“NIIT Limited: FY’10 - Earnings Conference Call”

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CHAIRPERSON: VIJAY THADANI (CEO – NIIT LIMITED)

Moderator: Ladies and gentlemen, good evening and welcome to the NIIT Limited FY 2010 results conference call. As a reminder all participant 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, please signal an operator by pressing "*" and "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 Thadani, CEO, NIIT. Thank you and over to you, Sir.

Vijay Thadani: Good evening. This is Vijay Thadani. I am joined by Mr. Pawar, Chairman, Rajendran, the CFO Mr. Mahajan, Vijay Kumar and heads of our businesses Mr. Raghavan and we have a new face today Mr. Sanjiv Pande and I also have Ms Chetna Khuller. Last, but not the least Kapil Saurabh. Thank you very much for joining us on this call. We are discussing the fourth quarter results for the financial year ending March 31, 2010. What I will do is talk about the fourth quarter as well as this year overall and to start with I would like to talk a little bit about the way the year started. The year started with an economic gloom kind of a thing, there was a global turmoil; there was widespread fear of economic collapse. There were recessionary trends and everybody was in a huddle trying to cut back on investments and cost structures. In NIIT, we also saw the impact of that in our first quarter results and therefore our focus was on improving profitability through efficient cost management and make sure that we conserve our cash and capex. That is how we started the beginning. As we end the year we can say that the ambiance is extremely bullish, India's GDP growth is particularly exhilarating, we have already done 7-7.2% and then we have 8-8.5% next year and some people talk about a double digit the following year, it is a growing economy, business confidence is returning. Recruitment, jobs are back in all sectors as well as there are small signs of recovery in US, though on the other hand in the western system the situation has not stabilized and there are concerns about Europe. Similarly, if you look at the end of the year, as we end the year we have a positive growth and return in most business lines, in fact in every business line on a quarter-on-quarter basis if you compare with the same period previous year, we have had a substantial improvement. There was an aggressive push towards profitability as well as future growth and there is a renewed focus on new products and initiatives, so we started the year on a very cautious note and I think we have ended on a very optimistic note. With that background, our Q4 results, our consolidated systemwide revenues were Rs. 4.75 bn rupees, up 2% year-on-year, net revenues on the other hand were lower and when we see the analysis, at 2.95 billion. EBITDA was up 31% year-on-year; margin was up 401 basis points, a substantial jump in margins on a year-on-year basis and therefore contributed and flowed down to the net profit, which is up by 40% to 247 million rupees. Key drivers to this growth was essentially an enrollment growth on one hand, strong growth within enrollment in infrastructure management training, continued growth in learning products and that is really very heartening. Element K online library subscriptions grew, and coupled with execution efficiencies and cost management, was the key contributor for this performance. If I had to go one level lower at individual business level, net revenues were up 11% year-on-year at 1.144 billion, EBITDA margin at 25%, which was up 177 basis points year-on-year. You would recall that we started the year in individual learning business at a flat between 0% growth year-on-year, we moved on to 7% in first quarter and second quarter we moved on to 11% in third quarter and this is also around 11%, so in a certain sense we can see the return of traction in the individual learning business very much through the year. In schools, our revenues were lower at 321 million, we will discuss that, however the EBITDA margins were very strong at 23%, an improvement of 499 basis points year-on-year basis. In Corporate, the net revenues were at 1.393 billion which reflects in rupee terms a small degrowth, however what is to be seen is that impact of foreign exchange in this quarter on a year on year basis, otherwise we could have had flat volume growth, however the margin improvement in that despite the impact of foreign exchange was 371 basis points year-on-year. New businesses which were launched in end of FY 2009 did enter in to a very difficult year in FY 2009 but have fought their way back and in this quarter net revenue was at 92 million rupees which is up 82% year-on-year and not only that at this high volume level as well as cost efficiencies EBITDA even though still is in a negative range, the losses have reduced by 26 million, so it was 22 million negative EBITDA.

