"NIIT Limited Q2 FY13 Results Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY 2013 earnings conference call of NIIT Limited. As a reminder for the duration of the conference all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference has been recorded. At this time, I would like to hand the conference over to Mr. Vijay Thadani. Thank you and over to you Sir.

Vijay Thadani: Today, we are going to discuss the financial results of the second quarter for this financial year for NIIT Limited and while I get in to the details I just thought I will mention to you that for all comparison purposes I am using the comparison with the continuing part of NIIT Limited's business, just to remind everybody. At this time last year, for this quarter, last year we did have Element K as a part of the NIIT Consolidated results. On October 14, 2011 we had divested our stake in that and therefore in this year's result we do not have Element K's performance built in and the results that I am going to discuss with you are on a continuing basis. In case anyone would like the performance with inclusion of Element K last year I would have those and I can take them in the Q&A session. Before I get in to the details I would like to talk about the environment, which to say in one word has been quite challenging. On the other hand, there have been some opportunities which have shown positive signs and delivered good results, so in terms of the challenging environment I think the macro environment is best understood by everybody on this call, so I am not going to spend time in talking about that. I think the more important impact of that macro environment not just global, but within the country has been the slow hiring sentiment in the IT industry. This year, the fresher IT hiring has been 50 to 60 percent lower than the same period last year. In fact if you see over the last few years there has been a steady decline in IT hiring, fresher IT hiring, however this year that decline is fairly substantial, in fact last year IT hiring the joining dates have not yet been given for some of the joinees, this of course causes a very depressed consumer sentiment and we have been on the receiving end of this in terms of our Q2 performance. The overall hiring sentiment has fallen by 13 percentage points as per the Manpower Employment Outlook Survey. There is also a positive side and that is in the private schools. Technology solutions have become an integral part of any new school and has become a distinctive feature of schools which have and which do not have and therefore technology implementation in schools is opening up to be a big opportunity. The third, Corporates, to start with globally, and now even in the country are increasingly realizing the benefit of training especially in the challenging economic environment and are realizing that training is best delivered by specialist firms, if return on that investment have to be realized and to that extent NIIT with its 30 years of strong legacy, a strong brand, a strong track record becomes a natural choice, of course our global presence helps a lot in that and that has resulted in a large number of RFPs in which we have been participating and we have also met with success in some of those as we will discuss. The most important part of course is the impact of the challenging business environment on a number of education sectors. I am sure many of you would have read about the fact that a large number of engineering colleges and universities have single digit enrollments, in fact there are colleges and universities which did not have any enrollment in their engineering degree programs especially to do with computer sciences and the reason for that on one hand is set to be the over capacity which got created but on the other hand it is also a contributor to the negative sentiment which at his point in time the IT sector is going through. The squeeze in hiring is we understand in the IT services section is because of the nervousness coming out of the outsourcing rhetoric which is part of the US election process, however people are improving their capacity utilization in the short term and we believe that this squeeze will be off next year because capacity utilization cannot be increased indefinitely. The third is that companies prefer more first-day, first-hour ready professions, as is visible from a relatively small drop in our placement numbers compared to the overall hiring decline that we have seen in the market place. The last, the increased gross enrollment ratio, government came up with gross enrollment ratios in recent terms which have reached 18% which is very impressive in the short term as far as college enrollments are concerned and the fact that new reforms will open up new opportunities are promising signs. This quarter, of course we were quite badly hit by the slow sentiment in the IT sector. We had anticipated some of that and we had talked about it in the first quarter, we had taken some steps, however I must admit that the decline in enrollments has been much more than what we anticipated. It is a different issue that in Dataquest this year NIIT has improved its market share, so while we do believe that IT sentiment is low, NIIT's leadership position as well as its strong track record are still very strong positive and an increase in market share in these challenging times is a testimony of that, how this will impact and how do we take advantage of these in times to come is one of the discussion points we will have today, however I want to talk about the results and take you through the nuts and bolts of those. The first redeeming feature of this which is the scorecard on the four growth platforms which I normally give at the beginning of each quarter is that given the challenging times as well as the trends which technology is taking the four platforms of growth that NIIT had identified have once again proven to be in the right direction. The cloud campus has now over 20,000 enrollments since its roll out. NIIT Inside has now crossed 100 plus colleges and covering students of over 31,000. Managed Training Services, our second platform of growth has 11 global customers and has added new contracts during the quarter as well as I must say in the last 15 days, two more contracts in Q3 which of course we will talk about in Q3 but at this time has built a revenue visibility of $116 million. The MTS Q2 revenue itself grew in dollar terms by 24% but in rupees terms by 53%. nGuru our private school solutions for schools has also done well with 205 schools added and achieved a growth of 54% year-on-year in non-government solutions we did have a positive growth in this segment as well. NIIT Yuva Jyoti, our NSDC venture also added more centers during the quarter and had 1,200 enrollments which are nearly double what they had in Q1, so it is on a strong wicket but of course it is hardly making a dent in our topline at this time because of its relative size. So overall the four platforms of growth are poised in the right direction. This quarter's hero has been the Corporate Learning Solutions business which has grown 31% year on year, EBITDA margin has improved to 12% versus 3% in the same period last year on a continuing business basis which is an improvement of nearly 800 basis points on a year-on-year basis. The growth in managed training services continued; revenue up 53% year-on-year and is now 71% of corporate learning solutions business. School Learning Solutions the non-government, legacy government business grew 11% year on year with addition of 205 schools, up 54% year on year, operating margin in this business was at 9% if we do not consider the pass through hardware revenue. In Individual Learning Solutions we did have a challenging environment just to remind that this is also the quarter when we have the maximum of our flagship program GNIIT and the recent flagship program diploma, diploma did very well but GNIIT we had severe challenges and we will discuss that when I get in to the details of this program but overall enrollments were down 18% year-on-year which resulted in a revenue decline of 17% year-on-year and that of course has been a major impact on both topline as well as the bottomline of this business and I will talk more about that and the corrective measures that we are taking. Having said that fresh banking enrollment has grown by 17% and therefore there is a very strong correlation which is emerging between the economic climate or the sector economic situation and our enrollment. As soon as banking reforms and various other slews of measures were announced and mood became positive the banking enrollment showed a hike, on the other hand the depressed sentiment in IT does affect our enrollment. In NIIT Yuva Jyoti or our Skill Building Solutions business we now have 21 centers operational and enrollment is ramping up to 1,200 registrations in Q2. We also launched five new courses. I did mention that NIIT was adjudged the DataQuest Top IT Training Company for now the 20th consecutive year. I don't think it is relevant in a financial context but in the strength of the brand as well as the relative position of NIIT compared to its contemporaries I think this is very relevant. This year NIIT has improved its market share from 50% to 54% even though the market declined in the last 12 months by 1% for NIIT to have improved its market share I think is something which we should take cognizance of and build in to our future plan.

