at least look forward to payments in time, there we would definitely try to our best to get the contracts extended. The reason being that we know territory, we know the schools, we have the faculty in place, all those costs of recruitment, placing them, none of those costs come in to picture. Second, like I mentioned content seems to be an opportunity at some stage, so we are at the point of shaking hands with one of states where it is a question of creating content. We already have sometime back talked about new content, which we are releasing so that is

an English. That is our own content, our own IPR, so the incremental cost is basically to probably translate it, localize it, that's second. Third, there are some opportunities where government is talking about teachers training outside the BOOT contract based on per teacher or a per class basis. Again this has not scaled up but this happens sporadically in some places. There is also this new thing which is called CCE, Comprehensive Continuous Evaluation and that will start happening as a standard and there are some discussions going on. Those will ensure that we have a much stronger connect at services level into both private and government schools. That is a long answer in saying that it is not that government schools have stopped. Our execution continues based on the order book, incremental additions coming from few BOOT, but then some non-BOOT contracts in the government space. The last experiment which will take time, but I just want to put it on the table as a possibility, may be many months from now is that some of the good work, which we are going in private schools as in math class etc., these are also the needs of the government schools, but to move that into government school, creates requirements and then get into MOUs or tenders that is long selling cycle, but those are future possibilities.

Mohit Jain: Sure sir thank you.

Moderator: Thank you. At this moment we do not have any further questions.

Vijay K Thadani: Thank you very much everyone. We are as usual available on e-mail, on phone for any further clarifications and details. Thank you very much for your questions, your participation, and we look forward to seeing you again very soon.

Moderator: Thank you members of the management. On behalf of NIIT Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines. Thank you.