I will go a little faster on the overall financials since those have been on the web. What I would like to mention is that while operating margin improved by 401 basis points, depreciation was at just about the same level 2% and therefore profit before tax increased by 63% on a year-on-year basis, so higher impact of that because higher profit coming out of India operations as well as higher share of profits from associates they kind of neutralize each other in a certain manner and therefore overall, PAT growth was 40% which is quarterly EPS of Rs.1.5 on a face value of Rs.2. What is not visible in these numbers is the impact of forex, which was 106 million on dollar denominated revenue as well as a forex loss of 10 million in other income, which actually creates an impact of 48 million because last year it was 38 million positive. At a business line level, as I mentioned individual business grew 11% on a year-on-year basis, schools –27%, corporate –6% and new businesses 82% and therefore the overall was –2%. However, if you add back the impact of forex then overall it would have also been in the positive range, sufficient to say that corporate business has recovered through its own negative growth phase and now is in a positive growth at volume level and I will just discuss that when I go in to next level of detail. Margins have consistently improved in every business whether it is individual, schools, corporates and in case of schools and corporates, the margin improvement in basis points is fairly substantial. Going in to one level of detail at an individual business, individual IT, which is ILS, the systemwide geography mix was 58% coming from India, 25% from rest of the world and 17% from China. Overall enrollment for the year was up 12%. Given the fact that quarterly enrollments were up 18%, it shows that enrollment growth has also been following the path of stimulation as we go forward. What is noteworthy is IMS enrollments, which were at 64% higher, and placements which were up 25% year-on-year. The important events during the year were launch of SAP, IBM and Tally relationship, which have contributed to overall increase. In Q4 one significant thing would be the MOU signing with IGNOU for joint program because that will help us reach deep inside the country to service students at remote locations as well. In school learning solutions, I already mentioned about improvement in operating EBITDA margin by 499 basis points. There were no new government orders finalized during the quarter. We did have opportunities for some repeat orders. We re-negotiated those and some of those orders could not be closed in March, one of them did close in the month of April, which has been referred in the newspaper, which is Maharashtra. So in this quarter non-governments revenue grew by 16%, we added 101 non-government schools in this quarter. Overall during the year that added up to 330 non-government schools and at total schools level we were at 2,812 new schools. Corporate learning solutions, it is very interesting to see how the progress of corporate learning solutions has been on a quarter-on-quarter basis and we are always obviously comparing against a similar period in the previous year, so it is important to see that we started the year in volume terms at –10% moved on to +1.3% and +2.5% and now at 6.2% overall. In EBITDA terms also our margin has been steadily improving barring the third quarter where we dropped a little bit and now we ended at a margin of 10 odd percent in the overall corporate learning solutions business, what was also important, online product business, something which we have been tracking we have invested in and we talk about it quite often, that business grow 15% year-on-year in volume terms. Product mix change, cost management these are things, which contributed to an improved margin, and of course we have a decent order intake of $30.9 million during the quarter, so corporate learning solutions is ending with a stronger mix of learning products, lower mix of publishing, just about the same mix of custom content and overall the outsourcing business also has shown a small percentage increase. In new businesses, the fourth quarter was particularly eventful in terms of jobs coming back in banking and financial services, insurance sector and they had 61% growth in enrollment. This is also the quarter when their placement crossed 8,000 mark which is a very large number of placements in finance, banking and insurance services sector as you know most of these are in private sector banks and/or multinational banks. Even the BPO business showed positive traction during the quarter, however all these businesses have not yet reached the break-even level, closest is the finance banking and insurance business, which has a marginal negative EBITDA and would therefore break even in the coming quarter. The other businesses also reduced their losses significantly and are inching towards break-even level. Overall if you look at FY 2010 performance, we have closed the year with 4% increase in revenue at Rs.11, 993 million, EBITDA has been substantially better following the philosophy of improving focus on profitability rather than on volume, 32% growth year-on-year and the margin improvement of 275 basis points. Given the fact that we started the year with a negative profit, negative growth in PAT to work our way backwards we have covered up for that and have actually ended the year at a marginally positive note on PAT as far as PAT is concerned for the whole year. If one was to define what are the key drivers, which caused this to happen, it was an enrollment-backed growth in individual segments, increasing acceptance of our non-government solutions in private schools and growth in learning products in US and North America and international geographies, improved IT based product mix for profitability and continued benefit of cost management action once again contributing to profitability. So overall individual has grown 7.4%, net revenue at Rs. 4.275 billion, schools have grown 45% at Rs. 2 billion, corporate is at Rs. 5.4 billion and therefore the total as I mentioned at Rs. 11,993 million. In Corporate, the EBITDA improvement in absolute terms has been the highest 490 basis point improvement even in basis point terms but even in gross term it is profit, which has increased nearly five fold. This year was also very interesting in terms of recognition of certain core competencies that we have been nurturing over the years and we received a large number of awards, this, we believe is acknowledgment of our superior product offering as well as our superior competency. We received actually 53 awards last year, more than one per year if I look back that way. Overall we started the year on a very, very cautious note in the first quarter, in fact negatively impacted in profits, but have worked our way back and have been able to cross the whole year numbers of last year. In terms of our balance sheet there is an improvement in balance sheet as we move from the December quarter balance sheet that I had shared with you. Our net debt has reduced by Rs.571 million and we had talked about this in the last quarter result.