Coming now to the key financials, our net revenues are flat on a year-on-year basis, 2,791 compared to 2,785; the real impact is on EBITDA where EBITDA has declined by 39%, 604 basis points south in EBITDA percentage and I will explain to you where this will come from. Depreciation was a little higher, net other income, we had the benefit and the profit before tax therefore was at 26 million compared to 158 million last year. PAT after share of profit from associates was at 116 million, compared to 242 million, which is resulting in a basis EPS of 0.7 versus 1.5 last year. The real important issue is the decline in enrollments in the individual business as you are aware it is a high operating leverage business and therefore a decline also has a severe impact on margins, so if you would look at our expenses profile while understanding the situation and understanding the way the situation was unfolding we did take some cost management actions but those cost management actions could only have a part of the impact on the recovery of the margin. We did have cost management initiatives impact of 76 million; however it was forex impact which is more a technical entry as well as it was business mix of 27 million and cost inflation were the ones which contributed to the decline in the EBITDA margin. In the net other income was essentially because of lower interest expenses as well as refund that we got from income tax which had some interest built in to it. Overall, if we do an impact analysis of margin, the primary impact has come out of lower revenue, actually the adverse business mix because individual learning solutions which were a 20% margin business last year in this quarter had declined, on the other hand, the growth came in relatively lower margin businesses of schools and corporate learning solutions. We did recover a part of it from cost management initiatives but forex impact as well as the cost inflation which was frankly well managed by us as well as the small impact of annual increments led to this decline of nearly 604 basis points in margin. Coming down to domestic and rest of the world business, US and Europe have increased their share to 16% in our total business, India has also increased its share from 54 to 58% of the total business, and rest of the world has seen a decline in the overall business. In terms of net revenues individual grew by -17%, school by +34%, corporate +31%. EBITDA contribution individual had a 223 million negative contribution in EBITDA in relative terms which was partly compensated by 71 million rupees which we got through corporate and fall impact in skill building solutions margins.

Getting in to the details of each businesses individual learning solutions business the net revenue level was -17%, overall enrollment was 147 thousand which contracted 18% which is a fairly sharp contraction given the fact that this is a large quarter in normal terms, however fresh banking training enrollment have grown 17% year-on-year. Another silver lining was NIIT Inside, whose impact of-course in revenue will come only in future times given that it is an annuity based revenue. We added 14 colleges during the quarter covering 3,100 students which takes the tally now to 100 colleges with over 31,000 students covered by it. Our cumulative enrollments on cloud campus crossed 20,000 mark. Margin erosion in individual learning solutions which is nearly a 1,000 basis points was essentially contributed because of adverse revenue mix, the operating leverage which was real given the fact it is a high fixed cost and relatively low variable cost business and partly offset by cost management which was 67 million rupees in this particular business. Individual learning solutions business if the long term courses do not get adequate registration also ends with a lower order book and that was an impact which we saw in Q2 and will perhaps see in coming quarters as well. School learning solutions revenue clocked 541 million, however this includes a pass through hardware revenue of an existing contract which, once removed ,would bring down the revenue to 403 million and operating margin up to 9%. The important thing to understand here is that this business is actually going through a transition since we are getting out of the government school business and that is on a decline on a quarter-on-quarter basis, the legacy government business and we are adding the private schools or what we call the non-GSA segment. The non-GSA segment grew by 11% year-on-year, the government revenue on the other hand would not have increased but for the pass through hardware revenues. The Interactive Classroom solutions led to an addition of 205 school orders, up 54% during the quarter. Overall margin decline, while it appears is 451 basis points but actually would be more like 200 basis points and as I mentioned that margin decline is actually contributed by the downsizing of the government business. In corporate learning solutions we did have a 31% growth and an 864 basis points improvement in EBITDA margin and MTS revenues has grown 53% year-on-year and contributed 71% to corporate learning solutions. So both in schools and corporate learning solutions I think there is a transformation which is visible from the platforms of growth. In schools I think for the first time the net revenue without pass through of non-government schools would have gone past the government schools in this quarter and that I think is a positive trend. I just want to remind two years ago government schools used to contribute nearly 80% of the total revenue from there this time the non-government schools segment the non-GSA segment has contributed more than 50% without pass through revenues shows the success of that transformation process.

Similarly in corporate learning solutions, on a continuing basis ,MTS which was a non-existent number two-and-a-half years ago has now become 71% of our total revenue. So moving from a project based revenue to an annuity based revenue which was the purpose of our MTS strategy has again worked out very well and is poised in the right direction. We have a strong pipeline in place. Two MTS deals have already got signed in the first two weeks of the quarter and that puts us in a very strong position with a strong revenue visibility in times to come. Skill building solutions is at an early stage, its numbers are beginning to be visible in enrollment though not yet visible in revenue and most certainly not in positive EBIDTA terms but enough to say that the Q2 their EBITDA was -20 million in contrast to -13 million last year that does not show anything it is in a growth phase so it will continue to have this level of negative EBITDA for some more time before it breaks even, however the progress has been good with 1200 enrollment 5 new courses launched in this quarter.

I just thought I will talk to you about the balance sheet, one of the things which we have been focusing on over the last six quarters has been strengthening of balance sheet, I have good things to say this quarter as well, we have improved in terms of our debtors position. If you look at historically we normally close the quarter two with the highest debtor level in the year but in this quarter our debtor levels are lower than what they were in quarter one marginally but that is a very significant move. Our collections this quarter were very good in fact our collections in the first two weeks of this month have also been very good. I must talk about an income tax refund of 20 Crores odd which is on its way and not yet counted in these numbers. Net debt at the end of this quarter stood at 468 million but as we speak today it is down to about 30 million rupees, we had a positive free cash flow as far as this quarter was concerned. In head count numbers anticipating a kind of a slower IT training business we had started some efforts however as I mentioned the decline in the IT enrollments has been much larger than we anticipated. Nevertheless our head count at the end of this quarter has reduced net by 129; it is at 3,478 compared to 3,607 end of last quarter.