We had implemented large government orders in the first part of the year and those receivable were yet to be collected. We have had a very successful quarter in terms of collections on the government orders and therefore have brought down our net debt levels by a significant number and so obviously the DSO. At the annual level a return on capital employed is at 14.1% measured in as-is-where-is term but if you take the impact out of extraneous factors such as foreign exchange, such as some extraordinary increase in last year then actually our ROCE has improved on a year-on-year basis. In terms of the geography mix India has obviously improved its position in the overall geography mix, US position has declined, India 49% from 47% US has gone down from 31% to 27%, interestingly rest of the world has gone up by 2% point and here I think two noteworthy geographies worth talking about is Africa. Africa has had a successful year last year. China has had a particularly successful year. We have talked about the public private partnership, the new model that we have. I was there in April and I saw the largest education center that NIIT has anywhere in the world in Wuxi, which can accommodate 10,000 students, it is a 300,000 square feet campus, which was in public private partnership with the Chinese Government. Overall, as we go forward based on the performance that we have, the emerging thoughts are in the difficult year what we have been able to do is to nurture our core competencies better and invested in significant building blocks, which will take care of the opportunities that we have in the environment as we go further. Opportunities in the environment comes from very favorable government policies and some specific initiative in which we have also participated in. So based on this as we see the future direction while the decision making cycles have still not reached the levels of performance that we were used to for the levels of timings that we were used to, but they are fast reaching there. The important issue is the students have a large number of choices and we have to make sure that we are able to offer as many of those choices and have courses to meet as many of those needs that they may want to study. The positive business strength are increased enrollment in all segments especially Edgeineers, and infrastructure management services training, specific trends are placements continuing to grow, specific environmental factors, which are contributing to this that jobs are back not only IT, but every other sector as well as a buoyant economy, more money in people's hands, so we do see that this will contribute to continued growth in enrollment as we go along. We would also like to take this opportunity to get into higher ends and take advantage of hire and training opportunities in ERP and other spaces. We launched a partnership with SAP and IBM during last year and we would like to take advantage of that and of course as we go because of growth in revenue as well as improved capacity utilization as well as the product mix, we expect to see our margins improving as well. In schools, we would like to scale up the private schools or the non-government school business much faster than what we have been able to, the traction in last year has been encouraging, but it is time to put some more energy behind. We are expanding our sales force rapidly. We are expanding our management team. Sanjiv Pande who just joined us a couple of months ago is the new president of our schools business and those of you who will be with us on Monday in Mumbai for the investor meet would have an opportunity to meet him in person as well. Positive business trends are government focus on education translating into number of new opportunities, increased in the number of deployment of our ICR or interactive classroom based solutions in larger number of schools, so each installation creates a successful reference for many new schools to come and be interested in it and we are right now getting the benefit of that positive momentum, so we do see that growth in GSA segment or government school segment will continue to remain strong. We also see that because of the increased thrust in sales management, even private schools or non-government schools space should also be very attractive and we are looking at bidding annuity-based revenues as we go along in the future. In corporates we have three focus areas. We want to focus on the success of learning products, the environment is presenting us with one more opportunity to do even better our most significant competitors are going through financial restructuring and that presents our sales force with an opportunity window and we are taking advantage of that. The second, while the training industry in US de-grew last year, this year there are signs of improvement there on one hand, but there are sure signs of training outsourcing activity beginning to catch momentum. We are ourselves active in a few of those deals and of course have to wait and watch as we go along. And the third contributor to corporate is the government project, the government based spending on training and skills development, which we would like to take advantage of. In new businesses the banking recruitment as well as BPO recruitments as well as management training upswings are all positives that we want to take advantage of as we go forward. So overall in the individual segment improving job prospects to lead more consistent enrollment in revenue growth, in schools a strong foundation of execution excellence in scale and therefore that will contribute to future and corporate growth expected on the strength of not only the order book, but competitor wins as well as specific products like learning products and training outsourcing business segment. India will continue to remain very bullish; rest of the world, Nigeria and China continue to remain very bullish, US showing signs of recovery, we have to wait and watch. Europe is major concern, we do not have large business presence there, but I am sure there will be an impact on that. Overall, the environment we do see volatility in forex to be a concern area, but other than that we look forward to introducing new products, getting market share, taking advantage of the cost initiatives that we have invested in on one hand and on the other hand, we grow by this higher marketing spend to take advantage of the new opportunity. If last year the profits came out of improving profitability, this year the profit will largely come by increase in volume that may be one way of summarizing what I could say, so with this I would like to open this for Q&A.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of K. Poddar from KB Capital Markets. Please go ahead.