Normally I would talk about the future direction at the end of Q&A but I thought I might as well mention. These results in overall sense from a margin point of view are definitely disappointing, are definitely more disappointing than we had anticipated though we had mentioned in the last quarter that our individual learning solutions will remain a challenge. Our corporate learning solutions has done better than expected and is ahead of its projections, our school learning solutions are in line, skill building solutions are in line, however the individual learning solutions shortfall definitely requires a rethinking of strategy on that. In the quarter two since that is the largest quarter taking any major action would have been a difficult thing and we had to play this quarter till the last ball which was indeed what we did but going forward we do have a strategy in place as to how we would like to look at this challenging time which we do believe will continue for another couple of quarters now that we have two quarters history behind us and therefore we cannot believe that it is just a temporary setback, we do believe that the slow hiring will continue for another two quarters before the IT firms open the gates again for freshers which will become necessary given the fact that capacity improvement can only go on to a limit and not beyond. The second the engineering enrollment the engineering seats going vacant are definitely putting a pressure on colleges to look at differentiating factors and I think the NIIT employability programs which NIIT offers as a part of NIIT Insight definitely should have a better pull in times to come. So while in short-term these are bad news I think in medium to long-term these can indeed become very strong product lines for the company not to mention the increased growth enrollment ratio of 18% will mean many more students in college many more graduating and therefore our response to that would be in short-term to right-size the organization, to look at the current necessity and then look at growth opportunities simultaneously. In the 2000-2001 slowdown one of the great strategies which had worked very well for us was that in a slowing market we had improved our market share and when we came out of the slowdown we actually came out much stronger then we had got into it we believe the same thing can happen and will happen this year and we are working on new set for products I will ask Mr. Raghavan to explain about that.

The third is the Cloud Campus which is one of the platforms of growth which has definitely shown not only promise but good performance. Cloud Campus not only has an opportunity for us to grow in times to come but also has an opportunity to improve our margins substantially, we would like to accelerate that process and make sure that Cloud Campus becomes a part of all our offerings at a faster pace than before. I must admit that over the last two years we have made substantial investments in the cloud campus and we have also taken the brunt of negative margin because of that, however given the fact that we are past those I think in future we can look for good result to come out of Cloud Campus and therefore margin improvement will come through Cloud Campus and right sizing and revenue improvement in medium-term will come through with new programs both in IT as well as non-IT and Mr. Raghavan will be talking about that. In Schools, our singular focus will be collection on government receivables which indeed happened in a better form than it has happened in the past in last quarter and even the first 15 days of this quarter but growth in revenue as well as improvement in margin will come out of our solutions from private schools where we are going ahead with the big push. Once again I might mention that the big investment in creating the product line for private schools has already been done and therefore we should be able to take advantage of an improving margin as we go along in future quarters. In corporate learning solutions I already mentioned we are on a strong wicket, we are in 16 RFPs as we speak and two RFPs went in our favor in the first 15 days of this quarter which is a very good sign and we do believe that will increase in volume and increase in margin coming out of that volume as well as other efficiencies we see this business growing fairly rapidly and in fact ahead of its projects.

In summary I think aligning ourselves to the new realities of the market in individual taking advantage of the tailwinds that we see in private schools business and the opportunity that we see in corporate learning business will remain the strong point of our future strategy. So I will stop here at this time and open the discussion for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: I wanted to know FY12 the growth in enrollment for ILS was around 3% here we are seeing degrowth so we definitely invested in Cloud but could you just tell us what if the hiring does not pickup next year. How are we going to position ourselves given that IT company are today currently do not have visibility beyond the calendar year?

Vijay Thadani: I think you have said it in very appropriate terms that the enrollment growth was single digit last year and has been negative in the first half of this year. The slow hiring sentiment at this point of time is most likely going to continue for next two quarters if you were to go by industry estimates, if you were to look at the results of the four big IT majors their fresher hiring has declined by 50% and more, so obviously that situation is not going to change, everybody is waiting for how the response to the outsourcing rhetoric comes from the US election as well as how the macroeconomic environment changes, so therefore plans for hiring situation improvement is not the best thing to do, having said that the capacity utilization improvement which the companies are banking on and are talking about cannot go on indefinitely. So to that extent first day first hour ready just in time recruitment I think is the order of the day and we do see that beginning to happen, people are not likely to keep bench and would like people to be available just in time. We can prepare ourselves to take advantage of that situation. Of course the non-IT sectors some of which are very promising are also other opportunities. Having said that at a macro level let me request Mr. Raghavan to talk about how he sees enrollment growth to comeback.