K. Poddar: Sir, in spite of your operational excellence I think what has marked a whole thing is the interest expense going up; even for this quarter also interest expense is up, so how do you see the interest expense panning out next year?

Vijay Thadani: Interest expense that we have is being deployed at this point of time for school projects and as we go forward, it will depend on the amount of debt that we are carrying, interest rates at this point of time are stable and what we do see is the overall interest levels will depend on the debt levels which we have. The net debt has reduced over last quarter by 571 million rupees.

K. Poddar: So do you see the debt reducing like this as in the last quarter?

Vijay Thadani: No, the debt will not reduce because as we get into newer projects, we would need to make sure that those get funded as well, so overall debt levels there may be a marginal increase as we go forward because we have very healthy cash flows coming from operations as well, both will balance.

Moderator: The next question is from the line of Sumit Poddar from Birla Sun Life Insurance. Please go ahead.

Sumit Poddar: Just wanted to understand more on the corporate learning solutions, what is the outlook going ahead and how are we kind of going to leverage on that as such?

Vijay Thadani: Thank you very much. Corporate learning solutions, if you see our performance over the year we started with a negative growth overall and landed up at a flat or positive volume growth. Now, we do see the volume growth to be there even in the next year, however what we are uncertain about is how the foreign exchange will behave, so as you know a large portion of that comes out of our dollar-denominated revenue, so that as far as top line is concerned, however as you know we also have dollar based expenses, Element K for example, large amount of their expenses are dollar based, so to that extend we have a natural hedge against dollar, but in absolute terms the revenue may look different. In margins, I think over the year our margin improvement has been beyond our own expectations and what we had talked about, it is at 8%, whereas I think we were projecting 5-6%. We do see a scope for improvement in margin, the question is how do we balance the volume growth, the marketing cost and making sure that we take advantage, so I do see volume growth to be positive and I also do see improvement in margins, so that may be marginal at this level that we have already reached.

Sumit Poddar: What could be the levers? Is it that the volume growth itself giving the operating leverage or there any other levers that are available as far as corporate learning solutions?

Vijay Thadani: Product mix is one very important lever and the good news is that it is working in our favor right now. Learning products give us very high margins and the learning products we are doing particularly well. Training outsourcing can change because those are typically large deals, larger deals than what you get either even in a product deal for example learning product deal is a subscription deal over three years, you kind of recognize it in 1/36 every month. On the other hand if you have a learning outsourcing deal, you actually start with a step, so a step jump in revenue can come from large outsourcing deals and as I mentioned there are some under discussion. Training outsourcing is not a very established marketplace in an overall sense, but any of those deals can change the trajectory.

Sumit Poddar: Also you said that one of your competitors on the online learning space is facing some financial restructuring, it is going through a financial restructuring phase, so any sense on what are the market share gains that we have already achieved and what is that looks feasible for us?

Vijay Thadani: We only have publicly available numbers, so for example they have quoted that their bookings have gone down by 6% in the last quarter or last three months period that we compared ourselves and our positive growth of 10% to 12%, so given the fact that we are number #2, but also realizing that they are much, much larger number #1, their 6% loss can mean much, much more to us as well.

Sumit Poddar: Sure and then people are shifting from them to us or is it just that we are gaining as a part of new dollars coming in and they are losing as a part of cutting expenses at their client level?

Vijay Thadani: I think both are valid because recessionary economy obviously people have to look at discretionary expenses. So the good news is that if you are committed to training then online offers you the most viable option to keep your workforce trained by keeping cost levels down and that is beginning to catch a lot of momentum, so all our new wins from new customers come on that logic. On the other hand, we have had competitive wins, a number of competitive wins, which have contributed to this growth. Remember any new customer would not jump, hook line and sinker into online. They would first try it out in some department or some content, but if you do a comparative win then they are experienced players, so therefore big deals come through that.