G. Raghavan: First of all I just want to say that the Cloud Campus is a method of delivery which will apply across multiple sets of products. Last year we did introduce it in GNIIT and this year we continued to have the Cloud Campus for the revised and new GNIIT product. We have also introduced other products on Cloud Campus. The Cloud Campus leverage will be across multiple products both what we have already introduced and ones that we will introduce. So that is one point I wanted to share, coming to the main issue in terms of enrollment growth I see growth opportunity basically coming from the following two, three areas. One is definitely within the space of IT there is a traditional requirement as well as the new age IT requirements which are becoming very pronounced and they are very much in the demand such as Analytics Cloud Campus, Cloud related service, Cloud technology, Information security, Apps development these are some of the areas in which the max has not been reached and there is increasing demand so one of our strategies will be to introduce product in these areas. The second will be additional domains. I think I had mentioned about this in the last quarterly result, we said that they will introduce the product and applied finance management we have introduced it we have currently introduced it in the last quarter for the students in colleges mainly B.Com students primarily the important point is we will be introducing to graduates, B.Com graduates and the other graduates who are appropriate for this course, very soon. In terms of digital marketing this is an important area where there has been talent shortage and we have, in collaboration with Google Academy, launched a course on online marketing and we will continue to strengthen that portfolio into much larger area and we have also identified other domains as it is retail and sales of where the requirements are there and we will introduce products. Now if you look at the segments the graduate segment will become an important part because of the lesser campus recruitment that we are seeing we will have more graduates available out there in the market who will want to first of all skill themselves and equip themselves to be ready, companies have also announced increasing campus recruitment and that also will be an important aspect wherein we are able to encash. Now the diploma format which we introduced a couple of years ago has been a well-proven format so we will be able to ride on that format to introduce courses across domains and across student segments. The last thing I want to say is the Institutional Alliance Business wherein we are going to colleges with a synchronous learning technology there is increasing receptivity for it even more so with the issues that the colleges face this year and we think that it will be another important channel for us to engage with the colleges and train students.

Vijay Thadani: So that was a rather long response for a short question you asked but I thought this will be a question which most of you would have, so we thought we will give a more elaborate response.

Grishma Shah: I have a follow up to that. What is our own IT and non-IT enrollment ratio currently, how are the intake, how do you break that up?

G. Raghavan: I will put it this way, we are looking at it in terms of traditional IT courses, new age IT courses, and new domains, roughly two-thirds of the current revenues are coming out of traditional IT training programs both meant for students and graduates, but we expect this ratio to come down to nearly half of it over the next three years or so. What we call is new age IT skill and additional domain such as what we are already in, in terms of banking finance and management. All these will roll up into nearly two-thirds in about three years time. So we have clarity in terms of what products, what segments, we need to introduce over the period of time and we will not be sitting with the same portfolio of products and continue to address the same traditional market because there are market dynamics which are happening and we are taking that in to cognizance.

Vijay Thadani: I think she also wanted to know IT and non-IT, so IT is today 88% of our total revenue, 12% of revenue comes out of non-IT domain. We believe this 12% will double in next three years to nearly 22% to 23%.

Grishma Shah: Don't you think these 100 colleges, 31,000 students is too low for us given that we have a very strong brand name tying up with colleges should it be problem?

Vijay Thadani: Yes, the sale cycles are long why because the colleges have to undergo a process of internal approvals, these are mostly colleges which are part of University. So far them to add another course, education system moves rather slowly as far as that is concerned.

G. Raghavan: Actually with this introduction of this particular line last year we had very small time last year engaged on this. This year the admission cycles have been much longer, the colleges have been very busy dealing with issues of vacant seats and so on, so there has been a little bit of diffuse decision making during this time, so the real numbers that we have got is not really reflective of the potential and what we can actually do.

Grishma Shah: The other question was on the Corporate Learning side, could you elaborate apart from MTS what is the other product basket that we have in?

Vijay Thadani: The other product basket is custom content development, which now have become very small. It used to be a very volatile business because it is a project based business, so instead of project based business now we have annuity based business and that is why we talked about revenue visibility and 71% of the business now comes out of managed training services, so I think that is very positive.

Grishma Shah: You think this mix is not very substantial?

Vijay Thadani: This growth has been very encouraging and our performance with existing clients have also been fairly good, so we are looking at growing this business as I said we are right now participating in 16 RFPs s which is an unprecedented number in terms of number of RFPs which go for let us say managed training services.

Grishma Shah: Who are all our clients in this segment?