Sumit Poddar: What is the outlook on school learning solutions?

Vijay Thadani: For School learning solutions, I think the outlook is fairly strong both in government as well as in private. In government frankly there are more orders available then we would like to take but one has to be selective. I mentioned to you that we could have actually closed two large orders, but we wanted to renegotiate, they were repeat orders, we wanted to renegotiate and in one case we have been successful and in the other the discussions are still on, so I think the important case is we would like to get the government orders at terms which are conducive to us and not just jump headlong. As far as government is concerned, they are releasing 25,000 schools every year, so we are not short of schools; we are not short of opportunities, just need to be careful. On private schools, I think there is momentum building up because of large number of environment changes and our products have been accepted extremely well, as I was telling you every school that we implement it creates a reference site for many more, so we have comparative wins there are well.

Sumit Poddar: Sure, would you like to give any guidance in terms of revenues of each segment?

Vijay Thadani: Yes, we have been giving guidance, but we must also know that the next year has its own set of uncertainties, so I would like to start by saying that, but even from what we are seeing is uncertainty number #1 is foreign exchange itself, this year we are at an foreign exchange rate, which is Rs. 2.5 less than what we had as an average last year, 47.5 versus 45 odd that we are today. In corporate learning solutions while we do see positive growth in volumes we do want to make sure that even after adjusting the impact of foreign exchange at least to the extent that we can, we should still have positive growth, so it will not be very large, because there are segments which are still challenged for example print and publishing segment is still challenged, custom content has bottomed out but not come back to growth, so we are depending on learning products and training outsourcing. In individual learning solutions business, where we have seen growth in enrollment, we do see an acceleration in those enrollment as we go forward, but we must also realize that last year, for a better part of the year we were quite starved and therefore are not carrying a large order book as we get into the new year, so those two issues had to be balanced and we do believe that we should be able to see the growth levels that we have been able to encounter this quarter; however I think the jury will be out for the first two quarters because that actually determines how the rest of the year will shape out. As far as schools are concerned, we opened the year with a new order. The Maharashtra order came in April and we do see that maintaining a growth rate of 25% to 30%. New businesses are showing momentum, we are looking at growth of 50%. So we are looking at a growth of 50% or so given that their denominators are small.

Sumit Poddar: And in terms of margins, although I mean as you have already stated that forex is one of the head winds for the corporate learning part, but in the other segments, do you think we will still continue to improve margins except for the uneven head winds, any other head winds and the improvement that we are looking for?

Vijay Thadani: Well head winds obviously you must know that the austerity drive in most of the places is over, so if you have a buoyant mode then there would be salary increases, there would obviously we do not want our cost structure to go out of hand, but we do want to make sure that our people who have participated in the recession, with actually in many cases literally their salaries, so we need to make sure that we provide the right increases and matching with the market trends, so that is one. Increased marketing spends to make sure that we capture most of the market would be another, and then of course there are some environmental issues like service tax and all these small-small changes as well, all these add up to quite a bit, but we do believe that volume growth will overcome these and leave us with improved margin even as we go forward. So next year profit, not profitability, this year profit came out of improved profitability, next year profit will come out of volume growth and profit increase will come out of volume growth. Therefore small increases in profitability can be seen.

Sumit Poddar: And just one last question on the individual learning, what is the capacity utilization that we are running at currently?

Vijay Thadani: 56% at the end of March in the quarter last year.

Sumit Poddar: Great Sir. Thanks and all the best.

Moderator: Thank you, Mr. Poddar. The next question is from the line of Nirav Dalal from Capital Markets. Please go ahead.

Nirav Dalal: Can I get the gross debt and cash figures?

Vijay Thadani: Gross debt is 4,046 million, cash balance 621 million.

Nirav Dalal: Thanks a lot.

Moderator: Thank you, Mr. Dalal. The next question is from the line of Abhishek Anand from Centrum Broking. Please go ahead.

Abhishek Anand: Sir in the ILS segment the gap between the system-wide revenue and our net revenue is actually narrowing since now we have 40% as net revenue. So just wanted to understand why this change and how does it effect the margins?

Vijay Thadani: Raghu, would you like to answer that?