Vijay Thadani: Our largest client is a technology company, unfortunately we cannot share the name, but large technology platform company and then we have large ERP provider as a client, so those are from technology. We have a large oil company as large as you can think and then we have a couple of oil companies which are part of this and then we have an electronics company whose name I can share, Philips who have been there, it is actually their second term which is going on, so we have 11 such clients.

Grishma Shah: This is irrespective of the sector?

Vijay Thadani: Yes, but at the same time training as I said is a specialized function, we are also trying to make sure that we focus on a few verticals, so technology is an important vertical, oil and gas is an important vertical, banking and financial services is an important vertical because these are segments which have large number of people to be trained.

Grishma Shah: You spoke about the Rs. 20 Crore refund from the income tax; can you please elaborate on that?

Vijay Thadani: Well the Rs. 20 Crore refund on income tax is as you know in case a tax order goes adverse in your favor then you have to deposit the tax and then challenge them in the tribunal and we won in the tribunal, so the tax authorities have refunded us the money, since it is of two or three years ago they have paid us the interest for that period which is Rs.30 million and nearly Rs.200 million is the tax refund. Tax refund is on its way, it is not yet in.

Grishma Shah: You will get it in Q3?

Vijay Thadani: We will get it in Q3.

Moderator: Thank you. The next question is from the line of Amar Mourya from India Nivesh Capital. Please go ahead.

Amar Mourya: Apart from the quarter say if I look NIIT Limited, say from the four segments what is the overall strategy in terms of the individual learning solution segment, which is showing a degrowth because of the IT slowdown and if I look at school learning solution segment where actually the growth which was expected is not coming and the only thing which is doing well is probably somewhat the MTS segment, so I want to understand, if I look from the perspective of three years, what will be the overall strategy because last time when I attended the analysts meet I believe we have elaborated more about creating shareholder value, so how we are actually doing to do it, wanted to understand more about that instead of drilling down on book-keeping questions?

Vijay Thadani: I appreciate your question. I also appreciate the concern you have. By the way we share that concern though we have some solutions for that which is what we are implementing. Now as you know the economic environment in the last two or three years has indeed been challenging. The dollar has been doing a roller coaster and in that environment we have been trying to manage and create a clear direction for ourselves. The good news is that the four platforms of growth that we identify are the four platforms of growth which are doing well and looks like that is the strategy set that we will follow for times to come. Having said that there is a very important transition, which we have to go through as a company in terms of getting out of a more socially relevant and government school business and focus more on the private school business which has a higher growth as well as liquidity and low capital intensity potential. In government schools we have contracts which are going to go on for another four to four-and-half years given the fact that last contract was taken sometime in last year, may be a little bit here or there based on the quarter, but you must know that the private school business has been growing very impressively and we have crossed that transition point where the private school business in size is now larger than the government school business, if you take away the hardware pass through revenue which anyway as you said in overall strategy don't matter anything, which means what, the private schools business if the government school business remains lower and lower and that becomes higher and higher and is growing faster we would see the benefit of that. In totality that growth will look stunted because of one reason, but if all of us understand that the four platforms growth are what we are following it would have a positive impact on our bottomline and creation of shareholder value which is what you referred to. Shareholder value is also reduction in the size of our balance sheet and increase in the return on that capital. So size in our balance sheet is reducing as the government payments are coming back and improvement in return is happening as private schools are doing better and better and by the way now they are past the breakeven mark and are at critical marks where every school now adds more to the profit than on a marginal basis. If you look at the corporate learning solutions once again we are out of the single digit margin which we struggled with for two years as we transitioned from project based content development business to annuity based managed training services business. This quarter the margin is 12% and we do believe that margin will continue to improve in times to come. So here both at the top line and the bottom line, top line will increase and bottomline will actually improve disproportionately with that. This is a low capital consumption business because the capital for this business is provided by the customer himself, so it is actually a very good business from improving shareholder value and if the visibility is long you can be sure that we would get those returns for times to come, then comes the individual learning solution business. In individual learning solution business I must say which have been the flagship of all our profits and as well as the size that it provides, a change in that does affect the overall sentiment and I do not deny the fact that it is a disappointing situation if we look at this quarter, but understanding the fact that the graduate segment is the segment which will buy from us, graduate segment at the same time pays less because they come for shorter periods of time and therefore pay less. We need many more graduates to compensate for one long term enrollment that transition is beginning to happen and once again in that transition as we gain momentum we would see an improvement. Important thing to know is that graduates are no longer just seeking for an IT career, I wish it was just an IT career because we were the only ones and we were doing better and better, however there are newer career such as banking and financial services, there are newer sectors which are opening up which forms promising opportunities and our ability with our core competencies to rise to the level of those opportunities will determine our success in this. We will go through a temporary period of negativity in this business which is unfortunately due to the economic downturns as well as the local conditions that we have here but beyond that I think in the three-year period we would be back to the same levels given the fact that more and more graduates are graduating more and more jobs are coming, more and more companies are asking for first day, first hour ready but just in time professional, so we see those as macro trends which will contribute to our profitability in three years to come.