G Raghavan: Thank you for the question. The gap between net revenue and system-wide revenue is the function of the channel mix and as much as in a given quarter, the ratio of revenues from own centers versus different partner centers and domestic versus international. These things drive the difference between net and system-wide revenues, but by and large this does not have an impact on the absolute level of profitability. Ratios could slightly move this way or the other, depending on the channel mix, but by and large over the several quarters, we have not found this to be a major cause for things of profitability in any unexplainable manner.

Abhishek Anand: Sir, one more thing on the School Learning Side, if you look at the absolute amount in terms of government schools, Q4 we had around 8,400 schools. We ended this Q4 at around 13,500 schools; however, if we look at the revenue from them we are down 40%, so just wanted to understand why or is there anything wrong the way I am looking at it?

Vijay Thadani: You are not very wrong. There is from government schools there is a continuous scheme of revenue which you said, as well as whenever there is a project start at or depending on certain milestones you get a certain revenue, may be sometimes there is a hardware supply which has to be done that way like we have explained to you in second quarter in Gujarat, and the other thing is last quarter, we also finished one contract, which was Andhra Pradesh 663 schools. So that would not have come in this quarter. So those are the contributors.

Abhishek Anand: How has the absolute amount of revenue faired in the government school vis-à-vis Q3 FY'10?

Vijay Thadani: Q3 FY'10, it should be easily balanced. I will just give it to you. It was 333 in OND'09, and Q4 FY’10 were 190.

Abhishek Anand: And sir, last one question on the CapEx, what was the CapEx for the full year, which we did in FY'10?

Vijay Thadani: 949 million.

Abhishek Anand: And outlook on the CapEx for FY'11?

Vijay Thadani: There is a normal CapEx, which is to do with known projects and then there is a CapEx, which is to do with school projects. So school projects we normally have worked out a method that we do not need to worry about that funding at this time, but would go about, so if we were to add let us say about 2000 schools approximately which is what we have been doing so we can do more, we would like to perhaps limit ourselves though we believe would be decent margin schools, then I think our CapEx should be about 900 million, 800 to 900 million.

Abhishek Anand: Sure sir. And sir lastly just to check on the absolute number of schools that we have in the government side, is it 13,500?

Vijay Thadani: In fact the total number of schools service would be that. I think the total number of school service as we speak has just crossed 15,000 after adding Maharashtra.

Abhishek Anand: Sure sir. Thank you, so much.

Moderator: Thank you, Mr. Anand. The next question is from the line of Alok Agarwal from Striver Capital. Please go ahead.

Alok Agarwal: Vijay I just wanted to know how much is the total capital deployed in the entire business?

Vijay Thadani: 9110.

Alok Agarwal: 911 Crores of cash? How much is in ILS?

Vijay Thadani: I would not have that breakup straightaway, but I would say about 250 Crores.

Alok Agarwal: 250 in ILS roughly, CLS has got how much?

Vijay Thadani: CLS would be another 300 to 350 Crores. I am giving you approximate numbers.

Alok Agarwal: That is fine. 350 are CLS, and SLS? SLS means 600 that is about 400 Crores.

Vijay Thadani: I am sorry. One moment, I have to give you one more time. Remember there is capital deployed as investment also. So we have to separate out. Just give me one second; I will give you some different numbers. What we do is we normally allocate that also and say okay in your respective ratios that capital gets allocated, but one moment I will just give you that.

Alok Agarwal: This essentially relates to that only. I mean I am seeing your 14% ROCE, just I thought in fact if I try and split SLS out, I do not see what is the rationale of continuing both SLS as I can see that unless one sees a tremendous improvement, if I go even by SLS, if it contains the capital deployment of not 400 even 300 Crores that gives you ROCE of just 10% and 32% as EBITDA? On CLS also, if I take 350 Crores capital deployed and 43 Crores as EBITDA, above 12% to 13% of ROCE. ILS, I appreciate, has a very good ROCE maybe closer to 35% to 40% which is great, I mean new businesses are still new too early to say, but 10% to 12%. What the game plan to reach even half of that of ILS ROC let us say about 20%?

Vijay Thadani: Yes, so I think the important issue is first of all while I appreciate the fact that you have a good thing to say about new businesses and ILS you must know that the investment in new businesses which is booked as a lot right now, if one was to consider that there is an investment then we are talking about our ROCE improving by about 200 basis points. I am saying 16% is an acceptable ROCE. The other important thing is that if you take away the extraneous things which happened as we go through a bad economy and I think why I gave a long discourse on how we started the year with a very, very negative sentiment and have ended with a positive sentiment, which in many ways I think affected the previous year, you have to take that into account as well. Overall you can see that there is a phenomenal improvement in Corporate Learning Solutions, at the same time dollar volatility, economic volatility are realities that we are facing. Schools, there is a capital intensity that if you want to be playing in that part of the business that exists. Question is, are we rebalancing our portfolio continuously, are we examining ways by which we can improve that? Yes, and if the question is that why should we need the other two businesses then I think there are number of issues involved amongst others is also how do you want your overall competencies said to grow, because that is exactly the one which actually delivers you results even in the business in which you are in and we have had that discussion on the number of occasions, we would be happy to do that one more time.

Alok Agarwal: Vijay having done the discussions in the past as well, if I look at the track records of HLL having 10% ROCE, I mean I would not be happy frankly unless as I said we have a game plan, you have got so many in the mind what I want to know is businesses are going generate 10%, 15% or 12% kind of ROCE, I mean nothing, nothing very exciting unless you got a game plan where we can aim for 20% to 25% ROCE, segment in power companies aim 20% to 25% ROCE which is commodity business even if I benchmark against the commodity business, if I mean to my 20% to 25% ROCE at double EBITDA on the same capital.

Vijay Thadani: You are absolutely right and the effort is to be in that direction. Second, let me also please state that this is not, even though ROCE may be low at the moment, it is anything but commodity business. It requires huge amount of innovation and intellect to be in this business and what is important is we have to go through the growth curve. If we wanted to use the business as a cash curve, and was just simple focus which some of our worthy competitors did and did very well. Then obviously you can keep doing ROCE, but if you want ROCE and growth because what goes into bank is absolute profit and if absolute profit also has to grow in addition to percentages then I think you have to invest in the future and I guess right now a little bit of what you are saying is also coming from the fact that we have just gone through a bad year in economy. Actually one-and-a-half year, fortunate for us we only felt one out of those one-and-a-half years the last half of FY'09 and first half of 2010. But that is where we are. Let me also share some moves, which we are making to make sure that each of the businesses consumes less capital. We are right now working to the government and government is very appreciative of that, of how in government schools the private partner does not have to bear the burden of capital investment, why should he have to say his shareholders and answer why ROCE is 10%, why should the government, not be bearing that burden and I think there is a favorable response to that. So there are newer tenders emerging, which will perhaps change that equation. The last point I just want to make, you must know that last year we implemented large school projects whose benefit will come over a period. You saw some benefits coming in the last six months itself, your capital employed reduced by nearly 500 million or your debt reduced by 500 million odd, you capital deployed reduced so there are two ways of improving the ratio increase the numerator or decrease the dominator and I think you are working on both of them.

Alok Agarwal: Can one as an investor expect 20% ROCE for the coming year in the school business or is it far away from the horizon?

Vijay Thadani: I do not know whether I can put my finger around and say you can get it at the next year, but soon obviously we would like to look for businesses, which have ROCE of that nature and more.

Alok Agarwal: And same applies for CLS, I mean sometimes as an investor one feels like huge amount of capital get deployed in this business without any commensurate return? With the hope of creating and with the plan of creating better returns as we go forward. I hope so because this is fashion not just last one year, which is bad, even historically when the times are good, the ROCE were really poor.

Vijay Thadani: You may want to compare how things have been in these businesses last year versus this year. So that should show you the improvement. I can send you that data if you would like.

Alok Agarwal: Thank you very much, thanks Vijay, see you on Monday.

Moderator: Thank you Mr. Agarwal. Mr. Thadani we do have two more questions would you like to take them?

Vijay Thadani: More specific. Yes lets take two more questions, I think one question took a bit long and many people will not got a chance. So I do not mind if you want to continue for another 10 minutes and I think we can keep one question each at least everybody gets a chance to ask a question and we have an investor meet at Trident in Mumbai at 11:30 on Monday morning and Trident in Nariman Point and we would like to invite each one of you to be with us, invitations may have been sent to you, and would have been sent to you but just in case we have missed, please do make it convenient to attend.

Moderator: Thank you. The next question is from the line of Deepak Ratani from Aadhar Securities. Please go ahead.

Deepak Ratani: Could you just briefly take us to the kind of work you are doing for the private schools in India?

Vijay Thadani: Okay, Sanjiv you want to talk about work that we are doing for private schools. Let me introduce Sanjiv Pande he is the President of the School Learning Solutions business, just joined very recently so should give you a good opportunity to interact with him.