Amar Mourya: My concern first of all about the school learning solution segment as we are saying that we are moving from government school to private school, but do not you sense that the competition in the school learning solution is equally increasing at the same pace and the pricing power of the service provider is reducing significantly?

Vijay Thadani: You are right that the competition is increasing, but the size of the opportunity is very large number 1 and number 2. I think innovation and core competencies to service such a large number of school is a core strength which is required, every new competition which is coming in you would also notice are stumbling when it comes to reaching a certain scale and I think our benefit lies in the fact that if we stay at par or ahead on the innovation curve then our ability to scale very fast will come in our favor. Our brand is much, much stronger than anybody in this business and we are a preferred solution provider. Our ability to reach as many schools and the scale up in terms of closing those orders is definitely a one which we are improving.

Amar Mourya: Secondly about the school learning solution, we had scaled our marketing team I believe three to four quarters back, so how it is now, are we going to see some significant improvement in the private school addition or it is likely to remain at the level which we are delivering?

Vijay Thadani: As you can see it is improving on a quarter-on-quarter basis, we had 54% increase in the number of schools that we added this quarter, so the sales force that we added it and the marketing programs that we launched are definitely delivering results. We would of course like to see a substantial improvement in that and we do believe that as the team becomes more and more mature we will begin to see those results.

Amar Mourya: If you can share about, if I can get some sense about the individual learning solution in terms of the enrollment what will be the breakeven enrollment for us, if you can share?

Vijay Thadani: Break even would mean, we are in a profitable business even now.

Amar Mourya: But assuming that this is the segment which is likely to see pressure going ahead and as it is the economies of scale business so obviously when enrollments come down it is likely to impact the profitability as well and that will impact the overall profitability of the business, so I am just trying to understand if I can get some breakeven?

Vijay Thadani: Are you saying at what level if it goes down further will we stop making money is that your question.

Amar Mourya: Probably yes.

Vijay Thadani: A center typically breaks even at about 35 to 40% capacity utilization.

Amar Mourya: What was the revenue from cloud in this quarter and margin if you can share?

Vijay Thadani: I do not think we will have that as a line item, as a back of the envelop we may be pull it out and share with you, but not perhaps right now.

Vijay Thadani: Since we saved a question I though I will give a clarification, my colleague tell me that I did mention that private schools grew by 54% quarter-on-quarter, I should have said year-on-year, I meant year-on-year, but I may have said on the same period last quarter.

Moderator: Thank you. The next question is from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chatterjee: First is Mr. Thadani you mentioned that the enrollments have actually declined this quarter by around close to 18% on a YoY basis and, I was just wondering what could be the trend going forward for the next two quarters, should we assume a YoY decline again for Q3, Q4?

G. Raghavan: We think the enrollment decline on a year over year basis for the remaining two quarters will be lesser than what we have seen in the first half.

Soumitra Chatterjee: So first half your enrollments have declined by 14%, so should we take in single digit, I am just getting a sense of what you are seeing in the market?

G. Raghavan: I would think probably in the 10% range is what I am expecting for the year.

Soumitra Chatterjee: Second is you mentioned that you are expecting margins in the corporate learning segments to improve, I understand that it is a low capex business, but what are the operating levers that are available to improve the margins beyond 12%?

Vijay Thadani: Two issues, managed training services consist of primarily three activities. There is a large technology platform which we use, so there are a little bit of fixed expenses in terms of technology platform in terms of offshore facility and then there are variable expanses which are like in any other business, so one will be out of the volume, the operating leverage coming out of the volume. The second is that on some of these contracts the product mix which we are getting is more on higher margin kind of product lines if I may use or service lines, so that is the other contributor to that. The third is that when we started our pricing power and our ability to get a certain level of pricing was restricted because of our track record. So I think there is a little bit of pricing power which will also step in, all these three will contribute.

Soumitra Chatterjee: Would it be fair to assume a 15% kind of operating margins over the next two-year period on a steady state business basis?