Sanjiv Pande: Good evening, this is Sanjiv here. Privileged to be a part of this team and part of this call, so private schools as Vijay earlier said that has been one of our key press area, while I will not comment to specific numbers and Vijay has shared that with you, a mix of business as we go forward, private versus government is something that we are looking to sort of balance and we saw some traction on that in Q4 last year and what we are doing specifically in the private school space is drive our key group portfolio and then we shared that I think in the last meeting we showed you some of the demonstrations of key solutions that we have. The Math Lab product, the Science Station and our overall teaching learning solutions with interactive as one of the platforms to deliver teaching and learning, so overall we are investing in the portfolio, we are investing and aggregating more and more content and more importantly we are building skills and our sales and distribution network. So that is the key in terms of expanding our reach to exist in the marketplace in India. What we see us as a trend in the Indian market place is more adoption of IT based speaking, learning and tier II and tier III historically we have not had presence, so what we did last quarter is add additional sales force members. We will continue to invest and expanding in our sales and distribution team so that we will expand our coverage to over more parts of the footprint in India and South Asia as well as through channel partners, so net-net more marketing, continue to expand the e-guru portfolios offering and drive wider reach through both our direct sales force as well as our business partner network.

Deepak Ratani: So if I get more of project driven business in private schools rather than annuity based business?

Sanjeev Pandey: There is a combination of products, so there are licensed products and there are annuity-based products, so depending again on the customer's requirement we are a model weighted in school who would buy a first student for a month kind of a model. That would be a model of per classroom or a month kind of model and there are licensed products like our ERP solutions and our lab products, which are sold on an outright implementation model.

Deepak Ratani: Okay. That is good enough. That answers my question, thanks.

Vijay Thadani: But let me just add to him, irrespective of whether it is a license or a subscription, every product in private schools and retail, there will be followup annuity based revenue it will continue.

Deepak Ratani: Thanks.

Moderator: Ladies and gentlemen due to time constraints we would be taking the last question. The last question is from the line of Raj Shastri from SKS Capital. Please go ahead.

Raj Shastri: My question is regarding the reduction in the number of employees this quarter compared to the last quarter and also compared on a YOY basis, was that reduction across the departments or was it more in ILS segment or any other segment for the manner and how to followup in that?

Vijay Thadani: Actually the reduction, which happened, also happens when there is a change of project team let say in School Learning Solution. I mentioned to you we completed one project so that may have contributed to some lesser people on one hand. On the other hand in Individual Learning Solution our headcount is on the increase. In Corporate Learning Solution in the offshore part of the model our headcount is on the increase. In School Learning Solution we do have a permanent team as well as sometimes we have some project based staff, so that may be the question that we are looking at. Over the years, the drive which we followed was to make sure the recruitment was that the overall places the recruitment was tight, now in ILS when I say I am including our new businesses as well, so overall new businesses had increased headcount at the beginning of the year, but during the year, we moderated it because our businesses were in early stages and now we will see them coming back as we go forward.

Raj Shastri: If I understand correctly in the Q4 2010, the headcount actually increased quarter-on-quarter in the ILS segment which includes the new business?

Vijay Thadani: In the last quarter perhaps it would have been at the same level. In the coming quarter, it would increase.

Raj Shastri: Do you to think that 25% EBITDA margin I think that is one of the highest ever you have produced in a quarter in ILS segment you can maintain that?

Vijay Thadani: That is our targeted margin as you know for a long period of time, so it depends on the number of issues, it depends on the fact is I remember four or six quarters ago somebody asked, do you think you can ever achieve it, so to that extent answer is yes. Can we continue with it every quarter, the answer is no, because every quarter has its particular ups and downs and we have new product launches for which there are marketing spends. I must tell you for Q4 specifically, we conserved the large amount of marketing money to keep it ready for the season, so in the season time you would see much more of us on television and wherever else, because we thought we should conserve our resources for the time when we will have the best return on the that marketing spend.

Raj Shastri: Thanks, all the best for the next quarter.

Moderator: Thank you Mr. Shastri. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Vijay Thadani for closing comments.

Vijay Thadani: Thank you very much. As usual we learnt a lot from your questions and I want to thank each one of you for the joining us on the call. I do want to extend the invitation one more time 11:30 a.m. at Trident, Nariman Point is our investor meet and we would like to invite each one of you to come in and be with us. Thank you very much one more time.

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