Vijay Thadani: In fact our guidance to the market has been an 18 to 20% growth and an 18 to 20% margin over the next two or three-year period.

Soumitra Chatterjee: I think you are participating in 16 RFPs of which you have already won two, so what could be the size of the remaining 14 RFPs, if you could give a total contract value and not individual sizes?

Vijay Thadani: You did not fortunately ask me what are the sizes of the two that we won. Actually the sizes are mixed, but let me tell you that the larger RFPs that we participate are of the order of about $40 to 50 million revenue visibility and the smallest RFP that we would participate would be $3 to 4 million.

Soumitra Chatterjee: This will be over a period of three to five years right, I am assuming 40 to 50 and you had mentioned in the TV interview that one government school business contract may end, so what could be the number of schools and what could be the impact on revenue in Q3?

G. Raghavan: Probably next year 130 schools of Assam.

Vijay Thadani: Did I say Q3, then perhaps that was an error, because I said in the next part of the year perhaps but it is 130 schools will be lower in the next year which was one of the earlier projects.

Soumitra Chatterjee: One thing on balance sheet what I sense is last quarter you ended with a net debt of close to Rs. 27 Crores and this quarter it has increased to around Rs. 46.8 Crores, given that you have generated free cash, I was just wondering why the debt on the books is actually going up because in Q3 last year you sold Element K and you were net cash positive for the quarter but since then the debt level is slowly and steadily going up, so I was wondering the reasons behind that.

Vijay Thadani: I think this is a timing issue because I also said in the same sentence this morning the net debt level was Rs.30 million.

Soumitra Chatterjee: What would be the capex in the first half of FY'13?

Vijay Thadani: Rs 45.5 Crores.

Soumitra Chatterjee: What was the free cash that you generated during the quarter?

Vijay Thadani: Rs. 10.8 Crores.

Moderator: Thank you. The next question is from the line of Ganesh Shetty who is an individual investor. Please go ahead.

Ganesh Shetty: We have overseas IT training services, can we take our other offerings like soft skills and banking to the emerging market, is there any possibility there?

Vijay Thadani: Not only is there a possibility but there has been a small beginning made; Mr. Raghavan can talk about it.

G. Raghavan: We are very actively looking at other countries for opportunities. We have entered into one of the African country for the banking finance and insurance training. Second is we are doing fair amount of soft skills training in South Africa, so we do have opportunities and we are doing it already and we will look at taking this to other markets where we have an established channel, we will ride on the channel and operations that we already have rather than go into a brand new country for these products alone, that will be our strategy.

Ganesh Shetty: My next question is regarding the soft skill after selling Element K to Skill Soft, we have become their partner in content development, are we getting any sizable business from them ?

Vijay Thadani: We have a commitment of $12.5 million of business from them and we are actually ahead of that commitment.

Ganesh Shetty: Have you identified any ILS Center where rentals are very high compared to business visibility, can you throw some light on this?

Vijay Thadani: Yes. In fact in recent times in some of the commercial spaces that we had the rentals have actually gone beyond our business affordability and one of the actions that I alluded to saying that this kind of a decline since it is going to continue for a while requires serious intervention. One of the serious interventions which Mr. Raghavan proposes to do is to consolidate some center and get out high rental commitments.

G. Raghavan: Just as a matter of fact last quarter itself we moved two centers in two metro cities from high expensive rental places to relatively lower rental places without affecting any customer service level.

Ganesh Shetty: Can you give some insight regarding NIIT One World, how that concept is working for us .

G. Raghavan: That is working well. What we are planning to do in this quarter is to take into the next level. While we are offering products in about 56 centers across the country, cross products, what we are going to do is to take it to the next level and make some of the centers physically be integrated and under one roof you will have full service of products across the domain. So, that is working well and we have ways to go for realizing its full value and that is something we are actively looking to implement this quarter.

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

Vijay Thadani: Thank you very much for being on the call and for all your questions which as usual give us very interesting insight which we act upon. I did mention that we are in challenging times, but we are very confident that we would be able to overcome with the strategies that we have. We do have a couple of challenging quarters in front of us, not as challenging as we have been through. We do think some of the actions that we have taken will lessen the burden, but the two product lines which are doing will continue to do well and we do hope that we would be able to recover from the current situation rather quickly. Thank you very much.

Moderator: Thank you on behalf of NIIT Limited that concludes this conference. Thank you for joining us.